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PENTAIR INC  
Form DEF 14A  
March 25, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
(AMENDMENT NO. \_\_\_\_)

Filed by the Registrant [X]  
Filed by Party other than the Registrant [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement
- [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [X] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material Pursuant to ss. 240.14a-11(c) or ss. 240.14a-12

PENTAIR, INC.  
(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement,  
if other than the Registrant)

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PENTAIR, INC.  
1500 County Road B2 West  
Saint Paul, Minnesota 55113

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 1, 2002

To our Shareholders:

The Annual Meeting of Shareholders of Pentair, Inc. (the "Company") will be held at the Lutheran Brotherhood Auditorium, 625 4th Avenue South, Minneapolis, Minnesota, on Wednesday, May 1, 2002, at 10:00 a.m., for the following purposes:

1. To elect four directors.
2. To approve amendments to the Articles of Incorporation and By-Laws to fix the number of the directors at ten.
3. To approve the Omnibus Stock Incentive Plan for Section 162(m) purposes.
4. To approve an amendment to the Executive Officer Performance Plan.
5. To vote on a proposal to ratify the selection of Deloitte & Touche LLP as independent auditors of the Company for 2002.
6. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 4, 2002 as the record date for determining the shareholders entitled to vote at the Annual Meeting. Accordingly, only shareholders of record at the close of business on that date will be entitled to vote. The Company's transfer books will not be closed.

By Order of the Board of Directors

Louis L. Ainsworth, Secretary

Saint Paul, Minnesota  
March 25, 2002

IMPORTANT: For the Annual Meeting to be legally held, there must be a quorum (50% plus 1 vote). Accordingly, you are urged to vote your proxy promptly by internet or telephone as described in the voting instructions on the proxy; or date, sign and return the proxy in the enclosed envelope. This will not prevent

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you from voting in person if you so desire.

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                    PROXY STATEMENT  
FOR ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 1, 2002  
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PENTAIR, INC.  
1500 County Road B2 West  
Saint Paul, Minnesota 55113

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March 25, 2002

The following statement is furnished in connection with the solicitation of proxies by the Board of Directors of Pentair, Inc. (the "Company") to be voted at the Annual Meeting of Shareholders of the Company to be held on Wednesday, May 1, 2002, or at any adjournment or adjournments of such meeting. Distribution of this proxy statement and proxy to shareholders began on or about March 25, 2002.

### SOLICITATION

The cost of soliciting proxies and the notices of the meeting, including the preparation, assembly and mailing of proxies and this statement, will be borne by the Company. In addition to this mailing, proxies may be solicited personally or by telephone by regular employees of the Company. Assistance in the solicitation of proxies is also being rendered by Morrow & Co., 445 Park Avenue, New York, New York, at a cost to the Company of \$7,000 plus expenses of up to \$2,500. Furthermore, arrangements may be made with brokers, banks and similar organizations to send proxies and proxy materials to beneficial owners for voting instructions, for which the Company will reimburse such organizations for their expense in so doing and will pay all costs of soliciting the proxies.

### REVOCATION AND VOTING OF PROXY

Any shareholder giving a proxy may revoke it prior to its use at the meeting by (1) delivering a written notice expressly revoking the proxy to the Secretary at the Company's offices, (2) signing and forwarding to the Company at its offices a later dated proxy, or (3) attending the Annual Meeting and casting his or her votes personally.

A majority of the outstanding shares will constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Pursuant to Minnesota law and the Company's Articles of Incorporation, abstentions are counted in determining the total number of the votes cast on proposals presented to shareholders, but will not be treated as votes in favor of the proposals. Broker non-votes are not counted for purposes of determining the total number of votes cast on proposals presented to shareholders.

Unless otherwise directed in the accompanying proxy, the persons named therein will vote FOR the directors and the other proposals set forth in this Notice of Annual Meeting of Shareholders. As to any other business that may properly come before the meeting, they will vote in accordance with their best judgment. The Company does not presently know of any other business.

### OUTSTANDING SHARES AND VOTING RIGHTS

At the close of business on March 4, 2002, the record date, there were 49,178,709 shares of the Company's Common Stock, par value \$.16-2/3 per share (the "Common Stock") outstanding. Each share of Common Stock entitles the holder to one vote. There is no cumulative voting for directors.

### SECURITY OWNERSHIP OF MANAGEMENT AND BENEFICIAL OWNERSHIP

The following table contains information concerning the beneficial ownership of the Company's Common Stock as of March 4, 2002 by each director, by each executive officer listed in the Summary Compensation Table, by all directors and executive officers as a group and, as of December 31, 2001, by each person known to the Company to "beneficially own" more than 5% of its Common Stock.

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NAME OF BENEFICIAL OWNER	COMMON STOCK (a)	SHARE UNITS (b)	OBTAINABLE WITHIN 60 DAYS (c)	RESTRICTED STOCK (d)	ST
Winslow H. Buxton	244,995	0	502,000	0	5
William J. Cadogan	4,700	11,480	4,066	0	
Richard J. Cathcart	36,084	0	87,333	23,220	1
Frank J. Feraco	0	0	17,000	15,000	
Barbara B. Grogan	2,400	14,963	4,066	0	
Charles A. Haggerty	9,200	19,933	4,066	0	
David D. Harrison	21,154	0	42,494	16,531	
William H. Hernandez	500	135	0	0	
Randall J. Hogan	74,262	0	141,827	83,862	
Stuart Maitland	1,000	7,433	1,516	0	
Augusto Meozzi	200	8,034	1,516	0	
William T. Monahan	500	3,887	0	0	
Michael V. Schrock	13,287	0	24,500	23,991	
Karen E. Welke	2,600	15,576	4,066	0	
Directors and executive officers as a group (17 persons)	466,435	81,441	949,943	185,707	16
FMR Corp. (g) 82 Devonshire Street Boston, MA 02109	3,089,896				
Marsh & McLennan Companies, Inc. (h) 1166 Avenue of the Americas New York, NY 10036	2,582,432				

(a) Unless otherwise noted, all shares are held either directly or indirectly by individuals possessing sole voting and investment power with respect to such shares. Beneficial ownership of an immaterial number of shares held by spouses and children has been disclaimed in some instances. Amounts listed do not include 841,570 shares held by the Pentair, Inc. Master Trust for various pension plans of the Company and its subsidiaries. The Trust Investment Committee of such Master Trust includes Randall J. Hogan, David D. Harrison and one other

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officer. Although these individuals could be deemed under applicable Securities and Exchange Commission rules to "beneficially own" all of the shares held by these Plans because of their shared voting and investment power with respect to those shares, they disclaim beneficial ownership of such shares.

- (b) Represents share units paid under the Fourth Amended and Restated Compensation Plan for Non-Employee Directors as to which the beneficial owner has no voting or investment power.
- (c) Represents stock options exercisable within 60 days from March 4, 2002.
- (d) Restricted shares issued pursuant to incentive plans as to which the beneficial owner has sole voting power but no investment power.
- (e) Represents common shares owned as a participant in the Pentair Employee Stock Ownership Plan ("Pentair ESOP") and, for one officer, common shares owned as a participant in the Federal-Hoffman Employee Stock Ownership Plan ("F-H ESOP"). As of March 4, 2002, Fidelity Management Trust Company ("Fidelity"), the Trustee of the Pentair ESOP, held 2,518,445 common shares (5.0%) and Wells Fargo ("Wells Fargo"), the Trustee of the F-H ESOP, held 491,870 common shares (1.0%). Fidelity and Wells Fargo disclaim beneficial ownership of all shares. The Pentair ESOP and F-H ESOP participants have the right to direct the Trustee to vote their shares although participants have no investment power

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over such shares. The Trustees, except as otherwise required by law, vote the shares for which they have received no direction from participants, in the same proportion on each issue as they vote those shares for which they have received voting directions from participants.

- (f) Less than 1% unless otherwise indicated.
- (g) In a Schedule 13G filed February 14, 2002, as of December 31, 2001, Fidelity Management & Research Company ("Fidelity"), a wholly owned subsidiary of FMR Corp. and a registered investment adviser, reported beneficial ownership of 2,896,196 shares as a result of activities as an investment adviser. The funds, FMR Corp., through its control of Fidelity, and its Chairman, Edward C. Johnson III, reported sole dispositive power of such shares, but had no voting power over such shares, which is directed by the funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the funds' Boards of Trustees. Fidelity Management Trust Company, a wholly owned subsidiary of FMR Corp. and a bank, reported beneficial ownership of 193,700 shares as a result of serving as investment manager of institutional account(s). FMR Corp. and its Chairman, Edward C. Johnson III, reported sole dispositive power of all such shares and sole voting power of 186,000 of such shares. They reported no voting control of 7,700 shares owned by the institutional accounts. The members of the Edward C. Johnson III family, the predominant owners of FMR Corp., have entered into a voting agreement and consequently may be a controlling group of FMR Corp under the Investment Company Act of 1940, as amended.
- (h) In a Schedule 13G filed February 15, 2002, Putnam Investments, LLC ("PI"), a wholly-owned subsidiary of Marsh & McLennan Companies, Inc., reported that two registered investment advisers wholly-owned by PI, Putnam Investment Management, LLC., which is the investment adviser to the Putnam family of mutual funds ("PIM"), and The Putnam Advisory Company, LLC. ("PAC"), which is the investment adviser to Putnam's institutional clients, have dispositive power of the shares as investment managers but each of the mutual fund's trustees have voting power over the shares held by each fund and PAC has shared voting power

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over the shares held by the institutional clients. PI reported shared voting power of 570,255 shares and shared dispositive power of 2,582,432 shares; PIM reported shared dispositive power of 1,598,295 shares; and PAC reported shared voting power of 570,255 shares and shared dispositive power of 984,137 shares.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers to file with the Securities and Exchange Commission ("SEC") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors, and greater than ten-percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms furnished to the Company and written representations from the Company's officers and directors, the Company believes that it has previously reported any delinquencies for the fiscal year ended December 31, 2001 and all other persons subject to these reporting requirements filed the required reports on a timely basis.

### PROPOSALS TO BE ACTED UPON AT THE ANNUAL MEETING

#### ITEM 1

#### ELECTION OF DIRECTORS

The Company's By-Laws provide for a Board of Directors (sometimes referred to herein as the "Board") of not fewer than three members and not more than fifteen members. The Board is divided into three classes with directors serving three-year terms but with the beginning date for each term staggered so that the term of only one class expires in any particular year. Vacancies may be filled by the Board of Directors or by election at a special meeting of shareholders. Any director elected to fill a vacancy by the remaining directors is required to stand for election at the next meeting of shareholders. If the proposal to amend the Company's Articles of Incorporation and By-Laws are approved, then the number of directors will be fixed at 10.

At the forthcoming Annual Meeting, four persons have been nominated as candidates to be elected to the Company's Board of Directors. Barbara B. Grogan, Stuart Maitland and Augusto Meozzi, each incumbent directors, have been nominated for three-year terms, expiring at the 2005 Annual Meeting and William

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H. Hernandez, who was appointed to the Board in July 2001, subject to election at the upcoming Annual Meeting, has been nominated for a two-year term, expiring at the 2004 Annual Meeting. Five other directors have terms of office that do not expire at this time and who will be continuing to serve his or her full term. Although there will be one vacancy remaining on the Board following this election, proxies cannot be voted for a greater number of directors than the number nominated. Unless you direct otherwise, proxies will be voted FOR the election of all nominees listed below. Should any nominee decline or be unable to accept such nomination or to serve as director (an event management does not now expect to occur), proxies will be voted FOR a substitute nominee or nominees in accordance with the best judgment of the person or persons acting under them.

Information concerning the persons nominated for election as directors,

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as well as those continuing in office, is set forth on the following pages.

### DIRECTORS STANDING FOR ELECTION

(FOR A THREE-YEAR TERM EXPIRING AT THE 2005 ANNUAL MEETING OF SHAREHOLDERS)

BARBARA B. GROGAN, director since 1996, age 54

Ms. Grogan is Chairman and President of Western Industrial Contractors, Inc., a company specializing in machinery erection and installation, which she founded in September 1982. She was Chairman of the Board of Directors of the Federal Reserve Bank of Kansas City, Denver Branch, from 1989 to 1994, and currently is a member of the Board of Directors of Deluxe Corporation, Apogee, Inc., Committee for Economic Development, New York City and Volunteers of America, Colorado.

STUART MAITLAND, director since 1999, age 56

Mr. Maitland was Director of Manufacturing Operations for the Vehicle Operations organization at Ford Motor Company, Dearborn, Michigan from 1996 through October 1, 2001, when he retired. He joined Ford Motor Company in 1988 and held positions as Plant Manager at Ford's Kansas City Assembly Plant, Twin Cities Assembly Plant in St. Paul, Minnesota and Dearborn Assembly Plant in Dearborn, Michigan.

AUGUSTO MEOZZI, director since 1999, age 62

Since January 1, 1998, Mr. Meozzi has been the Chief Operating Officer of the ISOLA Group, a world-wide producer of base materials. From November 1992 to January 1998, Mr. Meozzi was Corporate Executive Vice President of the ISOLA Group.

(FOR A TWO-YEAR TERM EXPIRING AT THE 2004 ANNUAL MEETING OF SHAREHOLDERS)

WILLIAM H. HERNANDEZ, nominee (appointed to the Board in 2001), age 53

Mr. Hernandez has been the Senior Vice President, Finance of PPG Industries, Inc. since 1995. He was the Vice President and Controller from 1994 to 1995 and the Controller from 1990 to 1994.

### DIRECTORS CONTINUING IN OFFICE

(TERM EXPIRES AT THE 2003 ANNUAL MEETING OF SHAREHOLDERS)

WILLIAM J. CADOGAN, director since 1996, age 53

Since April 2001, Mr. Cadogan has been a General Partner of St. Paul Venture Capital. Mr. Cadogan was the Chairman of the Board of Directors of ADC Telecommunications, Inc., a designer and manufacturer of products and systems for broadband telecommunications networks, from February 1994 through February 2001. Mr. Cadogan was Chief Executive Officer of ADC Telecommunications from July 1991 through February 2001. He also serves as a director of Ceridian Corporation (and a member of its Compensation Committee), as well as a number of smaller, start-up companies. Mr. Cadogan serves as director of the Metropolitan Economic Development Association, the Minnesota Orchestral Association, Chairman of the Telecommunications Industry Association, and a member of the Board of Governors of the Electronics Industry Association and the Board of Overseers of the Carlson School of Management at the University of Minnesota.

CHARLES A. HAGGERTY, director since 1994, age 60

Mr. Haggerty is currently CEO of LeConte Associates, LLC, a consulting and investment firm. Mr. Haggerty was Chief Executive Officer and Chairman of the Board of Western Digital Corporation, a maker of hard



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disc drives, from July 1993 until he retired as Chief Executive Officer in January 2000 and as Chairman in June 2000. Mr. Haggerty is also a director of Beckman Coulter, Inc., Vixel Inc., and Deluxe Corporation.

RANDALL J. HOGAN, director since 1999, age 46

Since January 1, 2001, Mr. Hogan has been the Chief Executive Officer of Pentair, Inc. The Board of Directors has announced that Mr. Hogan will become Chairman of the Board effective as of May 1, 2002. From December 1999 through December 2000, Mr. Hogan was President and Chief Operating Officer of Pentair, Inc. From March 1998 to December 1999, he was Executive Vice President and President of Pentair's Electrical and Electronic Enclosures Group. From February 1995 to August 1997, he was President of the Carrier Transicold Division of United Technologies Corporation.

(TERM EXPIRING AT THE 2004 ANNUAL MEETING OF SHAREHOLDERS)

WILLIAM T. MONAHAN, director since 2001, age 54

Since November 1995, Mr. Monahan has been Chairman of the Board of Directors and Chief Executive Officer of Imation Corp. Mr. Monahan is also a director of Hutchinson Technology, Inc. (and a member of its Compensation Committee).

KAREN E. WELKE, director since 1995, age 57

Ms. Welke retired from Minnesota Mining and Manufacturing Company ("3M") effective January 2002, after completing a two-year Loaned Executive commitment to Project Hope, a non-government, non-profit organization dedicated to achieving sustainable advances in health care around the world. From February 1995 to December 1999, Ms. Welke was Group Vice President, Medical Markets Group for 3M.

### DIRECTORS' ATTENDANCE

The Board of Directors held seven meetings in 2001. All directors attended at least 75% of the aggregate of all the meetings of the Board and all of the committees on which they served, with the exception of William Cadogan, who attended 67% and William Hernandez, who attended two of the three meetings (67%) of the Board and the Audit and Finance Committee held after his appointment, but missed one Board and one Audit and Finance Committee meeting (held on the same day) because of a death in the family.

### COMMITTEES OF THE BOARD

The Audit and Finance Committee is responsible, among other things, for selecting auditors, ensuring the fiscal integrity of the Company, and establishing and reviewing internal controls. The Audit and Finance Committee held five meetings in 2001. The members of the Audit and Finance Committee are Karen E. Welke (Chair), William H. Hernandez (since July 2001), Stuart Maitland and Augusto Meozzi.

The Compensation and Human Resource Committee is responsible for developing a broad plan of compensation for the Company that is competitive and rewarding to the degree that it will attract, hold, and inspire performance of executive, managerial, and other key personnel. The Compensation and Human Resource Committee held five meetings during 2001. The members of the Compensation and Human Resources Committee are Charles A. Haggerty (Chair), Barbara B. Grogan, Stuart Maitland and William T. Monahan.

The Nominating, Governance, Public Policy and Share Rights Committee is responsible, among other things, for nominating candidates for vacancies on the Board. The Nominating, Governance, Public Policy and Share Rights Committee

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considers nominees recommended by shareholders under the procedures set forth in the Company's By-Laws. The Nominating, Governance, Public Policy and Share Rights Committee held four meetings in 2001. The members of the Nominating, Governance, Public Policy and Share Rights Committee are William J. Cadogan (Chair), Winslow H. Buxton (retiring from the Board effective as of April 30, 2002), Barbara B. Grogan, Charles A. Haggerty, and Randall J. Hogan.

### DIRECTORS' COMPENSATION

It is the Company's philosophy that a significant portion of directors' compensation should be tied to long-term growth in shareholder value. In 2001, non-employee directors were paid an annual retainer of \$24,000 (\$29,000 for the Chair of the Compensation and Human Resource Committee), \$68,341 of deferred compensation in the form of share units under the Fourth Amended and Restated Compensation Plan for Non-

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Employee Directors (the "Non-Employee Director Plan"), \$1,500 for attendance at each Board meeting, \$1,000 (\$2,000 for committee chairs) for attendance at each committee meeting, and \$500 for participation in a telephone conference in lieu of a meeting. In recognition of his 25 years of service on the Board of Directors, the Board made an award in 2001 of deferred compensation of \$68,341 in the form of share units under the Non-Employee Director Plan to Quentin Hietpas, who retired from the Board effective April 25, 2001. Under the Non-Employee Director Plan, non-employee directors of the Company may elect to defer payment of all or a portion of their annual retainer and meeting fees in the form of share units. The Plan provides for a Company match of 25% on the first \$750 per month deferred in the form of share units. The value of a share unit is equal to the market value of a share of Common Stock. Share units carry no voting or investment power. Participants and amounts deferred under the Plan are shown below:

Name	\$ Amount Deferred			Share Units 12/31/01
	1999	2000	2001	
William J. Cadogan	\$ 53,000	\$ 94,300	\$ 108,591	11,914
Barbara B. Grogan	84,500	95,800	114,591	14,658
Charles A. Haggerty	91,000	95,800	122,424	19,563
William H. Hernandez*	--	--	3,750	80
Quentin J. Hietpas+	53,000	59,800	72,091	15,247
Stuart Maitland	73,250	72,550	92,091	7,311
Augusto Meozzi	58,187	87,800	106,091	7,800
William T. Monahan*	--	--	105,716	3,670
Richard M. Schulze+	94,000	89,800	13,250	--
Karen E. Welke	89,500	101,300	114,591	16,704

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\* Became a director in 2001  
 + Retired effective April 25, 2001

The Outside Directors Nonqualified Stock Option Plan provides for the granting of options to purchase Common Stock to directors who are not employees of the Company. The Plan provides for automatic annual grants to the directors and offers alternative forms of payment of the exercise price including surrender of Common Stock. The persons to receive options, the number of options granted, and the terms of the options are determined by the Plan. No option granted under the Plan may extend for a period of more than 10 years from the date of the grant and no option exercise price may be less than the current market price of Common Stock on the date of award of such option. Beginning with stock options granted in 1998, if the option holder exercises the stock option during the first five years of the option term by tendering to the Company common shares owned by that person, the Company can grant to such person, an option ("Reload Option") to purchase common shares equal to the number of shares tendered. The Reload Option may be exercised during the remaining term of the original stock option period. The Reload Option exercise price is equal to the market price per share on the date the shares are tendered.

Name	Options Granted		
	1999	2000	2001
William J. Cadogan	1,275	1,300	1,950
Barbara B. Grogan	1,275	1,300	1,950
Charles A. Haggerty	1,275	1,300	1,950
William Hernandez*	--	--	--
Quentin J. Hietpas+	1,275	1,300	1,950
Stuart Maitland	--	1,300	1,950

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Augusto Meozzi	--	1,300	1,950
William T. Monahan*	--	--	--
Richard M. Schulze+	1,275	1,300	1,950
Karen E. Welke	1,275	1,300	1,950

\* Became a director in 2001  
 + Retired effective April 25, 2001

The exercise price and expiration dates for the above options are:

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2001, \$22.75 per share, expiration date January 2, 2011; 2000, \$36.1875 per share, expiration date January 3, 2010; 1999, \$39.625 per share, expiration date January 14, 2009.

One-third of the options granted to each recipient become exercisable on each of the first three anniversaries of the date of grant. The options expire 10 years after the date of grant. Three of the directors identified in the table above, including two now retired directors, exercised options during 1999-2001 while in office; the net value of shares (market value less exercise price) realized from these exercises was \$149,313.

### BUXTON RETIREMENT AND CONSULTING ARRANGEMENTS

Winslow H. Buxton, Chairman of the Board of Directors, retired as Chief Executive Officer of the Company, effective January 1, 2001 and as an employee of the Company effective April 30, 2001. He will retire from the Board effective as of the 2002 Annual Meeting of the Shareholders. In connection with his retirement the Company has entered into certain arrangements with Mr. Buxton.

In connection with his retirement and in exchange for a non-competition and non-solicitation agreement and a standard release of any claims against the Company, Mr. Buxton is receiving a supplemental benefit payment of \$60,900 per month, payable in the form of a life annuity, which includes his accrued benefit under the Company's Supplemental Executive Retirement Plan. His awards under the Omnibus Plan, including restricted stock (26,397 shares), stock options and Incentive Compensation Units ("ICUs") were fully vested as of April 30, 2001 and the value of the ICUs (\$731,216) was paid to him as of such date. Mr. Buxton and his spouse are also being provided medical and dental coverage, including reimbursement of expenses, as well as life insurance. He may also have accrued benefits through April 30, 2001, under other plans, such as the RSIP, Deferred Compensation Plans or the Pentair Pension Plan, which are being paid out in accordance with the terms of such plans.

Through April 30, 2001, Mr. Buxton was compensated at an annual rate of \$825,700 (the rate of compensation in effect on January 1, 2001, the effective date of his retirement as CEO). Beginning May 1, 2001 and ending on April 30, 2002, the Company is compensating Mr. Buxton under a consulting arrangement for services rendered as Chairman of the Board at sixty percent (60%) of his former annual salary of \$825,700. On February 27, 2002, Mr. Buxton was also awarded an option to purchase 182,000 shares of the Company's Common Stock, at an exercise price of \$39.0781 per share (the closing price on the date of grant), which option expires 10 years after the date of grant. The option vests in three equal annual installments, commencing February 27, 2003. These payments are in lieu of any compensation, fees or other benefits to which Mr. Buxton might otherwise be entitled as a non-employee member of the Board. Mr. Buxton received a bonus in 2001 in the aggregate amount of \$196,625. The Company has also agreed to reimburse Mr. Buxton for all reasonable business expenses incurred by him in the active performance of his duties as Chairman of the Board, provide him with office space and secretarial services until December 31, 2005 and provide him with a vehicle, including covering related expenses, and pay his membership dues for certain clubs until December 31, 2010.

### ITEM 2

#### AMENDMENTS TO ARTICLES OF INCORPORATION AND BY-LAWS TO FIX THE SIZE OF THE BOARD AT TEN

The Board of Directors of the Company has unanimously approved, and is requesting that the shareholders adopt, an amendment to the Company's Second Restated Articles of Incorporation and the Company's Third Amended and Superseding By-Laws to fix the size of the Board of Directors at 10 members.

BACKGROUND AND PURPOSE OF PROPOSAL

Section 1 of Article II of the By-Laws currently provides that the Board of Directors will consist of not less than three nor more than 15 directors. However, neither Section 1 of Article II of the By-Laws nor the Minnesota Business Corporation Act contains any specific procedure to fix the number of directors of the Corporation within such limits. In addition, there recently has been a general trend in corporate governance to have smaller boards. The Company's historical practice has also been to have fewer directors than fifteen. The number of directors was increased from nine to 11 at the 1996 Annual Meeting. Subsequently, the size of the Board of Directors has varied between nine and 12 members. Board size has fluctuated from year to year as a result of retirements, resignations and appointments to fill vacancies. The Board currently has 10 members and, assuming the four nominees for director are elected, following the Annual Meeting, with Mr. Buxton's retirement, there will be nine members of the Board of Directors, leaving one vacancy. Keeping the Board size at 10 members will maintain a Board that is flexible and responsive, while keeping the Company's cost lower by not expanding the number of members on the Board.

Accordingly, the Board of Directors believes it is in the best interests of the shareholders to amend Section 1 of Article II of the By-Laws to fix the number of directors of the Corporation at 10. The text of the resolutions the shareholders are being asked to approve are set forth below:

RESOLVED, the second sentence of Section 1, Article XI of the Second Restated Articles of Incorporation is hereby deleted in its entirety and replaced with the following: "The number of directors is hereby fixed at ten (10)."

RESOLVED, the second sentence of Section 1, Article II of the Third Amended and Superseding By-Laws is hereby deleted in its entirety and replaced with the following: "The Board of Directors shall consist of ten (10) directors, who need not be shareholders of the Corporation."

RESOLVED, the last two sentences of Section 1, Article II of the Third Amended and Superseding By-Laws are hereby deleted in their entirety.

The current and proposed text of the sections of the Second Amended and Restated Articles of Incorporation and the Third Amended and Superseding By-Laws to be amended is set forth in Appendix 2.

EFFECT OF PROPOSAL

The Board of Directors believes that it is desirable to reduce the potential size of the Board and fix the number of directors at ten. The Board believes this action will result in a more responsive membership and will maintain a lower cost with fewer Board members. A smaller Board of Directors also will enhance the likelihood of continuity and stability in its composition and, therefore, in the strategic plans and long-term policies adopted by the Board. Although this change could have the effect of deterring a change in management in certain circumstances, since the Board could no longer be expanded to more than 10 without shareholder approval, these changes are not being proposed for that purpose or in response to any known efforts by any person to acquire or change the control of the Company.

In addition, other provisions of the Company's Restated Articles of

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Incorporation and By-Laws and the Company's shareholder rights plan may have the effect of delaying or preventing a change in control of the Company. Although the Board of Directors does not currently contemplate adopting or proposing for shareholder approval any additional provisions that may have anti-takeover effects, the Board does periodically review such provisions and reserves the right to propose such further actions in the future if, in its view, circumstances should so warrant. The Board of Directors is not aware of any existing or planned effort on the part of any party to acquire control of the Company by means of a tender offer, solicitation of proxies in opposition to management or by other means.

If Item 2 is approved by the shareholders, then the amendment to the Second Restated Articles of Incorporation would become effective upon the filing of an executed amendment with the Secretary of State of Minnesota, which would be filed promptly following the Annual Meeting, and the amendments to the By-Laws would become effective as of the Annual Meeting of Shareholders.

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### VOTE REQUIRED

Because Item 2 would amend the Company's Second Restated Articles of Incorporation, this proposal requires the affirmative vote of the holders of at least 60% of the outstanding shares entitled to vote, provided that the proposal does not receive a negative vote from holders of more than 25% of the outstanding voting shares. Abstentions and broker non-votes would have the effect of votes against the proposal with respect to the 60% approval requirement, but they do not count as negative votes with respect to the 25% limitation.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 2 TO AMEND THE ARTICLES AND BY-LAWS TO FIX THE SIZE OF THE BOARD OF DIRECTORS AT TEN.

### ITEM 3

#### APPROVAL OF THE OMNIBUS STOCK INCENTIVE PLAN FOR SECTION 162(m) PURPOSES

Shareholders are asked to approve the Omnibus Stock Incentive Plan, as amended and restated (the "Omnibus Plan") to ensure that performance-based awards under the plan qualify as such for purposes of Section 162(m) of the Internal Revenue Code and in order to satisfy New York Stock Exchange guidelines relating to equity compensation for officers.

Following is a summary of the material features of the Omnibus Plan. Capitalized terms have the meanings set forth in the Omnibus Plan, a copy of which is attached as Appendix 3:

**PURPOSE.** To attract and retain top quality executives and key employees, encourage innovation and growth, reward executives for attainment of short-term performance objectives and long-term shareholder value, recognize outstanding performance, encourage executive stock ownership and, in general, to align management and shareholder interests.

**ELIGIBILITY AND PARTICIPATION.** Any key managerial, administrative or professional employee of the Company (or an affiliate) generally in salary grade 25 or higher who is in a position to make a material contribution to the continued profitable growth and long term success of the Company (or an affiliate).

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SHARES AUTHORIZED. The Omnibus Plan has 5,600,000 shares authorized for issuance, of which no more than 1,120,000 (20%) may be issued as grants in a form other than stock options. As of December 31, 2001, 2,446,236 shares remained available for issuance under this plan. Unused shares, such as canceled or expired options or forfeited shares of restricted stock, are eligible for future grants.

OPTIONS. The exercise price of an option, whether incentive stock options ("ISOs") or non-qualified stock options ("NQSOs"), cannot be less than the Fair Market Value as of the date of grant. The term of the option is set by the Compensation Committee at the time of grant, but may not be longer than 10 years. No one participant may receive options or SARS under the Omnibus Plan for more than 150,000 shares in the aggregate in any calendar year.

SARS. Participants who have been awarded ISOs may also be award Stock Appreciation Rights up to the total number of shares the participant could acquire by exercise of the underlying ISOs, which must expire at the same time as the underlying ISO and for which the payment amount cannot be more than 100% of the difference between the exercise price and the Fair Market Value of the shares subject to the option on the date the SAR is exercised.

RESTRICTED STOCK AWARDS. The Committee may make awards of restricted stock (including rights to restricted stock), which are subject to a vesting period before the participant is entitled to the shares. The Committee determines the vesting period at the time of grant, but no more than 5% of the maximum number of shares available under the Omnibus Plan may vest during a period shorter than three years. The Committee also has the discretion to impose additional conditions or restrictions on the grant. Beginning in 2001, restricted stock awards also may be made to officers of the Company and certain subsidiary presidents (who are nominated by the CEO and approved by the Committee) under the Time Accelerated Restricted Stock Award Plan (TARSAP), which has been added to the Omnibus Plan. TARSAP awards are made in addition to other awards under the Omnibus Plan determined by using an eligibility factor determined on an individual basis by the Committee. The

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maximum award available will be an amount equal to the executive's award eligibility under the Omnibus Plan. Restricted stock awards under the TARSAP will vest in equal portions in the fifth, sixth and seventh years following the date of grant. The award may vest earlier, if certain share price performance goals, as established by the Committee are met, but in no event will more than one-third of any award vest in any year.

INCENTIVE COMPENSATION UNITS. The Committee may make awards of ICUs under the Omnibus Plan. In making an award, the Committee establishes the specific targets with respect to the corporate performance factors to be met over a specified Incentive Period (usually three years). The performance factors currently being used by the Committee are return on invested capital and growth in operating income. The calculation of the awards for 2001 is described on pages 21 and 22. Performance factors that also may be used under the Omnibus Plan include the growth in earnings per share, the average return on equity or the change in Book Value per share of Stock, all measured over the specified Incentive Period. The Committee has the discretion to designate additional factors. The Committee uses the audited financial statements for the fiscal year in which the Incentive Period ends to determine the value of the ICUs. The payment may be made in cash, Stock, Restricted Stock or Rights to Restricted Stock (or any combination), as determined by the Committee at the time of grant.

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Shares of stock used in payment of an award are valued as of the date the Incentive Period ends.

**PERFORMANCE SHARES.** The Compensation Committee may make awards of Performance Shares and Performance Units. At the time of the award the Committee establishes the terms and conditions applicable to the payment of the award, including the achievement of target performance objectives. The performance objectives shall include such financial measures as return on shareholders equity, growth in earnings per share, return on sales, growth in income and growth in sales. The achievement of the designated targets is measured over the Performance Period specified at the date of the award. Awards are paid based on the degree of attainment of the performance targets. The maximum amount of compensation a Participant may be granted by reason of a performance award in any one calendar year is \$100,000 (based on the Fair Market Value of the award on the date of grant). Payment of an award is made within four months following the end of the Performance Period. The payment may be made in cash, Stock, Restricted Stock or Rights to Restricted Stock (or any combination), as determined by the Committee at the time of grant. Shares of stock used in payment of an award are valued as of the date the Performance Period ends.

**STOCK OWNERSHIP GUIDELINE AWARDS.** Stock ownership guidelines for top management have been established to motivate individual achievement and increase ownership of the Company's Common Stock. The Committee determined that over a period of five years, its top management should accumulate and hold Company stock equal to the following values: Chief Executive Officer -- three to five times base salary; Senior Corporate Officers -- two to three times base salary; and other corporate officers and subsidiary presidents -- one to two times base salary. In the opinion of the Committee, the achievement of ownership levels set forth will result in executive management being significant shareholders and will further encourage long-term performance and Company growth.

The Committee considers incentive grants of restricted stock or rights to restricted stock based on the increase in ownership during the preceding year. These restricted stock grants (made under the Omnibus Plan) vest in equal increments on the third, fourth, and fifth anniversaries of the grant. The size of the grant is equal to 10% of the increase in common stock during the year if the annual ownership target is met, limited to 10% of the targeted ownership level if the targeted ownership level has already been achieved.

**PLAN AMENDMENT, SUSPENSION, MODIFICATION AND TERMINATION.** The Compensation Committee has the right to amend, suspend, modify or terminate the Omnibus Plan at any time, subject to approval by the Board of Directors.

**TERMINATION OF EMPLOYMENT.** In the event a participant dies, becomes disabled, retires or is otherwise terminated, for cause or otherwise (except for a "Change of Control," which is described below), the outstanding options or other awards may be subject to accelerated vesting, a shortening of the exercise period or termination, all on the terms and conditions set forth in the Omnibus Plan.

**CHANGE IN CONTROL.** If a "Change in Control" (as defined in the Company's Key Executive Employment and Severance Agreement, effective August 23, 2000) occurs all Options granted to a Participant then employed by Pentair (or an Affiliate) become fully vested and immediately exercisable, restrictions on Restricted Stock and Performance Share awards automatically lapse, rights to Restricted Stock become fully vested and outstanding



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ICUs and Performance Units are valued assuming all goals are met and all or a portion of such award is paid based on when such award was granted. All payments must be made within 10 days of the Change in Control.

**MODIFICATION OF AWARDS.** While the Committee has authority generally to make modifications to individual awards, including accelerating vesting or removing restrictions, the Committee does not have discretion to increase the amount of compensation a Participant could earn by application of preestablished performance goals and financial measurements relevant to the award, although the Committee does have discretion to decrease such an award.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 3 TO APPROVE THE OMNIBUS STOCK INCENTIVE PLAN FOR 162(M) PURPOSES.

### ITEM 4

#### APPROVAL OF AN AMENDMENT TO THE EXECUTIVE OFFICER PERFORMANCE PLAN

Shareholders are asked to approve an amendment to the Executive Officer Performance Plan ("EOPP") to ensure that awards under the plan continue to qualify as "performance-based" for purposes of Section 162(m) of the Internal Revenue Code and in order to satisfy New York Stock Exchange guidelines relating to equity compensation for officers. The amendment modifies the criteria used to measure achievement of the performance goals under the plan. The criteria as amended are described in the paragraph entitled "Performance Goals" set forth below. If shareholder approval of the amendment is not received, the Compensation Committee will reconsider the amendment and reconsider the change to the Performance Goals.

Following is a summary of the material features of the EOPP. Capitalized terms have the meanings set forth in the EOPP, a copy of which is attached as Appendix 4:

**PURPOSE.** A primary objective of 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 are eligible for participation at the discretion of the Compensation Committee. Participants in the EOPP are not eligible to participate in the Management Incentive Plan. Currently the Chief Executive Officer is the only participant. The Compensation Committee may determine that additional executive officers should be added as participants in the future.

**AWARD AMOUNTS.** 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 bonus opportunity category percentage for the Chief Executive Officer is 100%. Other positions that may qualify in the future, with the following bonus opportunity category percentages, include: President and Chief Operating Officer, 80%, Executive Vice Presidents and operating officers of business segments, 58.5%, and other senior officers, 52%. In administering the EOPP and in establishing bonus awards, the Committee does not have the discretion to pay participants more than the bonus amount indicated by the pre-established goals. The Committee has the discretion and flexibility, however, based on its business judgment, to reduce such amount.

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PERFORMANCE GOALS. EOPP performance goals and factors are established by the Compensation Committee prior to or early in each fiscal year. These performance goals are used to calculate the corporate performance factor that, in conjunction with the participant's bonus opportunity category percentage, determines the amount of the bonus awarded to each participant.

The determination of the corporate performance factor for 2001 is discussed in the "Compensation of the Chief Executive Officer" section of the Report of the Compensation Committee.

For 2002, the Compensation Committee has amended the EOPP to increase the emphasis on the importance of total capital management. The corporate performance factor will be determined by multiplying

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factors for 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.

For 2002, PVA will be calculated as a target percentage of Net Operating Profit After Taxes ("NOPAT") less a surcharge against average invested capital (which is defined as the total of net cash, debt and equity invested in a relevant business unit, segment or the Company as a whole). For 2002, Free Cash Flow is equal to net cash provided by operating activities, excluding net tax-affected interest expense, less capital expenditures. Under the annual bonus plan, 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 (which is defined as the increase in value, based on the annual performance of a relevant business unit, segment or the Company as a whole), 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. Performance between the stated factors is interpolated.

The target percentages for 2002 established by the Compensation Committee are discussed in the Report of the Compensation Committee. 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. Traditionally, the achievement of the established targets is measured by applying generally accepted accounting principles used by the Company in preparing its financial statements. The EOPP gives the Compensation Committee discretion to use pro forma results or to exclude the effects of significant transactions or changes in accounting rules to achieve consistency in measuring results, in the interests of fairness or to achieve the purposes of the EOPP.

MAXIMUM AWARD. The maximum annual award is 200% of annual base salary, but in no event more than \$3.5 million.

PAYMENT. Payment of the bonus amount is made in cash up to the amount of the participant's annual base salary, with any excess amount awarded in restricted shares under the Omnibus Plan.

SHARES AUTHORIZED. The Omnibus Plan, under which EOPP share awards are issued, has 5,600,000 shares authorized for issuance, of which no more than 1,120,000 (20%) may be issued as grants in a form other than stock options. As of December 31, 2001, 2,446,236 shares remained available for issuance under the

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Omnibus Plan.

PLAN TERMINATION. The Compensation Committee has the right to terminate the EOPP at any time, subject to approval by the Board of Directors.

CHANGE IN CONTROL. If a "Change in Control" (as defined in the Company's Key Executive Employment and Severance Agreement, effective August 23, 2000) occurs, a participant in the EOPP as of the date of such change in control is entitled to receive (i) payment of any outstanding but unpaid award for the prior year and (ii) an award for the fiscal year in effect as of the Change in Control using the annual base salary rate as in effect immediately before the Change in Control and assuming the EOPP goals for such year have been attained. Such amounts are payable within 10 days of the Change in Control. In addition, certain other provisions or requirements applying to awards under the EOPP are modified or eliminated in the event of a Change in Control, including the authority of the Compensation Committee to reduce an award, the minimum operating income requirement, the requirement of an annual audit and the requirement that a participant remain employed through the end of the incentive period.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 4 TO APPROVE THE AMENDMENT TO THE EXECUTIVE OFFICER PERFORMANCE PLAN.

### ITEM 5

#### APPROVAL OF AUDITORS

Deloitte & Touche LLP, independent certified public accountants, have been the auditors for the Company since 1977. They have been retained by the Board of Directors as the Company's auditors for the current fiscal year, and shareholder approval of such retention is requested.

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Representatives of Deloitte & Touche LLP are expected to attend the Annual Meeting with the opportunity to make a statement if they so desire, and they will be available to respond to appropriate questions.

Upon recommendation of the Audit and Finance Committee, and subject to ratification by the shareholders at the 2002 Annual Meeting, the Board of Directors has appointed Deloitte & Touche LLP as independent auditors to examine the consolidated financial statements of the Company for 2002.

The enclosed proxy will be voted "For" the proposal to approve retention of Deloitte & Touche LLP unless a contrary vote or abstention is indicated. If retention of Deloitte & Touche LLP is not approved by the shareholders, the Board of Directors will make another appointment effective at the earliest practicable date.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 5 TO APPROVE RETENTION OF DELOITTE & TOUCHE LLP.

#### EXECUTIVE COMPENSATION

##### COMPENSATION AND HUMAN RESOURCE COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2001, the Compensation and Human Resource Committee of the Board of Directors was comprised of Quentin J. Hietpas (Chair through 4/25/01), Charles A. Haggerty (Chair since 4/25/01), Barbara B. Grogan, Stuart Maitland and William T. Monahan (beginning 2/01). During 2001, none of the members of the

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Committee were officers or employees of the Company and there were no interlock relationships.

### COMPENSATION AND HUMAN RESOURCE COMMITTEE REPORT ON EXECUTIVE COMPENSATION

#### OVERVIEW

The Compensation and Human Resource Committee of the Board of Directors (the "Committee") is responsible for supervising the development of, and making recommendations to the Board with respect to, the Company's executive compensation policies. In addition, the Committee makes annual recommendations to the Board concerning compensation to be paid to the Chief Executive Officer ("CEO") and each of the other executive officers of the Company.

The Committee also oversees all aspects of the Company's executive compensation program, including many of the Company's employee benefit plans. The Company currently maintains a variety of compensation and benefit plans in which its executive officers may participate including the Omnibus Stock Incentive Plan (including stock awards granted under the Management Incentive Plan ("MIP") and Time Accelerated Restricted Stock Award Program ("TARSAP")), the Employee Stock Purchase and Bonus Plan, the Retirement Savings and Stock Incentive Plan, the RSIP Sidekick Plan, the Supplemental Executive Retirement Plan and the Executive Officer Performance Plan ("EOPP"). The Company also maintains a defined benefit pension plan in which substantially all U.S.-based, non-bargaining employees, including the Company's executive officers, participate.

#### PENTAIR'S COMPENSATION PHILOSOPHY

The principles guiding the executive compensation program are designed to ensure a proper linkage between executive compensation and creation of shareholder value. Goals of the program are:

- (a) to encourage innovation and growth;
- (b) to reward executives for top short-term performance and long-term shareholder value;
- (c) to recognize outstanding performance;
- (d) to attract and retain top-quality executives and key employees;
- (e) to encourage executive stock ownership; and thereby
- (f) to align management and shareholder interests.

The Company has maintained the philosophy that compensation of the executive officers should be directly and materially linked to operating results and stock price performance. To achieve this, compensation is heavily leveraged through the annual bonuses and long-term equity incentives. The mix of base salary, bonuses

and other benefits reflects the Company's goal of providing average compensation for average performance and above-average compensation for above-average performance.

In order to make its recommendations to the Board concerning executive officer compensation, the Committee annually reviews and evaluates the Company's

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corporate performance and the compensation and equity ownership of its executive officers. This is done by reviewing salary practices for comparable positions at other major industrial organizations as disclosed in the Towers Perrin compensation database, as well as a review of other nationally recognized pay surveys. These major organizations include companies that the Corporation competes with for business or executive talent. Many of the companies included in the Towers Perrin compensation database and national pay surveys are also listed in the S&P 500 Index and the S&P 400 MidCap Index, the indices included in the Comparative Stock Performance Graph. The Committee typically retains an independent compensation consulting firm, such as Towers Perrin, to assist in the review of executive compensation every other year.

### EXECUTIVE COMPENSATION PROGRAM

The components of the Company's executive compensation program, which are subject to the discretion of the Committee on an individual basis, include (a) base salaries, (b) annual cash performance-based bonuses, (c) long-term performance-based equity incentives, and (d) miscellaneous fringe benefits. All of these components are comparable to those of companies similar to the Company.

### BASE SALARY

The CEO submits a performance appraisal and recommendation to the Committee with respect to annual salaries of the executive officers. The Committee discusses and evaluates the salaries and makes its recommendation to the Board. Base salary targets for executive positions are set at the 50th percentile of competitive compensation. An individual performance and experience factor is applied to the target midpoint to determine each executive's actual base salary, within a range of +/- 20% of midpoint. For 2001, the salaries of the named executive officers identified in the Summary Compensation Table are within the salary targets for each position.

### BONUS

Generally, bonuses are considered for payment to executives and key employees following the end of each year under the EOPP (see page 11 for discussion of the EOPP) and the MIP. MIP awards are determined by applying the following factors to base salary: a bonus opportunity category (40% for Executive and Senior Vice Presidents; 30-35% for other officers), a corporate performance factor and an individual performance factor.

For 2001, the corporate performance factor was determined by multiplying factors for Simple Pentair Value Added ("SPVA") and Free Cash Flow ("FCF"). The use of these two factors reinforces the importance of balancing economically profitable growth and cash generation. SPVA is calculated as follows: earnings before interest and taxes less a 15% surcharge against average receivables, inventory and payables. FCF for bonus calculation is equal to net cash provided by operating activities, excluding net tax-affected interest expense, less capital expenditures. Under the MIP, the achievement of (a) FCF equal to 6.5% of sales and (b) SPVA generated that equates to a 15% 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 0.21; however, there is no MIP bonus if the Company has an operating loss. If the Company's performance results in a negative SPVA the maximum performance factor is capped at 2.00. Performance between the stated factors is interpolated. The maximum individual cash bonus is 100% of the participant's annual base salary, with the remainder being paid in shares of restricted stock. In addition to the corporate performance factor, for executives in charge of operating segments, a segment performance factor is used and weighted at 75% versus 25% for the corporate performance factor, to recognize contributions made at the segment level.

For 2002, the Company has revised the MIP to emphasize the importance of total capital management by substituting PVA (Pentair Value Added) for the SPVA measure. PVA is calculated as follows: Net Operating Profit After Taxes

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("NOPAT") less a 10% surcharge against average invested capital. The 2002 corporate performance factor will be a result of the multiplication of factors for PVA and FCF. FCF for the 2002 bonus calculation will be equal to net cash provided by operating activities, excluding net tax-affected interest expense, less capital expenditures. Under the MIP as revised, the achievement of (a) FCF of 65% of NOPAT and (b) PVA generated that equates to a 15% total business return, will result in a corporate performance factor of 1.00. The use of these two factors reinforces the importance of balancing economically profitable growth and cash generation. The maximum corporate performance factor will remain 4.50 and the minimum corporate performance factor is 0.10

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and there will be no bonus if the Company has an operating loss. If the Company's performance results in a negative PVA the maximum bonus remains capped at 2.00. Performance between the stated factors is interpolated. The maximum individual cash bonus remains 100% of the participant's annual base salary, with the remainder being paid in restricted stock.

In the first quarter of 1999, the Company recorded a special restructuring charge against continuing operations of \$23.0 million (\$14.6 million after-tax or \$0.34 per share). In the fourth quarter of 2000, the Company recorded a special restructuring charge against continuing operations of \$24.8 million (\$15.9 million after tax, or \$0.33 per share). For purposes of the MIP calculation, costs related to these restructuring activities are being amortized against the first 24 months of benefits, on a project-by-project basis. This is a timing difference only for MIP purposes in order to match the costs with the associated benefits. The bonus calculations for 2001 include a portion of these restructuring charges. In the fourth quarter of 2001, the Company recorded a restructuring charge of \$41.1 million (\$29.8 million after-tax or \$0.60 per share), which will be taken into account for MIP purposes beginning in 2002.

The individual performance factor component of the MIP bonus calculation is determined by the assignment of a numerical factor based on a supervisor's judgment on attainment of expectations relative to the employee's function. The CEO submits a performance appraisal and recommendation to the Committee for executive officers with respect to the individual performance factor. The Committee approves all MIP awards and has the right to increase or decrease awards to better accomplish the objectives of the MIP.

Bonus awards that exceed an amount equal to base salary are paid as a performance share award under the Omnibus Stock Incentive Plan. The performance share award is paid in restricted stock, subject to any vesting condition the Committee may impose.

The Committee has the discretion to make special awards to retain key executives or to recognize extraordinary contributions to the welfare, reputation and earnings of the Company. For 2001, the Company made five such awards to executive officers, including the CEO and three of the named executive officers, and each such bonus was made in addition to the MIP or EOPP award earned by such individual.

### LONG-TERM EQUITY INCENTIVES

#### GRANTS

Long-term incentive compensation is awarded in the form of restricted shares, incentive compensation units ("ICUs"), performance shares and stock options under the Omnibus Stock Incentive Plan ("Omnibus Plan"). All awards are

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proposed by the CEO and approved by the Committee. Long-term incentives are determined by using the average of the 50th and 60th percentile of comparable grant practices as compiled by the Towers Perrin compensation database. Annual awards are granted in the form of ICUs (10% for the CEO and 20% for executive officers) and stock options (90% for the CEO and 80% for executive officers).

Restricted stock may be awarded to such individuals as described in the section entitled "stock ownership guidelines" below; as an award to a new executive officer; as the form of payment of performance shares; or in payment of MIP or EOPP bonuses in excess of annual base salary. Restricted stock awards also may be made to officers of the Company and certain subsidiary presidents (who are nominated by the CEO and approved by the Committee) under the TARSAP, which has been added to the Omnibus Plan. TARSAP awards are made in addition to other awards under the Omnibus Plan and are determined by using an eligibility factor set on an individual basis by the Committee. The maximum award available is an amount equal to the executive's award eligibility under the Omnibus Plan. Restricted stock awards under the TARSAP vest in equal portions in the fifth, sixth and seventh years following the date of grant. The award may vest earlier, if certain performance goals, such as share price targets, are met, but in no event will more than one-third of any award vest in any year.

The Committee is authorized to grant stock options and performance share awards upon attainment of certain performance criteria that are based on the Company's long-term objectives. The Black-Scholes Model is used to determine stock option grant values.

Stock options can be granted for terms up to 10 years. Beginning with stock options granted in 1998, if the option holder exercises the stock option during the first five years of the option term by tendering to the Company common shares owned by that person, the Committee can grant to such person, an option ("Reload Option") to purchase common shares equal to the number of shares tendered. The Reload Option may be

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exercised during the remaining term of the original stock option period. The Reload Option exercise price is equal to the market price per share on the date the shares are tendered.

In addition, in 2001, the Committee determined that, in the interests of retaining key management personnel, the Committee would provide additional grants of option awards to certain executives, as determined by the Committee on an individual basis. These individuals were eligible to receive options for additional shares up to an amount equal to 50% of their grant eligibility for 2001.

The total Omnibus Plan awards for 2001 for all executive officers as a group, including the CEO and named executive officers, amounted to 1,912,998 ICUs, 683,500 stock options, 5,584 restricted shares, which were awarded for achievement of stock ownership guidelines, and 180,000 restricted shares, which were awarded under the TARSAP. Grants for the named executive officers are shown in the Summary Compensation Table (page 19) and the Option/SAR grant table (page 20).

### PAYOUTS

Payouts on ICUs in 2001 which related to ICU grants in 1998 were based upon the Company's three year average Return On Invested Capital (ROIC) and three year average Operating Income. Payouts in 2001 for the named executive officers are shown in the LTIP Payout column on the Summary Compensation Table

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(page 19). For retention purposes, in 2001, the Compensation Committee increased the dollar value of each ICU paid out from \$.71 to \$1.00.

### COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

The base salary, annual bonus and long-term equity incentives paid to Mr. Hogan in 2001 were generally determined in accordance with the guidelines described above, and his compensation is comprised of the same elements as for all executive officers. Mr. Hogan became CEO effective January 1, 2001.

The Committee has a formal rating process for evaluating the performance of the Chief Executive Officer. The rating process includes a self-evaluation rating by the CEO, after which each Board member completes an evaluation and rating with commentary. The Chairman of the Committee provides a consolidated rating report and chairs a discussion with the Board members without the CEO present. From that discussion, the performance rating is finalized and the Committee Chairman is instructed to review the final rating results and commentary with the CEO. This then translates into a personal development plan for the following year. The first such review for Mr. Hogan was held in December 2001.

Mr. Hogan's base salary was \$625,000 in accordance with the Committee's guideline of establishing the base salary at the market compensation rate for the CEO at the 50th percentile for companies at a comparable size as projected based on the 2000 performance. This resulted in a 39% increase in Mr. Hogan's base salary over 2000, reflecting his promotion from COO to CEO.

Mr. Hogan's bonus was determined under the EOPP. During 2001, the Chairman and the Chief Executive Officer were the only eligible officers participating in the EOPP. EOPP awards are determined based on the participant's bonus opportunity and a corporate performance factor. For 2001, the maximum individual bonus for the CEO was 200% of his annual base salary, but in no event more than \$3,500,000. In administering the EOPP and in establishing bonus awards thereunder, the Committee does not have the discretion to pay participants more than the bonus amount indicated by the preestablished goals. The Committee has the discretion and flexibility, however, based on its business judgment, to reduce this amount.

For 2001, the corporate performance factor was determined by multiplying factors for SPVA and FCF. The use of these two factors reinforces the importance of balancing economically profitable growth and cash generation. SPVA is calculated as follows: earnings before interest and taxes less a 15% surcharge against average receivables, inventory and payables. FCF for bonus calculation is equal to net cash provided by operating activities, excluding net tax-affected interest expense, less capital expenditures. Under the EOPP, the achievement of (a) FCF equal to 6.5% of sales and (b) SPVA generated that equates to a 15% 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 0.21; however, there is no EOPP 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. Performance between the stated factors is interpolated.

Mr. Hogan's bonus was calculated using the formula described above. For 2001, SPVA declined by \$68.2 million (including the impact of amortizing the 1999 and 2000 restructuring charges) and FCF was 8.3% of net sales, resulting in a corporate performance factor of 0.325. The Committee used his base salary of



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\$625,000, his bonus opportunity category of 100%, and the corporate performance factor of 0.325 to obtain his bonus amount. In accordance with the terms of the EOPP, the bonus amount of \$203,125 was paid in cash. The Committee exercised its discretion to make special awards to retain key executives or to recognize extraordinary contributions to the welfare, reputation and earnings of the Company and awarded a bonus of \$200,000 to Mr. Hogan, in addition to the EOPP bonus. Mr. Hogan's Omnibus Plan grants were computed based on the average of the 50th and 60th percentile of the Towers Perrin compensation database for comparable grant practices. He was granted 284,400 ICUs and 174,000 stock options in 2001.

For 2002, the Company has revised the EOPP in the same manner as the MIP described above to further emphasize the importance of capital management by substituting PVA for the SPVA measure. PVA and FCF will be measured in the same manner as described for the MIP.

### STOCK OWNERSHIP GUIDELINES

Stock ownership guidelines for top management have been established to motivate individual achievement and increase ownership of Pentair Common Stock. The Committee determined that over a period of five years, its top management should accumulate and hold Company stock equal to the following values: Chief Executive Officer -- three to five times base salary; Senior Corporate Officers -- two to three times base salary; and other corporate officers and subsidiary presidents -- one to two times base salary. In the opinion of the Committee, the achievement of ownership levels set forth will result in executive management being significant shareholders and will further encourage long-term performance and Company growth.

The Committee will consider making incentive grants of restricted stock based on the increase in ownership during the preceding year. These restricted stock grants (made under the Omnibus Plan) vest in equal increments on the third, fourth, and fifth anniversaries of the grant. The size of the grant is equal to 10% of the increase in common stock during the year if the annual ownership target is met, limited to 10% of the targeted ownership level if the targeted ownership level has been achieved. In 2001, restricted stock awards of 6,893 were granted under these guidelines to all key employees.

### COMPLIANCE WITH INTERNAL REVENUE CODE SECTION 162(m)

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation over \$1 million paid to each of the corporation's Chief Executive Officer and the four other most highly compensated officers. Qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met. The Company's policy is to maximize the deductibility of executive compensation so long as the deductibility is compatible with the more important objectives of retaining executives and maintaining competitive and motivational performance-based compensation. The shareholders are being asked to approve the Omnibus Stock Incentive Plan and an amendment to the EOPP this year, all to comply with Section 162(m) requirements. Under current interpretations of Section 162(m), EOPP bonus awards and most Omnibus Plan awards of stock options, SARs, ICUs, performance shares and performance units should not be subject to the \$1,000,000 deduction limit assuming receipt of shareholder approval and compliance with all other aspects of Section 162(m); however, some awards may not meet the requirements to be exempt from 162(m).

Charles A. Haggerty (Chair)      Barbara B. Grogan  
Stuart Maitland                  William T. Monahan

Compensation and Human Resource Committee of Pentair, Inc. Board of Directors

COMPARATIVE STOCK PERFORMANCE GRAPH

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The following graph sets forth the cumulative total shareholder return on the Company's Common Stock for the last five fiscal years, assuming the investment of \$100 on December 31, 1996 and the reinvestment of all dividends since that date to December 31, 2001. The graph also contains for comparison purposes the S&P 500 Index and the S&P MidCap 400 Index.

By virtue of its market capitalization, Pentair is a component of the S&P MidCap 400 Index. On the basis of the Company's size and diversification of businesses, a readily identifiable peer group has not been found. It is our opinion the S&P MidCap 400 Index is an appropriate comparison. The Company has evaluated other

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published indices, but has determined that the results are skewed by one or two large companies included in the indices. We believe such a comparison would not be meaningful.

### COMPARISON OF FIVE-YEAR CUMULATIVE RETURN FISCAL YEAR ENDED DECEMBER 31

[PLOT POINTS CHART]

	12/31/1996	12/31/1997	12/31/1998	12/31/1999	12/31/2000	12/31/2001
	-----	-----	-----	-----	-----	-----
Pentair, Inc.	100	113.23	127.41	125.13	80.21	123.81
S&P 500 Index	100	133.36	171.48	207.56	188.66	166.24
S&P Midcap 400 Index	100	132.25	157.52	180.71	212.35	196.42

### SUMMARY COMPENSATION TABLE

The following table sets forth the cash and noncash compensation awarded to or earned by the Chief Executive Officer of the Company and the four other highest paid executive officers of the Company whose salary and bonus earned in 2001 exceeded \$100,000.

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Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	
		Salary (\$)	Bonus (a) (\$)	Other Annual Compen- sation (b)	Awards	
					Restricted Stock Awards (c) (\$)	Securities Underlying Options/ SARs

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Randall J. Hogan	2001	625,000	403,125	--	1,766,772	174,000
CHIEF EXECUTIVE OFFICER	2000	450,000	400,000	--	1,012,356	53,000
	1999	312,500	312,500	--	21,313	25,000
David D. Harrison(e)	2001	365,000	172,501	100,376(f)	476,637	45,000
EXECUTIVE VICE PRESIDENT,	2000	308,902	120,472	432,429(g)	--	60,000
CHIEF FINANCIAL OFFICER	1999	--	--	--	--	--
Frank J. Feraco(h)	2001	350,000	175,000	268,863(i)	513,047	--
PRESIDENT AND CHIEF	2000	11,891	25,000	--	--	63,000
OPERATING OFFICER, TOOLS	1999	--	--	--	--	--
SEGMENT						
Richard J. Cathcart	2001	365,000	75,920	46,397(j)	574,936	48,000
PRESIDENT AND CHIEF	2000	350,000	350,000	--	94,117	32,000
OPERATING OFFICER, WATER	1999	310,000	296,608	--	24,211	25,000
TECHNOLOGIES SEGMENT						
Michael V. Schrock	2001	273,854	71,275	--	188,486	38,500
PRESIDENT AND CHIEF	2000	242,500	242,494	--	466,523	9,000
OPERATING OFFICER,	1999	210,000	167,684	--	23,775	7,500
ENCLOSURES SEGMENT						

- (a) Represents bonuses accrued by the Company for the year even if paid after December 31.
- (b) Other annual compensation includes perquisites and other personal benefits, securities or property. Disclosure is required only if the amount exceeds the lesser of \$50,000 or 10% of the total annual salary and bonus reported for the named executive officer. Information has been included only for those named executive officers who have met the reporting threshold.
- (c) The restricted stock awards reflected in the table were made pursuant to the Company's executive compensation programs. Restricted stock awards are subject to vesting as determined by the Committee. Generally, restricted stock awards are subject to vesting, in three equal installments on the third, fourth and fifth anniversaries of the grant, based solely on the continued employment of the recipient by the Company. The value of restricted stock awards reflected in the table is based on the closing market price of the Common Stock on the date of grant. As of December 31, 2001, the following restricted stock awards (not yet earned) were held by each of the named executives (based on 12/31/01 closing price of \$36.5156): Hogan 87,575 shares or \$3,197,854; Harrison 15,794 shares or \$576,727; Feraco, 15,000 shares or \$547,734; Cathcart 23,805 shares or \$869,254; Schrock, 23,945 shares or \$874,366.
- (d) Includes Company contributions to the Retirement Savings and Stock Incentive Plan, RSIP Sidekick Plan and the Employee Stock Purchase and Bonus Plan and life insurance premiums paid by the Company on behalf of the named executive officer.
- (e) Mr. Harrison joined the Company in February 2000.

- (f) Includes relocation expenses of approximately \$32,991 and the balance of this amount reflects the value of benefits provided under a flexible perquisite program available to certain executives for the reimbursement of certain business-related expenses, including automobile expenses, membership fees, professional fees (including tax

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- preparation costs) and out-of-pocket medical expenses. The program includes an annual benefit of up to \$20,000, plus a one-time benefit of up to \$50,000 for certain membership fees.
- (g) Approximately \$416,000 of this amount represents reimbursement of relocation expenses.
- (h) Mr. Feraco joined the Company on December 23, 2000; the bonus paid in 2000 represents a hiring incentive bonus.
- (i) Approximately \$252,319 of this amount represents reimbursement of relocation expenses.
- (j) This amount reflects the value of benefits provided under a flexible perquisite program available to certain executives for the reimbursement of certain business-related expenses, including automobile expenses, membership fees, professional fees (including tax preparation costs) and out-of-pocket medical expenses. The program includes an annual benefit of up to \$20,000, plus a one-time benefit of up to \$50,000 for certain membership fees.

### OPTIONS AND STOCK APPRECIATION RIGHTS

The following tables summarize option and SAR grants and exercises during 2001 to or by the Chief Executive Officer and the executive officers named in the Summary Compensation Table above, and the values of the options and SARs held by such persons at the end of 2001. Option grants shown in the table below include both incentive stock options and non-qualified stock options. No SARs have been granted since 1983 and no SARs were exercised during 2001 or remain outstanding at the end of 2001.

#### Option and SAR Grants in 2001

Name	Number of Securities Underlying Options/SARs Granted(a)	% of Total Options/SARs Granted to Employees in Fiscal 2001	Exercise or Base Price	Expiration Date	Potential Realized Value at Assumed Annual Rates of Price Appreciation	
					5%	Option Term
Randall J. Hogan	174,000	21.4%	\$22.75	1/02/11	\$2,489,479	\$6,
David D. Harrison	45,000	5.5%	\$22.75	1/02/11	\$ 643,831	\$1,
Frank J. Feraco	--	--	--	--	\$ --	\$
Richard J. Cathcart	48,000	5.9%	\$22.75	1/02/11	\$ 686,753	\$1,
Michael V. Schrock	13,500	1.6%	\$22.75	1/02/11	\$ 193,149	\$
	25,000	3.1%	\$33.125	10/22/11	\$ 520,803	\$1,
	-----	---			-----	---
	38,500	4.7%			\$ 713,952	\$1,

- (a) Generally one-third of each grant becomes exercisable on each of the first three anniversaries of the date of grant. The exercise price for the options granted was the closing market price of the Common Stock as of the date of grant.

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### Aggregate Option and SAR Exercises in 2001 and Value at End of 2001

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at End of 2001	Value of Unexercised In-the-Money Options/SARs at End of 2001
-----	-----	-----	Exercisable (E) Unexercisable (U)	Exercisable Unexercisable
Randall J. Hogan	--	--	E 59,332 U 217,668	E \$ 5, U \$2,406,
David D. Harrison	--	--	E 13,000 U 92,000	E \$ U \$ 619,
Frank J. Feraco	--	--	E 21,000 U 42,000	E \$ 325, U \$ 651,
Richard J. Cathcart	21,924	\$100,028	E 52,332 U 77,668	E \$ 41, U \$ 667,
Michael V. Schrock	--	--	E 14,500 U 47,000	E \$ U \$ 272,

#### LONG-TERM INCENTIVE PLAN AWARDS

The following table reflects incentive compensation unit (ICU) awards made under the Omnibus Plan during 2001 to the Chief Executive Officer and the executive officers named in the Summary Compensation Table above.

#### Long-Term Incentive Plan Awards in 2001

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Matura- tion or Payout	Threshold	Estimated Future Under Non-Stock Based Plans Target
-----	-----	-----	-----	-----
Randall J. Hogan	284,400 units	3 years	\$ 0	\$492,012
David D. Harrison	163,600 units	3 years	\$ 0	\$283,028
Frank J. Feraco	176,600 units	3 years	\$ 0	\$305,518
Richard J. Cathcart	176,600 units	3 years	\$ 0	\$305,518
Michael V. Schrock	81,898 units	3 years	\$ 0	\$141,684

The ultimate payout value of each ICU is determined based on the Company's operating income (OI) growth and return on invested capital (ROIC)

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averaged over the three-year period. The target payout shown in the table is based on annual OI growth of 10% and annual ROIC of 20% which results in a value per ICU of \$1.73. If over the three-year period there is no OI growth or ROIC is less than 15%, the value per ICU will be \$0. The maximum value per ICU is \$4.76. The following matrix shows the ICU values based on the OI growth and ROIC.

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RETURN ON INVESTED CAPITAL (ROIC)	OPERATING INCOME (OI) GROWTH						
	0%	2%	6%	10%	12%	20%	30%
15%	0.13	0.14	0.18	0.22	0.24	0.33	0.46
16%	0.44	0.47	0.53	0.60	0.64	0.79	1.00
18%	0.96	1.01	1.12	1.23	1.29	1.54	1.89
19%	1.17	1.23	1.36	1.49	1.56	1.86	2.27
20%	1.37	1.44	1.58	1.73	1.81	2.15	2.61
30%	2.61	2.73	2.98	3.24	3.38	3.96	4.76

### RETIREMENT BENEFIT PLANS

The Company maintains a tax-qualified defined benefit pension plan covering substantially all nonbargaining U.S. employees and an excess benefit plan covering highly-paid employees. Benefits under each plan are based on a participant's high five year average eligible earnings which generally include salary and bonus.

The Company maintains an unfunded, nonqualified Supplemental Executive Retirement Plan (SERP) for corporate officers and subsidiary presidents. The annual retirement benefit payable under the SERP at age 65 is equal to 50% of the participant's high three year average eligible earnings reduced by 100% of the annual primary Social Security benefit and further reduced by age 65 benefits payable under qualified pension plans sponsored by the Company and previous employers of the participant.

Effective January 1, 1999 the Company amended the SERP to provide an annual retirement benefit which, expressed as a lump sum, is equal to the product of 15 percentage points for each year of service times the high five year average eligible earnings with no reductions for Social Security or qualified pension benefits. SERP benefits are payable as early as the attainment of age 55 and completion of five years of service in the new plan and are converted into and received in the form of a term certain or joint and survivor annuity.

The following estimated aggregate amounts are payable from the qualified pension (as a life annuity), excess plan and SERP (as a fifteen year term annuity) upon retirement to the named executive officers, assuming retirement at age 65 and each final salary is the same as that at January 1, 2002: Hogan \$397,361; Harrison \$270,855; Feraco \$120,345; Cathcart \$369,038; Schrock \$226,859.

### EMPLOYMENT AGREEMENTS AND CHANGE IN CONTROL ARRANGEMENTS

The Company has entered into an Employment Agreement with Richard J. Cathcart, the President and Chief Operating Officer of the Water Technologies

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segment. The Employment Agreement provides that in the event Mr. Cathcart's employment is terminated at any time prior to his normal retirement date (as determined under the primary defined benefit pension plan applicable to Mr. Cathcart), unless terminated "For Cause" as defined in the agreement, then Mr. Cathcart is entitled to receive certain severance benefits. Prior to reaching age 62, he is entitled to a payment of three times his annual cash compensation, at age 62 he is entitled to an amount equal to his annual cash compensation and from age 63 on there is no cash payment amount. The amount of this payment is subject to reduction if the average performance of the Water Technologies segment (or any other segment for which Mr. Cathcart has responsibility during the applicable period) for the three fiscal years preceding termination does not meet the specified criteria. Mr. Cathcart is also entitled to receive outplacement services, medical benefits, full vesting in the accrued benefit under the Supplemental Executive Retirement Plan plus any additional benefits he would have received if employment had continued until age 62. In addition, the agreement provides for the vesting of restricted stock awards and stock options, as well as a formula for calculating payment of outstanding performance-based awards. The agreement also contains a covenant against competition from Mr. Cathcart.

Approximately 20 key corporate executives and business unit leaders (including the executive officers) have entered into agreements with the Company that provide for contingent benefits in the event of a change in control of the Company (except in certain very limited circumstances). Such benefits include:

- a. bonus awards for the year in question to be made under the Management Incentive Plan;
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- b. immediate vesting of all unvested stock options, termination of all restrictions on shares issued under the Omnibus Plan, and payment for ICU's and performance units without regard to the plans' forfeiture provisions;
- c. reimbursement of any excise taxes triggered by payments to the executive;
- d. the cost of an executive search agency;
- e. directors and officers liability insurance coverage;
- f. short-term replacement coverage for Company-provided group medical, dental, and life insurance policies;
- g. amount of non-vested benefits under any of the Company's tax-qualified deferred compensation plans;
- h. the accelerated accrual and vesting of benefits under the Supplemental Executive Retirement Plan (for those executives who have been made participants of such plan);
- i. severance pay equal to 300% (for the CEO), 250% (for the Company's other executive officers and business unit presidents) or 200% (for all other applicable executives) of annual compensation;
- j. guaranteed salary, benefit and bonus levels for continuing employees for up to a three-year period; and

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- k. reimbursement of the executive's legal expenses in the event of a dispute with the Company arising out of the agreement.

In addition, the Omnibus Plan permits the Compensation and Human Resource Committee, upon a change in control of the Company, to cancel all outstanding options granted under the plan, whether or not exercisable, and authorize payment of the "spread" between the exercise price of the options and the then current market value of the underlying stock. The agreement requires the executive to devote his or her best efforts to the Company or its successor during the three-year period, to maintain the confidentiality of Company information during and following employment and to refrain from competitive activities for a period of one year following termination of employment with the Company or its successor.

REPORT OF THE AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS

The Audit and Finance Committee of the Board of Directors is responsible for selecting auditors, ensuring the fiscal integrity of the Company and establishing and reviewing internal controls. The Audit and Finance Committee adopted a Charter of its responsibilities on February 23, 2001, which is attached as Appendix 1 to this Proxy Statement. The Audit and Finance Committee is comprised of the following directors:

Name of Director -----	Term Expires -----	Director Since -----
Karen E. Welke, Chair	2004	1995
William H. Hernandez	2004*	2001
Stuart Maitland	2005*	1999
Augusto Meozzi	2005*	1999

\*subject to election at the Annual Meeting

In accordance with the recently adopted SEC and NYSE standards for independence of Audit and Finance Committee members, the Board of Directors considers all of the members of the Audit and Finance Committee to be independent. None of the members of the Audit and Finance Committee were officers or employees of the Company during or prior to 2001, or had a relationship with the Company that would, in the

opinion of the Board of Directors, interfere with the exercise of his or her independence from management and the Company. All of the members of the Audit and Finance Committee have substantial experience in financial matters and business operations.

The Audit and Finance Committee has (i) reviewed and discussed the Company's audited financial statements with management; (ii) discussed with the Company's independent auditors, Deloitte & Touche LLP, the matters required to be discussed by Statement on Auditing Standards No. 61; (iii) received from the auditors disclosures regarding the auditors' independence in accordance with Independence Standards Board Standard No. 1 and discussed with the auditors the auditors' independence; and (iv) considered whether the level of non-audit services provided by Deloitte & Touche LLP is compatible with maintaining the



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independence of its auditors.

### AUDITOR INDEPENDENCE

During fiscal year 2001, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their affiliates, provided various audit, audit-related and non-audit services to the Company as follows (in thousands):

a) Audit Fees: Aggregate fees billed for professional services rendered for the audit of the Company's 2001 annual financial statements and review of financial statements in the Company's Form 10-Q Reports	\$ 798
b) Financial Information Systems Design and Implementation Fees	0
c) All Other Fees: All other fees for 2001, principally consisting of fees for tax consulting, internal audit outsourcing and other services were as follows:	
* Audit-related services, including internal audit, acquisitions and divestitures, SEC registration statements, benefit plan audits, and other accounting and auditing services	\$ 2,145
* Tax services, including tax consulting and tax return preparation	475
* Other consulting services, consisting primarily of actuarial and human resources consulting	1,185
	-----
Total other fees	3,805
	-----
Total Deloitte & Touche fees	\$ 4,603
	=====

Based on the review and discussions described above, the Audit and Finance Committee recommended to the Board of Directors that the Company's audited financial statements for the year ended December 31, 2001 be included in the Company's 2001 Annual Report on Form 10-K for filing with the SEC. In addition, the Audit and Finance Committee, through its Chair, reviewed the Company's 2001 quarterly results prior to public release.

Karen E. Welke (Chair)      William H. Hernandez

Stuart Maitland      Augusto Meozzi

Audit and Finance Committee of the Pentair, Inc. Board of Directors

### FUTURE PROPOSALS

The deadline for submitting a shareholder proposal for inclusion in the Company's proxy statement and form of proxy for the Company's 2003 Annual Meeting of Shareholders pursuant to Rule 14a-8 of the Securities and Exchange Commission is January 4, 2003. Unless a shareholder who wishes to bring a matter before the shareholders at the Company's 2003 Annual Meeting notifies the

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Company of such matter prior to March 20, 2003, the persons named in the proxy for the 2003 Annual Meeting will have discretionary authority to vote for or against or to abstain from voting on such proposal in accordance with their best judgment, if the proposal is actually presented at the meeting. Such proposals also must comply with the requirements of the Securities and

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Exchange Commission and the Company's By-Laws. Any shareholder proposal should be sent to the Company at its principal executive offices: 1500 County Road B2 West, Saint Paul, Minnesota 55113, Attention: Secretary.

With respect to nomination of directors, sections 9 through 12 of Article II of the By-Laws provide that a candidate may not be nominated for election as a director at the Annual Meeting of Shareholders unless the nomination was previously submitted to the Board of Directors or the Nominating, Governance, Public Policy and Share Rights Committee. A shareholder wishing to nominate a candidate for director at an Annual Meeting of Shareholders must do so no later than the sixtieth day after the end of the fiscal year preceding the year in which such Annual Meeting will be held. Nominations are deemed made when the Secretary of the Company receives all of the following: (1) all information about the nominee that may be required to be provided in any proxy statement pursuant to the Securities Exchange Act of 1934 and regulations promulgated thereunder; (2) an executed directors' questionnaire provided by the Company and completed by the nominee; (3) the nominee's statement consenting to his or her nomination and agreeing to serve, if elected; and (4) evidence that the person making the nomination is a shareholder. After reviewing the submission, the Board or the appointed Nominating, Governance, Public Policy and Share Rights Committee may, but need not, designate one or more of the nominees to appear as an alternate candidate on any proxy solicited by management or any proxy statement furnished by management. The number of such alternate candidates may not exceed the number of directors to be elected at that Annual Meeting. Exclusion of any eligible candidate from a proxy solicited by management does not affect the right of shareholders to nominate, vote for, or elect such candidate at any shareholders meeting held within twelve months after submission of the nomination material described above.

### OTHER BUSINESS

Management does not know of any other business that will be presented for consideration at the Annual Meeting; however, if any other business does properly come before the Annual Meeting, proxies will be voted in accordance with the best judgment of the person or persons acting under them.

### 2001 ANNUAL REPORT ON FORM 10-K

Any security holder wishing to receive, without charge, a copy of the Company's 2001 Annual Report on Form 10-K (without exhibits) filed with the Securities and Exchange Commission should write to Pentair, Inc., 1500 County Road B2 West, Saint Paul, Minnesota 55113, Attention: Secretary.

### REDUCE DUPLICATE MAILINGS

To reduce duplicate mailings, we are now sending only one copy of any proxy statement, information statement or annual report to multiple shareholders sharing an address unless we receive contrary instructions from one or more of the shareholders.

If you wish to receive separate copies of each proxy statement,

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information statement and annual report please notify us by writing or calling Pentair, Inc., 1500 County Road B2 West, Saint Paul, Minnesota 55113, Attention: Secretary, Telephone: (651) 636-7920 or (800) 328-9626.

If you are receiving duplicate mailings, you may authorize us to discontinue mailings of multiple proxy and information statements, annual reports and prospectuses. To discontinue duplicate mailings, notify us by writing or calling Pentair, Inc., 1500 County Road B2 West, Saint Paul, Minnesota 55113, Attention: Secretary, Telephone: (651) 636-7920 or (800) 328-9626.

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APPENDIX 1

CHARTER OF RESPONSIBILITIES  
FOR  
AUDIT AND FINANCE COMMITTEE  
Of  
Pentair, Inc.  
Board of Directors

The Audit and Finance Committee (the "Committee") has been appointed by the Board of Directors to assist the Board in supervising the financial and legal compliance of the Company. The principal responsibility of the Committee is to monitor the integrity of the financial statements of the Company and the independence and performance of the Company's internal and external auditors. The Committee also will work in cooperation with the Company's legal counsel to monitor compliance with applicable legal requirements when the risk of non-compliance might have an adverse impact on the Company's financial condition or results of operations.

The Committee shall consist of at least three directors, all of whom shall be independent and financially literate, and at least one of whom shall possess financial or accounting expertise, as determined by the Board of Directors. A director shall be considered independent if he or she meets the requirements established by the New York Stock Exchange for Audit and Finance Committee independence and will submit an annual statement to the Board confirming compliance with these independence requirements. The members of the Committee will be appointed by the Board on the recommendation of the Nominating and Governance Committee.

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

A. With regard to the Company's financial statements and accounting practices and policies, the Committee shall:

\* Meet with management to review the annual audited financial

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statements and discuss major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements.

- \* Review significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements.
- \* Review with management and the independent auditor the Company's quarterly financial statements prior to the release of quarterly earnings.
- \* Meet periodically with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- \* Review major changes to the Company's accounting principles and practices as suggested by the independent auditor, internal auditors or management.

B. With regard to the independent certified public accountants (external auditors) responsible for rendering opinions reflecting proper compliance with generally accepted accounting principles and various financial accounting standards, the Committee shall:

- \* Review and recommend to the Board the appointment or retention of an independent auditor, which firm is ultimately accountable to the Committee and the Board.
- \* Review and approve the independent auditor's audit plan including scope, staffing, timing of work and audit fees.

### Appendix 1 - 1

- \* Ensure that the external auditors submit on a periodic basis to the Committee a formal written statement delineating all relationships between the auditors and the Company; actively engage in a dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors; and recommend that the Board of Directors take appropriate action in response to the external auditors' report to satisfy itself of their independence.
- \* Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit.
- \* Review independent auditor's letter reports regarding the Company's internal controls and other observations and recommendations and management's responses.

C. With regard to the Company's internal audit practices, the Committee shall:

- \* Perform a general oversight function assuring adequate competent staff and sufficient internal control policies to ensure the integrity of the Company's financial reporting

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process.

- \* Review the performance of the internal audit department.
- \* As appropriate, review significant reports to management prepared by the internal audit department and management's responses.

D. The Committee shall also:

- \* Review and approve the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement regarding the activities of the Committee.
- \* Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or government agencies.
- \* Meet at least annually with the Company's financial management, the senior internal audit staff and the independent auditor in separate executive sessions, as needed.
- \* The Committee shall review and reassess at least annually the adequacy of this Charter and recommend any proposed changes to the Board for its review and approval and submit required certifications to the appropriate exchanges.

While the Committee has the responsibilities and power set forth in this Charter delegated to it by the Board, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Committee, separate from the Board, to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and the Company's Code of Conduct.

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APPENDIX 2

### TEXT OF AMENDMENTS TO ARTICLES AND BY-LAWS

#### PROPOSED AMENDMENT TO SECOND RESTATED ARTICLES OF INCORPORATION

Current version of Section 1, Article XI:

The business of this Corporation shall be managed by a Board of Directors who shall be elected at the annual meeting of the shareholders. The number of directors shall be fixed from time to time by the By-Laws but the number thereof shall never be less than three. The directors are hereby divided into three classes, each class to consist as nearly as may be of one-third of the number of directors then constituting the whole Board. The term of office of those of the first class shall expire at the annual meeting in 1977. The term of office of the second class shall expire in 1978. The term of office of the third class shall expire in 1979. At each annual election

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commencing in 1977, the directors elected shall be chosen for a full term of three years to succeed those whose terms then expire. Vacancies on the Board of Directors may be filled by the remaining directors and each person so elected shall be a director until his successor is elected at an annual meeting of shareholders or at a special meeting duly called therefor.

### SECTION 1, ARTICLE XI, AS AMENDED:

The business of this Corporation shall be managed by a Board of Directors who shall be elected at the annual meeting of the shareholders. The number of directors is hereby fixed at ten (10). The directors are hereby divided into three classes, each class to consist as nearly as may be of one-third of the number of directors then constituting the whole Board. The term of office of those of the first class shall expire at the annual meeting in 1977. The term of office of the second class shall expire in 1978. The term of office of the third class shall expire in 1979. At each annual election commencing in 1977, the directors elected shall be chosen for a full term of three years to succeed those whose terms then expire. Vacancies on the Board of Directors may be filled by the remaining directors and each person so elected shall be a director until his successor is elected at an annual meeting of shareholders or at a special meeting duly called therefor.

### PROPOSED AMENDMENTS TO BY-LAWS

#### Current version of Section 1, Article II:

GENERAL POWERS; NUMBER OF DIRECTORS; CLASSIFICATION. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, except as otherwise permitted by statute. The Board of Directors shall consist of not less than three (3) nor more than fifteen (15) directors, who need not be shareholders of the Corporation. The Board of Directors has been divided into three classes, as nearly equal in number as may be, with the terms of office for each class staggered so that the term for only one class expires each year. When the number of directors is changed, any newly created directorships or decrease in directorships shall be apportioned among the classes so as to make all classes as nearly equal in number as possible. Such classification of any newly created directorship shall be fixed by the Board of Directors.

### SECTION 1, ARTICLE II, AS AMENDED:

GENERAL POWERS; NUMBER OF DIRECTORS; CLASSIFICATION. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, except as otherwise permitted by statute. The Board of Directors shall consist of ten (10) directors, who need not be shareholders of the Corporation.

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APPENDIX 3

PENTAIR, INC.  
OMNIBUS STOCK INCENTIVE PLAN  
AS AMENDED AND RESTATED

### SECTION 1. BACKGROUND AND PURPOSE

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1.1. Background. Pentair, Inc. ("Pentair") maintains a comprehensive equity compensation incentive plan to award long-term equity incentives which tie the compensation of executives and key managerial employees to Pentair operating results. In particular, this Plan is designed to attract and retain top quality executives and key employees, encourage innovation and growth, reward executives for attainment of short-term performance objectives and long-term shareholder value, recognize outstanding performance, encourage executive stock ownership and, in general, to align management and shareholder interests. Pentair established the Plan in 1