

PENTAIR INC  
Form 10-Q  
July 22, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Quarterly Period Ended June 28, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
Commission file number 000-04689  
Pentair, Inc.**

(Exact name of Registrant as specified in its charter)

**Minnesota** **41-0907434**  
  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification number)  
  
**5500 Wayzata Blvd, Suite 800, Golden Valley, Minnesota** **55416**

(Address of principal executive offices) (Zip code)  
**Registrant's telephone number, including area code: (763) 545-1730**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

On June 28, 2008, 98,919,004 shares of Registrant's common stock were outstanding.

**Pentair, Inc. and Subsidiaries**

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Pentair, Inc. and Subsidiaries  
Condensed Consolidated Statements of Income (Unaudited)**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
<i>In thousands, except per-share data</i>				
Net sales	\$ 909,757	\$ 899,299	\$ 1,750,161	\$ 1,692,144
Cost of goods sold	631,695	619,750	1,220,768	1,176,664
Gross profit	278,062	279,549	529,393	515,480
Selling, general and administrative	146,311	151,881	284,957	291,363
Research and development	16,314	14,808	32,180	29,758
Legal settlement	20,435		20,435	
Operating income	95,002	112,860	191,821	194,359
Other (income) expense:				
Gain on sale of interest in subsidiaries	(109,648)		(109,648)	
Equity losses of unconsolidated subsidiary	847	36	1,764	993
Net interest expense	15,862	18,483	31,950	33,194
Income from continuing operations before income taxes	187,941	94,341	267,755	160,172
Provision for income taxes	49,206	33,348	76,376	56,550
Income from continuing operations	138,735	60,993	191,379	103,622
Income (loss) from discontinued operations, net of tax		1,008	(1,217)	509
Gain (loss) on disposal of discontinued operations, net of tax		64	(7,137)	207
Net income	\$ 138,735	\$ 62,065	\$ 183,025	\$ 104,338
<b>Earnings (loss) per common share</b>				
<b>Basic</b>				
Continuing operations	\$ 1.41	\$ 0.62	\$ 1.95	\$ 1.04
Discontinued operations		0.01	(0.09)	0.01
Basic earnings per common share	\$ 1.41	\$ 0.63	\$ 1.86	\$ 1.05
<b>Diluted</b>				
Continuing operations	\$ 1.39	\$ 0.61	\$ 1.92	\$ 1.03
Discontinued operations		0.01	(0.08)	0.01
Diluted earnings per common share	\$ 1.39	\$ 0.62	\$ 1.84	\$ 1.04

**Weighted average common shares  
outstanding**

Basic	98,062	98,874	98,172	98,915
Diluted	99,509	100,371	99,462	100,294

<b>Cash dividends declared per common share</b>	\$ 0.17	\$ 0.15	\$ 0.34	\$ 0.30
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*See accompanying notes to condensed consolidated financial statements.*

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

<i>In thousands, except share and per-share data</i>	<b>June 28 2008</b>	<b>December 31 2007</b>	<b>June 30 2007</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 74,616	\$ 70,795	\$ 52,016
Accounts and notes receivable, net	558,928	466,675	523,941
Inventories	437,421	392,416	395,330
Deferred tax assets	51,961	50,511	51,621
Prepaid expenses and other current assets	46,213	35,908	41,605
Current assets of discontinued operations		21,716	31,750
<b>Total current assets</b>	<b>1,169,139</b>	<b>1,038,021</b>	<b>1,096,263</b>
<b>Property, plant and equipment, net</b>	<b>379,471</b>	<b>365,990</b>	<b>352,853</b>
<b>Other assets</b>			
Goodwill	2,158,229	2,004,720	1,924,208
Intangibles, net	558,451	491,263	503,663
Other	78,732	82,237	77,821
Non-current assets of discontinued operations		18,383	18,436
<b>Total other assets</b>	<b>2,795,412</b>	<b>2,596,603</b>	<b>2,524,128</b>
<b>Total assets</b>	<b>\$4,344,022</b>	<b>\$4,000,614</b>	<b>\$3,973,244</b>
<b>Liabilities and Shareholders Equity</b>			
<b>Current liabilities</b>			
Short-term borrowings	\$ 217	\$ 13,586	\$ 10,202
Current maturities of long-term debt	4,442	5,075	4,516
Accounts payable	238,656	229,937	211,504
Employee compensation and benefits	98,816	111,475	95,960
Current pension and post-retirement benefits	8,557	8,557	7,918
Accrued product claims and warranties	47,528	49,382	48,867
Income taxes	18,115	12,919	20,322
Accrued rebates and sales incentives	36,687	36,663	42,075
Other current liabilities	130,431	90,377	93,948
Current liabilities of discontinued operations		2,935	9,616
<b>Total current liabilities</b>	<b>583,449</b>	<b>560,906</b>	<b>544,928</b>
<b>Other liabilities</b>			
Long-term debt	1,024,160	1,041,925	1,173,184
Pension and other retirement compensation	171,923	161,042	218,420
Post-retirement medical and other benefits	35,095	37,147	46,806

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Long-term income taxes payable	24,442	21,306	14,705
Deferred tax liabilities	189,214	167,633	110,412
Other non-current liabilities	95,544	97,086	87,949
Non-current liabilities of discontinued operations		2,698	2,546
Total liabilities	2,123,827	2,089,743	2,198,950
Commitments and contingencies			
<b>Minority interest</b>	122,960		
<b>Shareholders equity</b>			
Common shares par value \$0.16 <sup>2/3</sup> ; 98,919,004, 99,221,831 and 99,969,848 shares issued and outstanding, respectively	16,483	16,537	16,662
Additional paid-in capital	465,141	476,242	493,114
Retained earnings	1,445,504	1,296,226	1,219,555
Accumulated other comprehensive income	170,107	121,866	44,963
Total shareholders equity	2,097,235	1,910,871	1,774,294
<b>Total liabilities and shareholders equity</b>	<b>\$4,344,022</b>	<b>\$4,000,614</b>	<b>\$3,973,244</b>

*See accompanying notes to condensed consolidated financial statements.*

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**Pentair, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**

<i>In thousands</i>	<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>
<b>Operating activities</b>		
Net income	\$ 183,025	\$ 104,338
<b>Adjustments to reconcile net income to net cash provided by (used for) operating activities</b>		
(Income) loss from discontinued operations	1,217	(509)
(Gain) loss on disposal of discontinued operations	7,137	(207)
Equity losses of unconsolidated subsidiary	1,764	993
Depreciation	30,795	30,043
Amortization	13,101	12,952
Deferred income taxes	21,037	(6,476)
Stock compensation	11,932	12,626
Excess tax benefits from stock-based compensation	(776)	(2,213)
Gain on sale of assets	(443)	
Gain on sale of interest in subsidiaries	(109,648)	
<b>Changes in assets and liabilities, net of effects of business acquisitions and dispositions</b>		
Accounts and notes receivable	(85,203)	(84,466)
Inventories	(20,300)	8,040
Prepaid expenses and other current assets	(7,852)	(3,465)
Accounts payable	11,044	10,308
Employee compensation and benefits	(18,482)	(4,915)
Accrued product claims and warranties	(2,298)	4,561
Income taxes	4,131	5,157
Other current liabilities	31,261	2,525
Pension and post-retirement benefits	3,320	7,730
Other assets and liabilities	4,986	2,554
Net cash provided by (used for) continuing operations	79,748	99,576
Net cash provided by ( used for) operating activities of discontinued operations	(4,137)	(1,660)
Net cash provided by (used for) operating activities	75,611	97,916
<b>Investing activities</b>		
Capital expenditures	(26,328)	(30,058)
Proceeds from sale of property and equipment	3,802	1,526
Acquisitions, net of cash acquired or received	6,237	(482,885)
Divestitures	29,959	
Other		(779)
Net cash provided by (used for) investing activities	13,670	(512,196)



**Financing activities**

Net short-term borrowings	(13,965)	(4,708)
Proceeds from long-term debt	279,405	1,121,402
Repayment of long-term debt	(297,740)	(673,341)
Debt issuance costs	(50)	(1,782)
Excess tax benefits from stock-based compensation	776	2,213
Proceeds from exercise of stock options	2,175	4,922
Repurchases of common stock	(21,721)	(9,280)
Dividends paid	(33,747)	(29,991)
Net cash provided by (used for) financing activities	(84,867)	409,435
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(593)	2,041
<b>Change in cash and cash equivalents</b>	3,821	(2,804)
<b>Cash and cash equivalents, beginning of period</b>	70,795	54,820
<b>Cash and cash equivalents, end of period</b>	\$ 74,616	\$ 52,016

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****1. Basis of Presentation and Responsibility for Interim Financial Statements**

We prepared the unaudited condensed consolidated financial statements following the requirements of the Securities and Exchange Commission ( SEC ) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States can be condensed or omitted.

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto, which are included in our 2007 Annual Report on Form 10-K for the year ended December 31, 2007.

Certain line items within the 2007 Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows have been reclassified from the 2007 presentation to conform to the 2008 presentation. The reclassification reflects the presentation of *Equity losses of unconsolidated subsidiary* of \$0.1 and \$1.0 for the three and six months ended June 30, 2007, respectively, and as a separate line item below *Operating income* in the Condensed Consolidated Statements of Income rather than as a component of *Selling, general and administrative*, and as a separate line in the *Adjustments to reconcile net income to net cash used for operating activities* in the Condensed Consolidated Statements of Cash Flows, rather than as a component of *Other assets and liabilities*. This reclassification corrects the previous presentation and was not material to the financial statements. It did not affect *Net income* within the Condensed Consolidated Statements of Income or net cash provided by (used for) operating, investing or financing activities within the Condensed Consolidated Statements of Cash Flows.

Revenues, expenses, cash flows, assets and liabilities can and do vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be indicative of those for a full year.

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

**2. New Accounting Standards**

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB statement No. 133* ( SFAS 161 ). SFAS 161 expands the disclosure requirements in Statement 133 about an entity's derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of adopting FAS 161.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51* ( SFAS 160 ). SFAS 160 changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently evaluating the impact of adopting FAS 160 on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R replaces SFAS No. 141. SFAS 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. SFAS 141R also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for business combinations for which the acquisition date

is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will apply SFAS 141R prospectively to business combinations completed on or after that date. There will be no impact upon adoption to our current consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value ( the Fair Value Option ). SFAS 159 is effective for fiscal years beginning after November 15, 2007. We did not choose the Fair Value Option; therefore, the adoption of SFAS 159 did not have any impact on our consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, with the exception of the application of the statement to the determination of fair value of nonfinancial assets and liabilities that are recognized or disclosed on a nonrecurring basis, which is effective for fiscal years beginning after November 15, 2008.

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based upon our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

At June 28, 2008, our interest rate swaps (see note 12) are carried at fair value measured on a recurring basis. Fair values are determined through the use of models that consider various assumptions, including time value, yield curves, as well as other relevant economic measures, which are inputs that are classified as Level 2 in the valuation hierarchy.

**3. Stock-based Compensation**

Total stock-based compensation expense was \$5.5 million and \$6.4 million for the three months ended June 28, 2008 and June 30, 2007, respectively, and was \$11.9 million and \$12.6 million for the six months ended June 28, 2008 and June 30, 2007, respectively.

Non-vested shares of our common stock were granted to eligible employees with a vesting period of two to five years after issuance. Non-vested share awards are valued at market value on the date of grant and are typically expensed over the vesting period. Total compensation expense for non-vested share awards during the second quarter of 2008 and 2007 was \$2.4 million and \$2.6 million for the three months ended June 28, 2008 and June 30, 2007, respectively, and was \$5.5 million and \$5.4 million for the six months ended June 28, 2008 and June 30, 2007, respectively.

During the first half of 2008, option awards were granted under the Omnibus Stock Incentive Plan, the 2008 Omnibus Stock Incentive Plan, as amended, and the Outside Directors Nonqualified Stock Option Plan (together the Plans), each with an exercise price equal to the market price of our common stock on the date of grant. Total compensation expense for stock option awards was \$3.1 and \$3.8 million for the three months ended June 28, 2008 and June 30, 2007, respectively, and was \$6.4 million and \$7.2 million for the six months ended June 28, 2008 and June 30, 2007, respectively.

We estimated the fair value of each stock option award on the date of grant using a Black-Scholes option pricing model, modified for dividends and using the following assumptions:

	<b>June 28 2008</b>	<b>June 30 2007</b>
Expected stock price volatility	27.0%	28.5%
Expected life	4.8yrs	4.8yrs
Risk-free interest rate	3.16%	4.76%
Dividend yield	1.91%	1.74%

The weighted-average fair value of options granted during the second quarter of 2008 and 2007 was \$7.38 and \$8.34 per share, respectively.

These estimates require us to make assumptions based on historical results, observance of trends in our stock price, changes in option exercise behavior, future expectations, and other relevant factors. If other assumptions had been used, stock-based compensation expense, as calculated and recorded under SFAS No. 123R (revised 2004), *Share Based Payment*, ( SFAS 123R ) could have been affected.

We based the expected life assumption on historical experience as well as the terms and vesting periods of the options granted. For purposes of determining expected volatility, we considered a rolling-average of historical volatility measured over a period approximately equal to the expected option term. The risk-free rate for periods that coincide with the expected life of the options is based on the U.S. Treasury Department yield curve in effect at the time of grant.



**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****4. Earnings Per Common Share**

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

<i>In thousands</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
<b>Weighted average common shares outstanding basic</b>	98,062	98,874	98,172	98,915
Dilutive impact of stock options and restricted stock	1,447	1,497	1,290	1,379
<b>Weighted average common shares outstanding diluted</b>	99,509	100,371	99,462	100,294

Stock options excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of the common shares

	2,177	2,163	3,719	3,150
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In December 2007, the Board of Directors authorized the repurchase of shares of our common stock during 2008 up to a maximum dollar limit of \$50 million. As of June 28, 2008, we had purchased 654,118 shares for \$22.4 million pursuant to this authorization during 2008. This authorization expires on December 31, 2008.

**5. Restructuring**

During the second quarter of 2008, we announced and initiated certain business restructuring initiatives to further streamline our operations as a result of continuing deterioration in certain end markets. In relation to these initiatives, we recorded restructuring charges (reflected in *selling, general and administrative* expense on the accompanying Consolidated Statement of Income) of \$2.7 million primarily for severance benefits paid or to be paid to terminated employees, the majority of which has been paid.

**6. Acquisitions**

On June 28, 2008, we entered into a transaction with GE Water & Process Technologies (a unit of General Electric Company) ( *GE* ) that was accounted for as an acquisition of an 80.1 percent ownership interest in *GE*'s global water softener and residential water filtration business in exchange for a 19.9 percent interest in our global water softener and residential water filtration business (the *GE Transaction* ). The acquisition was effected through the formation of two new entities, a U.S. entity and an international entity, into which we and *GE* contributed certain assets, properties, liabilities and operations representing our respective global water softener and residential water filtration businesses. We are an 80.1 percent owner of the new entities and *GE* is a 19.9 percent owner. The fair value of the acquisition was \$226.0 million. The acquisition and related sale of our 19.9 percent interest resulted in a gain of \$109.6 million (\$85.8 million after tax), representing the difference between the carrying amount of the 19.9 percent interest sold and the fair value of our share of the acquired business.

With the formation of this business, we will be better positioned to serve residential customers with industry-leading technical applications in the areas of water conditioning, whole house filtration, point of use water management and water sustainability and expected to accelerate revenue growth by selling *GE*'s existing residential conditioning products through our sales channels.

The fair value of the business acquired was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value acquired over the identifiable assets acquired and liabilities assumed is reflected as goodwill. Goodwill recorded as part of the purchase price allocation was \$129.8 million, all of which is

tax deductible. We continue to evaluate the purchase price allocation, including tangible and intangible assets, which primarily consist of trademarks, proprietary technology and customer relationships, contingent liabilities and liabilities associated with exit or disposal activities, and expect to revise the purchase price allocation in future periods as these estimates are finalized. The following table represents the preliminary purchase price allocation:

*In thousands*

Inventory	\$ 16,988
Property, plant & equipment	12,965
Goodwill	129,750
Identifiable intangible assets	66,483
Current liabilities	(224)
	\$225,962

On May 7, 2007, we acquired as part of our Technical Products Group the assets of Calmark Corporation ( Calmark ). Calmark s results of operations have been included in our condensed consolidated financial statements since the date of acquisition.

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

On April 30, 2007, we acquired as part of our Water Group all of the capital interests in Porous Media Corporation and Porous Media, Ltd. (together, Porous Media ). Porous Media's results of operations have been included in our condensed consolidated financial statements since the date of acquisition.

The following pro forma condensed financial results of operations are presented as if the acquisitions described above had been completed at the beginning of the period.

<i>In thousands, except share and per-share data</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
Pro forma net sales from continuing operations	\$939,341	\$920,824	\$1,804,634	\$1,759,166
Pro forma net income from continuing operations	138,735	60,993	191,379	103,436
Income (loss) from discontinued operations, net of tax		1,072	(8,354)	716
Pro forma net income	138,735	62,065	183,025	104,152
<b>Pro forma earnings per common share continuing operations</b>				
Basic	\$ 1.41	\$ 0.62	\$ 1.95	\$ 1.05
Diluted	\$ 1.39	\$ 0.61	\$ 1.92	\$ 1.03

**Weighted average common shares outstanding**

Basic	98,062	98,874	98,172	98,915
Diluted	99,509	100,371	99,462	100,294

These pro forma condensed consolidated financial results have been prepared for comparative purposes only and include certain adjustments, such as increased interest expense on acquisition debt. They do not reflect the effect of costs or synergies that would have been expected to result from the integration of these acquisitions. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the combination occurred at the beginning of each period presented, or of future results of the consolidated entities.

**7. Discontinued Operations**

In February 2008, consistent with our strategy to refine our portfolio and more fully focus on our growing core pool equipment business globally within our Water Group, we sold our National Pool Tile ( NPT ) business to Pool Corporation in a cash transaction for approximately \$30.0 million subject to certain price adjustments. NPT is a wholesale distributor of pool tile and composite pool finishes serving professional contractors in the swimming pool refurbish and construction markets. The results of NPT have been reported as discontinued operations for all periods presented. The assets and liabilities of NPT have been reclassified as discontinued operations for all periods presented. Operating results of the discontinued operations for the second quarter of 2008 and 2007 are summarized below:

<i>In thousands</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
Net sales	\$	\$23,346	\$ 7,085	\$38,496
Income (loss) from discontinued operations before income taxes		1,619	(1,965)	821
Income tax (expense) benefit		(611)	748	(312)



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Income (loss) from discontinued operations, net of income taxes		1,008	(1,217)	509
Gain (loss) on disposal of discontinued operations, before taxes		100	(6,588)	325
Income tax expense		(36)	(549)	(118)
Gain (loss) on disposal of discontinued operations, net of tax	\$	\$ 64	\$(7,137)	\$ 207

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**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

Net assets (liabilities) of discontinued operations consist of the following:

<i>In thousands</i>	<b>December 31 2007</b>	<b>June 30 2007</b>
Accounts and notes receivable, net	\$ 5,547	\$ 9,203
Inventories	14,710	20,678
Other current assets	1,459	1,869
Current assets of discontinued operations	21,716	31,750
Property, plant and equipment, net	1,436	1,469
Goodwill	16,806	16,806
Other non-current assets	141	161
Non-current assets of discontinued operations	18,383	18,436
Total assets	\$40,099	\$50,186
Accounts payable	\$ 1,712	\$ 7,647
Other current liabilities	1,223	1,969
Current liabilities of discontinued operations	2,935	9,616
Deferred income tax	2,400	2,203
Other non-current liabilities	298	343
Non-current liabilities of discontinued operations	2,698	2,546
Total liabilities	5,633	12,162
Net assets of discontinued operations	\$34,466	\$38,024

**8. Inventories**

Inventories were comprised of:

<i>In thousands</i>	<b>June 28 2008</b>	<b>December 31 2007</b>	<b>June 30 2007</b>
Raw materials and supplies	\$216,002	\$199,330	\$198,651
Work-in-process	52,660	51,807	55,133
Finished goods	168,759	141,279	141,546
Total inventories	\$437,421	\$392,416	\$395,330

**9. Comprehensive Income**

Comprehensive income and its components, net of tax, were as follows:

<i>In thousands</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
Net income	\$138,735	\$62,065	\$183,025	\$104,338
Changes in cumulative foreign currency translation adjustment	(933)	11,021	46,887	26,947
Changes in market value of derivative financial instruments classified as cash flow hedges	5,872	1,548	1,354	1,311
Comprehensive income	\$143,674	\$74,634	\$231,266	\$132,596

### 10. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 28, 2008 and June 30, 2007 by segment were as follows:

<i>In thousands</i>	<b>December 31, 2007</b>	<b>Acquisitions</b>	<b>Foreign</b>	<b>June 28, 2008</b>
			<b>Currency</b>	
			<b>Translation</b>	
Water Group	\$ 1,712,227	\$130,210	\$ 21,824	\$1,864,261
Technical Products Group	292,493	(46)	1,521	293,968
Consolidated Total	\$ 2,004,720	\$130,164	\$ 23,345	\$2,158,229

**Table of Contents****Pentair, Inc. and subsidiaries****Notes to condensed consolidated financial statements (unaudited)**

<i>In thousands</i>	<b>December 31, 2006</b>	<b>Acquisitions</b>	<b>Foreign Currency Translation</b>	<b>June 30, 2007</b>
Water Group	\$ 1,432,653	\$ 196,980	\$ 7,454	\$ 1,637,087
Technical Products Group	269,311	11,421	6,389	287,121
Consolidated Total	\$ 1,701,964	\$ 208,401	\$ 13,843	\$ 1,924,208

The increase in goodwill in the Water Group is related primarily to the GE Transaction in 2008 and our acquisition of Jung Pump during 2007.

Intangible assets, other than goodwill, were comprised of:

<i>In thousands</i>	<b>June 28, 2008</b>			<b>December 31, 2007</b>			<b>June 30, 2007</b>		
	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net</b>
<b>Finite-life intangibles</b>									
Patents	\$ 15,478	\$ (8,863)	\$ 6,615	\$ 15,457	\$ (7,904)	\$ 7,553	\$ 15,443	\$ (6,949)	\$ 8,494
Non-compete agreements	4,722	(4,316)	406	4,722	(4,050)	672	4,722	(3,322)	1,400
Brand names	1,602		1,602						
Proprietary technology	73,996	(15,052)	58,944	59,944	(12,564)	47,380	53,538	(9,997)	43,541
Customer relationships	296,372	(39,015)	257,357	238,712	(30,378)	208,334	256,316	(23,449)	232,867
Total finite-life intangibles	\$ 392,170	\$(67,246)	\$ 324,924	\$ 318,835	\$(54,896)	\$ 263,939	\$ 330,019	\$(43,717)	\$ 286,302
<b>Indefinite-life intangibles</b>									
Brand names	233,527		233,527	227,324		227,324	217,361		217,361
Total intangibles, net	\$ 625,697	\$(67,246)	\$ 558,451	\$ 546,159	\$(54,896)	\$ 491,263	\$ 547,380	\$(43,717)	\$ 503,663

Intangible asset amortization expense was approximately \$5.9 million and \$7.1 million for the three months ended June 28, 2008 and June 30, 2007, respectively, and was approximately \$12.4 million and \$10.9 million for the six

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months ended June 28, 2008 and June 30, 2007 respectively. The estimated future amortization expense for identifiable intangible assets during the remainder of 2008 and the next five years is as follows:

<i>In thousands</i>	<b>2008 Q3-Q4</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Estimated amortization expense	\$13,419	\$26,161	\$25,488	\$25,381	\$24,374	\$24,210

**11. Debt**

Debt and the average interest rate on debt outstanding are summarized as follows:

<i>In thousands</i>	<b>Average interest rate June 28, 2008</b>	<b>Maturity (Year)</b>	<b>June 28 2008</b>	<b>December 31 2007</b>	<b>June 30 2007</b>
Commercial paper, maturing within 34 days	2.90%		\$ 49,383	\$ 105,990	\$ 215,019
Revolving credit facilities	2.96%	2012	116,500	76,722	98,453
Private placement fixed rate	5.65%	2013-2017	400,000	400,000	400,000
Private placement floating rate	3.37%	2012-2013	205,000	205,000	205,000
Senior notes	7.85%	2009	250,000	250,000	250,000
Other	3.02%	2008-2016	6,478	20,387	16,336
Total contractual debt obligations			1,027,361	1,058,099	1,184,808
Deferred income related to swaps			1,458	2,487	3,094
Total debt, including current portion per balance sheet			1,028,819	1,060,586	1,187,902
Less: Current maturities			(4,442)	(5,075)	(4,516)
Short-term borrowings			(217)	(13,586)	(10,202)
Long-term debt			\$1,024,160	\$1,041,925	\$1,173,184

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

We have a multi-currency revolving Credit Facility ( Credit Facility ). The Credit Facility creates an unsecured, committed revolving credit facility of up to \$800 million, with multi-currency sub facilities to support investments outside the U.S. The Credit Facility expires on June 4, 2012. Borrowings under the Credit Facility will bear interest at the rate of LIBOR plus 0.50%. Interest rates and fees on the Credit Facility vary based on our credit ratings.

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. We use the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. As of June 28, 2008, we had \$49.4 million of commercial paper outstanding that matures within 34 days. All of the commercial paper was classified as long-term as we have the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

Total availability under our existing Credit Facility was \$609.1 million at June 28, 2008.

In addition to the Credit Facility, we have \$25.0 million of uncommitted credit facilities, under which we had no borrowings as of June 28, 2008.

We were in compliance with all debt covenants as of June 28, 2008.

Debt outstanding at June 28, 2008 matures on a calendar year basis as follows:

<i>In thousands</i>	<b>2008 Q3-Q4</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>	<b>Total</b>
Contractual debt obligation maturities	\$2,847	\$250,721	\$72	\$6	\$273,685	\$200,007	\$300,023	\$1,027,361
Other maturities	583	875						1,458
Total maturities	\$3,430	\$251,596	\$72	\$6	\$273,685	\$200,007	\$300,023	\$1,028,819

On July 8, 2008, we announced the commencement of a cash tender offer for all of the outstanding \$250 million aggregate principal 7.85% Senior Notes due 2009 ( the Notes ). The tender offer is being made pursuant to an Offer to Purchase and related Letter of Transmittal dated July 8, 2008, which sets forth more fully the terms and conditions of the tender offer, including a minimum tender condition and other general conditions. On July 17, 2008, we amended the tender offer to increase the effective tender price and remove the minimum tender condition. We intend to use the available capacity under our Credit Facility to fund the purchase of the Notes.

**12. Derivatives and Financial Instruments*****Cash-flow hedges***

In August 2007, we entered into a \$105 million interest rate swap agreement with a major financial institution to exchange variable rate interest payment obligations for a fixed rate obligation without the exchange of the underlying principle amounts in order to manage interest rate exposures. The effective date of the swap was August 30, 2007. The swap agreement has a fixed interest rate of 4.89% and expires in May 2012. The fixed interest rate of 4.89% plus the .50% interest rate spread over LIBOR results in an effective fixed interest rate of 5.39%. The fair value of the swap was a liability of \$3.4 million at June 28, 2008 and is recorded in *Other non-current liabilities*.

In September 2005, we entered into a \$100 million interest rate swap agreement with several major financial institutions to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principle amounts in order to manage interest rate exposures. The effective date of the fixed rate swap was April 25, 2006. The swap agreement has a fixed interest rate of 4.68% and expires in July 2013. The fixed interest rate of 4.68% plus the .60% interest rate spread over LIBOR, results in an effective fixed interest rate of 5.28%. The fair value of the swap was a liability of \$2.3 million at June 28, 2008 and is recorded in *Other non-current liabilities*. The variable to fixed interest rate swaps are designated as and are effective as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Consolidated Balance Sheets, with changes in their fair value

included in *Accumulated other comprehensive income* ( OCI ). Derivative gains and losses included in OCI are reclassified into earnings at the time the related interest expense is recognized or the settlement of the related commitment occurs.

### **13. Income Taxes**

The provision for income taxes consists of provisions for federal, state and foreign income taxes. We operate in an international environment with operations in various locations outside the U.S. Accordingly, the consolidated income tax rate is a composite rate reflecting the earnings in the various locations and the applicable rates.

The effective income tax rate for the six months ended June 28, 2008 was 28.5% compared to 35.3% for the six months ended June 30, 2007. We expect the effective tax rate for the remainder of 2008 to be between 33% and 34%, resulting in a full year effective income tax rate of between 30.0% and 31.0%. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

The total gross liability for uncertain tax positions under FASB Interpretation No. ( FIN ) 48 at June 28, 2008 is estimated to be approximately \$24.4 million. We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, which is consistent with our past practices.

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****14. Benefit Plans**

Components of net periodic benefit cost for the three and six months ended June 28, 2008 and June 30, 2007 were as follows:

<i>In thousands</i>	<b>Three months ended</b>			
	<b>Pension benefits</b>		<b>Post-retirement</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
Service cost	\$ 3,529	\$ 4,331	\$ 65	\$ 146
Interest cost	8,174	7,891	634	746
Expected return on plan assets	(7,475)	(7,133)		
Amortization of transition obligation	12	36		
Amortization of prior year service cost (benefit)	44	40	(34)	(62)
Recognized net actuarial loss (gains)	68	798	(825)	(355)
Net periodic benefit cost	\$ 4,352	\$ 5,963	\$(160)	\$ 475

<i>In thousands</i>	<b>Six months ended</b>			
	<b>Pension benefits</b>		<b>Post-retirement</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
Service cost	\$ 7,058	\$ 8,662	\$ 130	\$ 292
Interest cost	16,348	15,782	1,268	1,492
Expected return on plan assets	(14,950)	(14,266)		
Amortization of transition obligation	24	72		
Amortization of prior year service cost (benefit)	88	80	(68)	(124)
Recognized net actuarial loss (gains)	136	1,596	(1,650)	(710)
Net periodic benefit cost	\$ 8,704	\$ 11,926	\$ (320)	\$ 950

**15. Business Segments**

Financial information by reportable segment for the three and six months ended June 28, 2008 and June 30, 2007 is shown below:

<i>In thousands</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
	<b><i>Net sales to external customers</i></b>			
Water Group	\$605,497	\$642,149	\$1,160,441	\$1,182,411
Technical Products Group	304,260	257,150	589,720	509,733
<b>Consolidated</b>	<b>\$909,757</b>	<b>\$899,299</b>	<b>\$1,750,161</b>	<b>\$1,692,144</b>



***Intersegment sales***

Water Group	\$ 139	\$ 46	\$ 511	\$ 260
Technical Products Group	1,034	1,689	2,172	2,585
Other	(1,173)	(1,735)	(2,683)	(2,845)

<b>Consolidated</b>	\$	\$	\$	\$
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***Operating income (loss)***

Water Group	\$ 57,822	\$ 89,195	\$ 122,241	\$ 151,621
Technical Products Group	49,732	36,140	95,069	67,771
Other	(12,552)	(12,475)	(25,489)	(25,033)

<b>Consolidated</b>	\$ 95,002	\$112,860	\$ 191,821	\$ 194,359
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Other sales and operating loss is primarily composed of unallocated corporate expenses, costs related to our captive insurance subsidiary and our intermediate finance companies, and intercompany eliminations.

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****16. Warranty**

The changes in the carrying amount of service and product warranties for the six months ended June 28, 2008 and June 30, 2007 were as follows:

<i>In thousands</i>	<b>June 28 2008</b>	<b>June 30 2007</b>
Balance at beginning of the year	\$ 39,382	\$ 34,093
Service and product warranty provision	33,726	34,907
Payments	(36,024)	(31,462)
Acquired	184	1,116
Translation	260	213
Balance at end of the period	\$ 37,528	\$ 38,867

**17. Commitments and Contingencies*****Environmental and Litigation***

There have been no further material developments from the disclosures contained in our 2007 Annual Report on Form 10-K.

***Horizon Litigation***

Twenty-eight separate lawsuits involving 29 primary plaintiffs, a class action and claims for indemnity by Celebrity Cruise Lines, Inc. ( Celebrity ) were brought against Essef Corporation and certain of its subsidiaries (the Essef Defendants ) prior to our acquisition of Essef in August 1999. The claims against Essef and its involved subsidiaries were based upon the allegation that Essef designed, manufactured and marketed two sand swimming pool filters that were installed as a part of the spa system on the Horizon cruise ship and allegations that the spa and filters contained Legionnaire s disease bacteria that infected certain passengers on cruises in July 1994.

The remaining claims in this case were those brought by Celebrity for damages resulting from the outbreak. Celebrity filed an amended complaint seeking attorney fees and costs for prior litigation as well as out-of-pocket losses, lost profits and loss of business enterprise value. The first trial in 2006 resulted in a verdict against the Essef Defendants for Celebrity s out-of-pocket expenses of \$10.4 million. Verdicts for lost profits (\$47.6 million) and lost enterprise value (\$135 million) were reversed in January 2007. In the retrial in June 2007, the jury awarded Celebrity damages for lost profits for 1994 and 1995 of \$15.2 million (after netting for amounts taken into account by the earlier verdict for out-of-pocket expenses). The verdicts were exclusive of pre-judgment interest and attorneys fees.

In February 2008, the District Court entered judgment against the Essef Defendants in the aggregate amount of \$30.4 million for out-of-pocket costs and expenses and lost profits, including interest accrued to February 29, 2008. On March 28, 2008, Celebrity filed a notice of appeal to the Second Circuit Court of Appeals. The Essef Defendants filed their notice of cross-appeal on April 10, 2008.

In late June 2008, the parties agreed to settle the outstanding claims for a total of \$35 million, inclusive of all costs and interest to the date of payment. A Settlement Agreement and Release was entered into on July 8, 2008 pursuant to which we will pay Celebrity approximately \$28 million no later than August 7, 2008. The first layer excess liability insurer with respect to this claim will pay Celebrity the balance of its policy limits, which is approximately \$7 million. With those payments, the case will be closed.

We have assessed the impact of the final judgment and appeals on our previously established reserves for this matter and have increased the accruals as of June 28, 2008 by approximately \$20 million to an aggregate of \$28 million. We have identified an additional insurance policy that we believe applies to this liability. The insurer has denied coverage, and we have initiated suit to recover for our loss in the Horizon case. The increase in our accruals discussed above does not take into account any potential recovery under this additional insurance policy.

We believe that this settlement amount will be tax-deductible in 2008. We will borrow the amount of the settlement payment of \$28 million under our Credit Facility.

**18. Financial Statements of Subsidiary Guarantors**

The \$250 million Senior Notes due 2009 are jointly and severally guaranteed by domestic subsidiaries (the Guarantor Subsidiaries ), each of which is directly or indirectly wholly-owned by Pentair (the Parent Company ). The following supplemental financial information sets forth the condensed consolidated balance sheets as of June 28, 2008, December 31, 2007 and June 30, 2007, the related Condensed Consolidated Statements of Income for the three and six-months ended June 28, 2008 and June 30, 2007, and Statements of Cash Flows for the six-months ended June 28, 2008 and June 30, 2007, for the Parent Company, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries, and total consolidated Pentair and subsidiaries. *Net change in advances to subsidiaries* in the following 2007 Condensed Consolidated Statements of Cash Flows has been reclassified from investing activities to financing activities to conform to the current year presentation. The following condensed financial statements also reflect a change in the presentation of the earnings from investments in subsidiary as previously disclosed in our 2007 footnote.

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Income**  
**For the three months ended June 28, 2008**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 691,424	\$ 285,110	\$ (66,777)	\$ 909,757
Cost of goods sold		496,837	201,591	(66,733)	631,695
Gross profit		194,587	83,519	(44)	278,062
Selling, general and administrative	3,943	96,800	45,612	(44)	146,311
Research and development	89	11,797	4,428		16,314
Legal settlement		20,435			20,435
Operating (loss) income	(4,032)	65,555	33,479		95,002
Other (income) expense:					
Earnings from investment in subsidiary	(128,239)			128,239	
Gain on sale of interest in subsidiaries		(109,648)			(109,648)
Equity losses of unconsolidated subsidiary		847			847
Net interest (income) expense	(21,067)	38,391	(1,462)		15,862
Income (loss) before income taxes	145,274	135,965	34,941	(128,239)	187,941
Provision for income taxes	6,539	33,057	9,610		49,206
Income (loss) from continuing operations	138,735	102,908	25,331	(128,239)	138,735
Net income (loss)	\$ 138,735	\$ 102,908	\$ 25,331	\$(128,239)	\$ 138,735

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Income**  
**For the six months ended June 28, 2008**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 1,332,274	\$ 540,645	\$ (122,758)	\$ 1,750,161
Cost of goods sold		960,259	382,913	(122,404)	1,220,768
Gross profit		372,015	157,732	(354)	529,393
	8,463	186,845	90,003	(354)	284,957

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Selling, general and administrative					
Research and development	164	23,669	8,347		32,180
Legal settlement		20,435			20,435
Operating (loss) income	(8,627)	141,066	59,382		191,821
Other (income) expense:					
Earnings from investment in subsidiary	(162,472)			162,472	
Gain on sale of interest in subsidiaries		(109,648)			(109,648)
Equity losses of unconsolidated subsidiary		1,764			1,764
Net interest (income) expense	(42,121)	76,758	(2,687)		31,950
Income (loss) before income taxes	195,966	172,192	62,069	(162,472)	267,755
Provision for income taxes	12,868	46,266	17,242		76,376
Income (loss) from continuing operations	183,098	125,926	44,827	(162,472)	191,379
Loss from discontinued operations, net of tax	(73)	(1,144)			(1,217)
Loss on disposal of discontinued operations, net of tax		(7,137)			(7,137)
Net income (loss)	\$ 183,025	\$ 117,645	\$ 44,827	\$(162,472)	\$ 183,025

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Balance Sheets**  
**June 28, 2008**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 6,602	\$ 5,499	\$ 62,515	\$	\$ 74,616
Accounts and notes receivable, net	732	337,676	290,942	(70,422)	558,928
Inventories		252,494	184,927		437,421
Deferred tax assets	72,756	35,344	9,173	(65,312)	51,961
Prepaid expenses and other current assets	8,311	3,105	38,646	(3,849)	46,213
Total current assets	88,401	634,118	586,203	(139,583)	1,169,139
<b>Property, plant and equipment, net</b>	<b>5,790</b>	<b>173,778</b>	<b>199,903</b>		<b>379,471</b>
<b>Other assets</b>					
Investments in/advances to subsidiaries	2,435,523	93,906	737,019	(3,266,448)	
Goodwill		1,078,024	1,080,205		2,158,229
Intangibles, net		320,528	237,923		558,451
Other	77,140	8,053	23,921	(30,382)	78,732
Total other assets	2,512,663	1,500,511	2,079,068	(3,296,830)	2,795,412
<b>Total assets</b>	<b>\$2,606,854</b>	<b>\$2,308,407</b>	<b>\$2,865,174</b>	<b>\$(3,436,413)</b>	<b>\$4,344,022</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term borrowings	\$	\$	\$ 217	\$	\$ 217
Current maturities of long-term debt	8,591	159	250,014	(254,322)	4,442
Accounts payable	877	154,312	153,158	(69,691)	238,656
Employee compensation and benefits	11,163	45,179	42,474		98,816
Current pension and post-retirement benefits	8,557				8,557
Accrued product claims and warranties		32,869	14,659		47,528
Income taxes	6,218	3,262	8,635		18,115
Accrued rebates and sales incentives		29,955	6,732		36,687
Other current liabilities	129,902	(55,233)	59,611	(3,849)	130,431
Total current liabilities	165,308	210,503	535,500	(327,862)	583,449
<b>Other liabilities</b>					
Long-term debt	1,021,174	1,947,579	269,019	(2,213,612)	1,024,160
Pension and other retirement compensation	70,698	23,903	77,322		171,923

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Post-retirement medical and other benefits	21,173	44,304		(30,382)	35,095
Long-term taxes payable	24,442				24,442
Deferred tax liabilities	3,539	187,481	63,506	(65,312)	189,214
Due to / (from) affiliates	(721,832)	189,714	728,932	(196,814)	
Other non-current liabilities	(74,882)	107,119	63,307		95,544
<b>Total liabilities</b>	<b>509,620</b>	<b>2,710,603</b>	<b>1,737,586</b>	<b>(2,833,982)</b>	<b>2,123,827</b>
Minority Interest		1,796	121,164		122,960
<b>Shareholders equity</b>	<b>2,097,234</b>	<b>(403,992)</b>	<b>1,006,424</b>	<b>(602,431)</b>	<b>2,097,235</b>
<b>Total liabilities and shareholder s equity</b>	<b>\$2,606,854</b>	<b>\$2,308,407</b>	<b>\$2,865,174</b>	<b>\$(3,436,413)</b>	<b>\$4,344,022</b>

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
**For the six months ended June 28, 2008**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Operating activities</b>					
Net income (loss)	\$ 183,025	\$ 117,645	\$ 44,827	\$(162,472)	\$ 183,025
<b>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</b>					
(Income) loss from discontinued operations		1,217			1,217
(Gain) loss on disposal of discontinued operations	73	7,064			7,137
Equity losses of unconsolidated subsidiary		1,764			1,764
Depreciation	500	19,897	10,398		30,795
Amortization	1,486	8,528	3,087		13,101
Earnings from investments in subsidiaries	(162,472)			162,472	
Deferred income taxes	(2,530)	23,816	(249)		21,037
Stock compensation	11,932				11,932
Excess tax benefits from stock-based compensation	(776)				(776)
Gain on sale of assets, net	(443)				(443)
Gain on sale of interest in subsidiaries		(109,648)			(109,648)
<b>Changes in assets and liabilities, net of effects of business acquisitions and dispositions</b>					
Accounts and notes receivable	(6,223)	(60,148)	(38,958)	20,126	(85,203)
Inventories		(11,389)	(8,911)		(20,300)
Prepaid expenses and other current assets	24,968	(664)	(13,156)	(19,000)	(7,852)
Accounts payable	4,625	8,045	18,503	(20,129)	11,044
Employee compensation and benefits	(7,613)	(13,621)	2,752		(18,482)
Accrued product claims and warranties		(1,693)	(605)		(2,298)
Income taxes	(705)	2,528	2,308		4,131
Other current liabilities	(19,345)	22,103	9,500	19,003	31,261
Pension and post-retirement benefits	2,041	(270)	1,549		3,320



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Other assets and liabilities	2,782	(504)	2,618	90	4,986
Net cash provided by (used for) continuing operations	31,325	14,670	33,663	90	79,748
Net cash provided by (used for) discontinued operations		(4,137)			(4,137)
Net cash provided by operating activities	31,325	10,533	33,663	90	75,611
<b>Investing activities</b>					
Capital expenditures	(1,150)	(18,007)	(7,171)		(26,328)
Proceeds from sales of property and equipment		31	3,771		3,802
Acquisitions, net of cash acquired or received	1,150		5,087		6,237
Divestitures		29,959			29,959
Net cash provided by (used for) investing activities of continuing operation		11,983	1,687		13,670
<b>Financing activities</b>					
Net short-term borrowings (repayments)	(13,965)				(13,965)
Proceeds from long-term debt	279,405				279,405
Repayment of long-term debt	(297,740)				(297,740)
Net change in advances to subsidiaries	61,706	(31,940)	(29,676)	(90)	
Debt issuance costs	(50)				(50)
Excess tax benefit from stock-based compensation	776				776
Proceeds from exercise of stock options	2,175				2,175
Repurchases of common stock	(21,721)				(21,721)
Dividends paid	(33,747)				(33,747)
Net cash provided by financing activities of continuing operations	(23,161)	(31,940)	(29,676)	(90)	(84,867)
<b>Effect of exchange rate changes on cash</b>	(8,236)	4,074	3,569		(593)
<b>Change in cash and cash equivalents</b>	(72)	(5,350)	9,243		3,821
<b>Cash and cash equivalents, beginning of period</b>	6,674	10,849	53,272		70,795
<b>Cash and cash equivalents, end of period</b>	\$ 6,602	\$ 5,499	\$ 62,515	\$	\$ 74,616



**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Income**  
**For the three months ended June 30, 2007**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$721,841	\$ 230,157	\$(52,699)	\$ 899,299
Cost of goods sold		506,667	165,686	(52,603)	619,750
Gross profit		215,174	64,471	(96)	279,549
Selling, general and administrative	18,890	104,423	28,664	(96)	151,881
Research and development		11,127	3,681		14,808
Operating (loss) income	(18,890)	99,624	32,126		112,860
Other (income) expense:					
Earnings from investment in subsidiary	(72,612)			72,612	
Equity losses of unconsolidated subsidiary		36			36
Net interest (income) expense	(10,371)	29,220	(366)		18,483
Income (loss) before income taxes	64,093	70,368	32,492	(72,612)	94,341
Provision for income taxes	2,092	20,365	10,891		33,348
Income (loss) from continuing operations	62,001	50,003	21,601	(72,612)	60,993
Income from discontinued operations, net of tax		1,008			1,008
Gain on disposal of discontinued operations, net of tax	64				64
Net income (loss)	\$ 62,065	\$ 51,011	\$ 21,601	\$(72,612)	\$ 62,065

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Income**  
**For the six months ended June 30, 2007**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$1,346,171	\$ 442,704	\$(96,731)	\$1,692,144
Cost of goods sold		950,075	322,816	(96,227)	1,176,664
Gross profit		396,096	119,888	(504)	515,480

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Selling, general and administrative	8,908	215,040	67,919	(504)	291,363
Research and development		22,634	7,124		29,758
Operating (loss) income	(8,908)	158,422	44,845		194,359
Other (income) expense:					
Earnings from investment in subsidiary	(93,977)			93,977	
Equity losses of unconsolidated subsidiary		993			993
Net interest (income) expense	(24,415)	58,526	(917)		33,194
Income (loss) before income taxes	109,484	98,903	45,762	(93,977)	160,172
Provision for income taxes	5,353	35,828	15,369		56,550
Income (loss) from continuing operations	104,131	63,075	30,393	(93,977)	103,622
Income from discontinued operations, net of tax		509			509
Gain on disposal of discontinued operations, net of tax	207				207
Net income (loss)	\$ 104,338	\$ 63,584	\$ 30,393	\$ (93,977)	\$ 104,338

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Balance Sheets**  
**June 30, 2007**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 5,842	\$ 6,507	\$ 39,667	\$	\$ 52,016
Accounts and notes receivable, net	118	387,150	189,405	(52,732)	523,941
Inventories		272,404	122,926		395,330
Deferred tax assets	95,963	33,190	5,368	(82,900)	51,621
Prepaid expenses and other current assets	12,000	11,097	36,584	(18,076)	41,605
Current assets of discontinued operations		31,750			31,750
<b>Total current assets</b>	<b>113,923</b>	<b>742,098</b>	<b>393,950</b>	<b>(153,708)</b>	<b>1,096,263</b>
<b>Property, plant and equipment, net</b>	<b>4,282</b>	<b>217,755</b>	<b>130,816</b>		<b>352,853</b>
<b>Other assets</b>					
Investments in/advances to subsidiaries	2,228,747	89,906	526,528	(2,845,181)	
Goodwill		1,572,992	351,216		1,924,208
Intangibles, net		353,624	150,039		503,663
Other	76,363	14,367	12,471	(25,380)	77,821
Non-current assets of discontinued operations		18,436			18,436
<b>Total other assets</b>	<b>2,305,110</b>	<b>2,049,325</b>	<b>1,040,254</b>	<b>(2,870,561)</b>	<b>2,524,128</b>
<b>Total assets</b>	<b>\$2,423,315</b>	<b>\$3,009,178</b>	<b>\$1,565,020</b>	<b>\$(3,024,269)</b>	<b>\$3,973,244</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term borrowings	\$	\$	\$ 10,202	\$	\$ 10,202
Current maturities of long-term debt	8,166	156	305,950	(309,756)	4,516
Accounts payable	4,740	161,314	103,632	(58,182)	211,504
Employee compensation and benefits	12,059	47,912	35,989		95,960

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Current pension and post-retirement benefits	7,918				7,918
Accrued product claims and warranties		33,539	15,328		48,867
Income taxes	(1,472)	13,991	7,803		20,322
Accrued rebates and sales incentives		36,205	5,870		42,075
Other current liabilities	17,190	52,225	36,428	(11,895)	93,948
Current liabilities of discontinued operations		9,616			9,616
<b>Total current liabilities</b>	<b>48,601</b>	<b>354,958</b>	<b>521,202</b>	<b>(379,833)</b>	<b>544,928</b>
<b>Other liabilities</b>					
Long-term debt	1,131,347	1,786,435	59,767	(1,804,365)	1,173,184
Pension and other retirement compensation	127,350	28,176	62,894		218,420
Post-retirement medical and other benefits	22,458	49,728		(25,380)	46,806
Long-term taxes payable	14,705				14,705
Deferred tax liabilities	3,155	159,155	31,002	(82,900)	110,412
Due to / (from) affiliates	(729,543)	268,296	642,300	(181,053)	
Other non-current liabilities	30,948	7,097	49,904		87,949
Non-current liabilities of discontinued operations		2,546			2,546
<b>Total liabilities</b>	<b>649,021</b>	<b>2,656,391</b>	<b>1,367,069</b>	<b>(2,473,531)</b>	<b>2,198,950</b>
<b>Shareholders equity</b>	<b>1,774,294</b>	<b>352,787</b>	<b>197,951</b>	<b>(550,738)</b>	<b>1,774,294</b>
<b>Total liabilities and shareholders equity</b>	<b>\$2,423,315</b>	<b>\$3,009,178</b>	<b>\$1,565,020</b>	<b>\$(3,024,269)</b>	<b>\$3,973,244</b>

**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
**For the six months ended June 30, 2007**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Operating activities</b>					
Net income (loss)	\$ 104,338	\$ 63,584	\$ 30,393	\$(93,977)	\$ 104,338
<b>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</b>					
(Income) loss from discontinued operations		(509)			(509)
(Gain) loss on disposal of discontinued operations	(207)				(207)
Equity losses of unconsolidated subsidiary		993			993
Depreciation	600	20,338	9,105		30,043
Amortization	2,331	8,427	2,194		12,952
Earnings from investments in subsidiaries	(93,977)			93,977	
Deferred income taxes	(71)		(6,405)		(6,476)
Stock compensation	12,626				12,626
Excess tax benefits from stock-based compensation	(2,213)				(2,213)
Intercompany dividends	(23)	13,714	(13,691)		
<b>Changes in assets and liabilities, net of effects of business acquisitions and dispositions</b>					
Accounts and notes receivable	9,909	(66,385)	(36,405)	8,415	(84,466)
Inventories		5,850	2,190		8,040
Prepaid expenses and other current assets	9,143	12,352	(20,458)	(4,502)	(3,465)
Accounts payable	(8,562)	5,904	21,379	(8,413)	10,308
Employee compensation and benefits	(3,992)	(1,381)	458		(4,915)
Accrued product claims and warranties		4,584	(23)		4,561
Income taxes	179	4,177	801		5,157
Other current liabilities	(2,089)	(1,766)	1,880	4,500	2,525
Pension and post-retirement benefits	4,986	354	2,390		7,730
Other assets and liabilities	(2,083)	463	4,174		2,554

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Net cash provided by (used for) continuing operations	30,895	70,699	(2,018)	99,576
Net cash provided by (used for) discontinued operations		(1,660)		(1,660)
Net cash provided by (used for) operating activities	30,895	69,039	(2,018)	97,916
<b>Investing activities</b>				
Capital expenditures	(129)	(14,932)	(14,997)	(30,058)
Proceeds from sales of property and equipment		811	715	1,526
Acquisitions, net of cash acquired	(482,535)		(350)	(482,885)
Other		(779)		(779)
Net cash provided by (used for) investing activities of continuing operat	(482,664)	(14,900)	(14,632)	(512,196)
<b>Financing activities</b>				
Net short-term borrowings (repayments)		(131)	(4,577)	(4,708)
Proceeds from long-term debt	1,121,402			1,121,402
Repayment of long-term debt	(673,341)			(673,341)
Net change in advances to subsidiaries	18,521	(54,652)	36,131	
Debt issuance costs	(1,782)			(1,782)
Excess tax benefit from stock-based compensation	2,213			2,213
Proceeds from exercise of stock options	4,922			4,922
Repurchases of common stock	(9,280)			(9,280)
Dividends paid	(29,991)			(29,991)
Net cash provided by (used for) financing activities of contining operati	432,664	(54,783)	31,554	409,435
<b>Effect of exchange rate changes on cash</b>	16,137	601	(14,697)	2,041
<b>Change in cash and cash equivalents</b>	(2,968)	(43)	207	(2,804)
<b>Cash and cash equivalents, beginning of period</b>	8,810	6,550	39,460	54,820
<b>Cash and cash equivalents, end of period</b>	\$ 5,842	\$ 6,507	\$ 39,667	\$ 52,016





**Table of Contents*****Pentair, Inc. and subsidiaries******Notes to condensed consolidated financial statements (unaudited)***

**Pentair, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Balance Sheets**  
**December 31, 2007**

<i>In thousands</i>	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 6,674	\$ 10,849	\$ 53,272	\$	\$ 70,795
Accounts and notes receivable, net	522	329,230	188,313	(51,390)	466,675
Inventories		267,742	124,674		392,416
Deferred tax assets	70,494	35,152	7,947	(63,082)	50,511
Prepaid expenses and other current assets	12,673	9,392	37,246	(23,403)	35,908
Current assets of discontinued operations		21,716			21,716
Total current assets	90,363	674,081	411,452	(137,875)	1,038,021
<b>Property, plant and equipment, net</b>	5,140	218,989	141,861		365,990
<b>Other assets</b>					
Investments in/advances to subsidiaries	2,434,205	90,212	575,238	(3,099,655)	
Goodwill		1,587,996	416,724		2,004,720
Intangibles, net		329,056	162,207		491,263
Other	80,575	14,990	17,054	(30,382)	82,237
Non-current assets of discontinued operations		18,383			18,383
Total other assets	2,514,780	2,040,637	1,171,223	(3,130,037)	2,596,603
<b>Total assets</b>	<b>\$2,610,283</b>	<b>\$2,933,707</b>	<b>\$1,724,536</b>	<b>\$(3,267,912)</b>	<b>\$4,000,614</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
<b>Current liabilities</b>					
Short-term borrowings	\$	\$	\$ 13,586	\$	\$ 13,586
Current maturities of long-term debt	20,114	158	338,827	(354,024)	5,075
Accounts payable	2,138	174,672	104,336	(51,209)	229,937
	15,935	58,790	36,750		111,475

Employee compensation and benefits					
Current pension and post-retirement benefits	8,557				8,557
Accrued product claims and warranties		34,378	15,004		49,382
Income taxes	3,207	(5,628)	15,340		12,919
Accrued rebates and sales incentives		28,209	8,454		36,663
Other current liabilities	19,510	52,940	40,779	(22,852)	90,377
Current liabilities of discontinued operations		2,935			2,935
<b>Total current liabilities</b>	<b>69,461</b>	<b>346,454</b>	<b>573,076</b>	<b>(428,085)</b>	<b>560,906</b>
<b>Other liabilities</b>					
Long-term debt	1,021,464	1,972,655	34,139	(1,986,333)	1,041,925
Pension and other retirement compensation	67,872	22,905	70,265		161,042
Post-retirement medical and other benefits	21,958	45,571		(30,382)	37,147
Long-term taxes payable	21,306				21,306
Deferred tax liabilities	3,429	168,815	58,471	(63,082)	167,633
Due to / (from) affiliates	(542,763)	205,731	689,149	(352,117)	
Other non-current liabilities	36,685	7,085	53,316		97,086
Non-current liabilities of discontinued operations		2,698			2,698
<b>Total liabilities</b>	<b>699,412</b>	<b>2,771,914</b>	<b>1,478,416</b>	<b>(2,859,999)</b>	<b>2,089,743</b>
<b>Shareholders equity</b>	<b>1,910,871</b>	<b>161,793</b>	<b>246,120</b>	<b>(407,913)</b>	<b>1,910,871</b>
<b>Total liabilities and shareholders equity</b>	<b>\$2,610,283</b>	<b>\$2,933,707</b>	<b>\$1,724,536</b>	<b>\$(3,267,912)</b>	<b>\$4,000,614</b>

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

This report contains statements that we believe to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe, project, or continue, or the negative thereof. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Any or all of our forward-looking statements in this report and in any public statements we make could be materially different from actual results. They can be affected by assumptions we might make or by known or unknown risks or uncertainties. Consequently, we cannot guarantee any forward-looking statements. Investors are cautioned not to place undue reliance on any forward-looking statements. Investors should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties.

The following factors and those discussed in ITEM 1A, Risk Factors, included in our 2007 Annual Report on Form 10-K may impact the achievement of forward-looking statements:

- changes in general economic and industry conditions, such as:
  - continued deterioration in the U.S. housing market;

- fluctuations in foreign exchange rates;

- the strength of product demand and the markets we serve;

- the intensity of competition, including that from foreign competitors;

- pricing pressures;

- market acceptance of new product introductions and enhancements;

- the introduction of new products and enhancements by competitors;

- our ability to maintain and expand relationships with large customers;

- our ability to source raw material commodities from our suppliers without interruption and at reasonable prices;

- our ability to source components from third parties, in particular from foreign manufacturers, without interruption and at reasonable prices; and

- the financial condition of our customers;

- our ability to access capital markets and obtain anticipated financing under favorable terms;

- our ability to identify, complete and integrate acquisitions successfully and to realize expected synergies on our anticipated timetable;

- changes in our business strategies, including acquisition, divestiture and restructuring activities;

- domestic and foreign governmental and regulatory policies;

- general economic and political conditions, such as political instability, the rate of economic growth or decline in our principal geographic or product markets or fluctuations in exchange rates;

- changes in operating factors, such as continued improvement in manufacturing activities and the achievement of related efficiencies, cost reductions and inventory risks due to shifts in market demand and costs associated with moving production overseas;

our ability to generate savings from our excellence in operations initiatives consisting of lean enterprise, supply management and cash flow practices;  
unanticipated developments that could occur with respect to contingencies such as litigation, intellectual property matters, product liability exposures and environmental matters; and  
our ability to accurately evaluate the effects of contingent liabilities such as tax, product liability, environmental and other claims.

The foregoing factors are not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that would impact our business. We assume no obligation, and disclaim any duty, to update the forward-looking statements in this report.

**Overview**

We are a focused diversified industrial manufacturing company comprised of two operating segments: Water and Technical Products. Our Water Group is a global leader in providing innovative products and systems used worldwide in the movement, storage, treatment and enjoyment of water. Our Technical Products Group is a leader in the global enclosures and thermal management markets, designing and manufacturing standard, modified and custom enclosures that house and protect sensitive electronics and electrical components; thermal management products; and accessories. In 2008, we expect our Water Group and Technical Products Group to generate approximately 2/3 and 1/3 of total revenues, respectively.

Our Water Group has progressively become a more important part of our business portfolio with sales increasing from approximately \$125 million in 1995 to approximately \$2.3 billion in 2007. We believe the water industry is structurally attractive as a result of a growing demand for clean water and the large global market size (of which we have identified a target market totaling \$60 billion). Our vision is to be a leading global provider of innovative products and systems used in the movement, storage, treatment and enjoyment of water.

On February 29, 2008, we sold our National Pool Tile ( NPT ) business to Pool Corporation in a cash transaction for approximately \$30.0 million subject to certain price adjustments. The results of NPT have been reported as discontinued operations for all periods presented. The assets and liabilities of NPT have been reclassified as discontinued operations for all periods presented.

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On June 28, 2008, we entered into a transaction with GE Water & Process Technologies (a unit of General Electric Company) ( GE ) that was accounted for as an acquisition of an 80.1 percent ownership interest in GE s global water softener and residential water filtration business in exchange for a 19.9 percent interest in our global water softener and residential water filtration business (the GE Transaction ). The acquisition was effected through the formation of two new entities, a U.S. entity and an international entity, into which we and GE contributed certain assets, properties, liabilities and operations representing their respective global water softener and residential water filtration businesses. We are an 80.1 percent owner of the new entities and GE is a 19.9 percent owner.

Our Technical Products Group operates in a large global market with significant potential for growth in industry segments such as defense, security, medical and networking. We believe we have the largest industrial and commercial distribution network in North America for enclosures and the highest brand recognition in the industry in North America. From mid-2001 through 2003, the Technical Products Group experienced significantly lower sales volumes as a result of severely reduced capital spending in the industrial and commercial markets and over-capacity and weak demand in the datacommunication and telecommunication markets. From 2004 through 2007, sales volumes increased due to the addition of new distributors, new products and higher demand in targeted markets.

**Key Trends and Uncertainties**

The following trends and uncertainties affected the first six months of our financial performance through 2008 and will likely impact our results in the future:

The housing market and new pool starts slowed in 2006 and 2007, and continued to shrink in the first half of 2008. We believe that construction of new homes and new pools starts in North America affects approximately 12% of our sales, largely in our pool, spa and flow businesses. This downturn is expected to adversely impact our sales for the remainder of 2008.

As sales of products into residential end-markets in our Water Group business continued to slow appreciably we have reduced our investments in businesses in those markets, and further restructured our operations by closing or downsizing facilities, reducing headcount and taking other market-related actions.

The telecommunication equipment market, particularly in North America, slowed throughout 2007 and impacted North American electronics sales within our Technical Products Group. The 2007 revenue decrease was attributable to telecommunication industry consolidation (which has delayed enclosure product sales) and some OEM datacommunication programs reaching end-of-life. Based on some recovery of telecommunication equipment procurement in the second half of 2007 and the first half of 2008, we anticipate continuing improvement in the remainder of 2008 and growth rates in the low double digits for our North American electronics sales. A weak economy in the United States and Europe could reduce marketplace spending on telecommunication capital investments and therefore our anticipated revenue growth.

We experience seasonal demand in a number of markets within our Water Group. End-user demand for pool equipment follows warm weather trends and is normally at seasonal highs from April to August. The magnitude of the sales spike is partially mitigated by employing some advance sale early buy programs (generally including extended payment terms and/or additional discounts). Demand for residential and agricultural water systems is also impacted by economic conditions and weather patterns, particularly by heavy flooding and droughts.

We expect our operations to continue to benefit from our Pentair Integrated Management System ( PIMS ) initiatives, which include strategy deployment; lean enterprise with special focus on sourcing and supply management, cash flow management and lean operations; and IGNITE, our process to drive organic growth.

We are experiencing material cost and other inflation in a number of our businesses. We are striving for greater productivity improvements and implementing selective increases in selling prices to help mitigate cost increases we have experienced in base materials such as carbon steel, copper and resins and other costs such as health care and other employee benefit costs.

We have a long-term goal to consistently generate free cash flow that equals or exceeds 100% conversion of our adjusted net income. We define free cash flow as cash flow from continuing operating activities less capital expenditures plus proceeds from sale of property and equipment. Free cash flow for the full year 2007 was approximately \$285 million, or 135% of our net income. See our discussion of *Other financial measures* under the caption Liquidity and Capital Resources in this report.

We experienced favorable foreign currency effects on net sales in 2007 and the first half of 2008. Our currency effect is primarily for the U.S. dollar against the euro, which may or may not trend favorably in the future. On February 29, 2008, we sold our NPT business to Pool Corporation for approximately \$30 million in cash. We believe this sale enables the leadership of our Pool business to focus more fully on the pool equipment market, which is the core of our business. The transaction generated a negative 8 cent impact to diluted earnings per share (which was classified as discontinued operations), consisting of a loss on the sale of NPT of 7 cents per diluted share and a loss from NPT financial results for January and February 2008 of 1 cent per diluted share.

On June 28, 2008, we completed the GE Transaction. We believe this transaction provides us with expanded revenue growth and cost synergy opportunities. The one-time gain on the transaction increased diluted earnings per share, on an after tax basis, by 86 cents in the second quarter of 2008.

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The effective income tax rate for the six months ended June 28, 2008 was 28.5% compared to 35.3% for the six months ended June 30, 2007. We expect the effective tax rate for the remainder of 2008 to be between 33% and 34%, resulting in a full year effective income tax rate of between 30.0% and 31.0%. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

**Outlook**

In 2008, our operating objectives include the following:

Continue to drive operating excellence through lean enterprise initiatives, with special focus on sourcing and supply management, cash flow management, and lean operations;

Continue to restructure our operations in challenging markets while investing in higher growth markets and geographies;

Continue the development of our Global Business Units to achieve growth and productivity targets;

Continue proactive talent development, particularly in international management and other key functional areas;

Continue the integration of acquisitions and realize identified synergistic opportunities; and

Continue to evaluate strategic acquisitions to grow and expand our existing platforms in our Water and Technical Products Groups.

On July 22, 2008, we updated our fiscal 2008 guidance to approximately \$2.44 to \$2.49 per share from our previous fiscal 2008 guidance of earnings per share of approximately \$2.30 to \$2.40. In addition to the one time gain recorded in the second quarter, we expect our positive performance to continue in our international and Technical Products businesses, offset by increased costs associated with the GE Transaction, costs associated with the recently announced restructuring actions, and costs associated with other third and fourth quarter actions.

A summary of our updated diluted EPS guidance is as follows:

Guidance as of April 22, 2008		\$ 2.30 to \$2.40
Impact of GE Transaction and Horizon settlement	+	\$0.72
Impact of Q2 through Q4 restructuring charges	-	\$0.51 to \$0.61
Increase from base business outlook	+	\$0.00 to \$0.05
Impact of increased costs associated with GE Transaction and other actions	-	\$0.07

Guidance as of July 22, 2008		\$ 2.44 to \$2.49
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Our estimate is based on three primary variables. First, we anticipate modest organic growth in the low single digits, including some price and product mix improvements, bringing our total revenues to \$3.5 billion for the full year.

Second, we anticipate that our manufacturing productivity initiatives, in particular our materials sourcing programs, will improve through our lean enterprise initiatives and through somewhat higher unit volumes. Third, we anticipate our selling, marketing and research and development expenses will change with economic conditions in our primary markets.

If economic conditions continue to worsen in North America and Europe, then we expect that our sales and productivity increases may deteriorate from the current forecasts. In that event, we expect to reduce discretionary selling, marketing and research and development costs in order to minimize the impact of these declines on our earnings per share, which we anticipate would still meet the bottom of our guidance range. Conversely, if economic conditions hold up or improve over the year, we expect our net income should be able to reach the top of our guidance range. We believe we would then have the flexibility to increase expenditures in our selling, marketing and research and development efforts to maximize organic sales growth in 2008 and sustain anticipated growth in 2009.

Our guidance assumes an absence of significant acquisitions or divestitures in 2008, other than the GE Transaction. As noted above, in 2008 we may seek to expand our geographic reach internationally, expand our presence in our various channels to market and acquire technologies and products to broaden our businesses capabilities to serve



additional markets. We may also consider the divestiture of discrete business units to further focus our businesses on their most attractive markets.

The ability to achieve our operating objectives will depend, to a certain extent, on factors outside our control. See

Forward-looking statements in this report and Risk Factors under ITEM 1A in our 2007 Annual Report on Form 10-K.

**Table of Contents****RESULTS OF OPERATIONS***Net sales*

Consolidated net sales and the change from the prior year period were as follows:

<i>In thousands</i>	Three months ended				Six months ended			
	June 28 2008	June 30 2007	\$ change	% change	June 28 2008	June 30 2007	\$ change	% change
Net sales	\$909,757	\$899,299	\$10,458	1.2%	\$1,750,161	\$1,692,144	\$58,017	3.4%

The components of the net sales change in 2008 from 2007 were as follows:

<i>Percentages</i>	% Change from 2007	
	Three months	Six months
Volume	(4.1)	(1.3)
Price	2.1	1.6
Currency	3.2	3.1
Total	1.2	3.4

*Consolidated net sales*

The 1.2 percent and 3.4 percent increases in consolidated net sales in the second quarter and first half, respectively, of 2008 from 2007 were primarily driven by:

- higher Technical Products Group sales in both the Electrical and Electronics businesses;
- favorable foreign currency effects;
- selective increases in selling prices to mitigate inflationary cost increases; and
- an increase in sales volume due to our April 30, 2007 acquisition of Porous Media Corporation and Porous Media, Ltd. (together Porous Media ).

These increases were partially offset by:

- lower sales of certain pump, pool and filtration products related to the downturn in the North American residential housing market; and

second quarter 2007 sales of municipal pumps related to a large flood control project, which did not recur in 2008.

Net sales by segment and the change from the prior year period were as follows:

<i>In thousands</i>	Three months ended				Six months ended			
	June 28 2008	June 30 2007	\$ change	% change	June 28 2008	June 30 2007	\$ change	% change
Water	\$605,497	\$642,149	\$(36,652)	(5.7%)	\$1,160,441	\$1,182,411	\$(21,970)	(1.9%)
Technical Products	304,260	257,150	47,110	18.3%	589,720	509,733	79,987	15.7%
Total	\$909,757	\$899,299	\$10,458	1.2%	\$1,750,161	\$1,692,144	\$58,017	3.4%

**Water**

*The 5.7 percent and 1.9 percent decreases in Water Group net sales in the second quarter and first half, respectively, of 2008 from 2007 were primarily driven by:*

organic sales decline of approximately 9 percent for the second quarter and 7 percent for the first half of 2008 (excluding acquisitions and foreign currency exchange), which included:

a decline in sales of certain pump, pool and filtration products into weak North American residential markets; and

second quarter 2007 sales of municipal pumps related to a large flood control project, which did not recur in 2008.

*These decreases were partially offset by:*

selective increases in selling prices to mitigate inflationary cost increases; and

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continued growth in China and in other markets in Asia-Pacific as well as continued success in penetrating markets in Europe and the Middle East.

These decreases were further offset by:

favorable foreign currency effects; and

an increase in sales volume driven by our February 2, 2007 acquisition of Jung and our April 30, 2007 acquisition of Porous Media.

**Technical Products**

*The 18.3 percent and 15.7 percent increase in Technical Products Group net sales in the second quarter and first half, respectively, of 2008 from 2007 were primarily driven by:*

an increase in sales into electrical markets, which includes new products and selective increases in selling prices to mitigate inflationary cost increases;

favorable foreign currency effects;

an increase in sales to electronics markets that is largely attributable to increased spending in the telecommunication equipment industry; and

strong sales performance in Asia.

**Gross profit**

<i>In thousands</i>	<b>Three months ended</b>				<b>Six months ended</b>			
	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>
Gross profit	\$278,062	30.6%	\$279,549	31.1%	\$529,393	30.3%	\$515,480	30.5%

Percentage point  
change

(0.5)pts

(0.2)pts

*The 0.5 percent and 0.2 percent decreases in gross profit as a percentage of sales in the second quarter and first half, respectively, of 2008 from 2007 were primarily the result of:*

inflationary increases related to raw materials and labor; and

a decline in sales of certain pump, pool and filtration products into weak North American residential markets.

*These decreases were partially offset by:*

higher Technical Products Group sales in both the Electrical and Electronics businesses;

selective increases in selling prices in our Water and Technical Products Groups to mitigate inflationary cost increases;

savings generated from our PIMS initiatives including lean and supply management practices; and

lower cost in 2008 as a result of a fair market value inventory step-up related to the Jung and Porous Media acquisitions recorded in 2007.

**\*Selling, general and administrative (SG&A)**

<i>In thousands</i>	<b>Three months ended</b>				<b>Six months ended</b>			
	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>
*SG&A	\$166,746	18.3%	\$151,881	16.9%	\$305,392	17.5%	\$291,363	17.2%

Percentage point  
change

1.4pts

0.3pts

\* Includes Legal  
settlement



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*The 1.4 and 0.3 percentage point increases in SG&A expense as a percentage of sales in the second quarter and first half, respectively, of 2008 from 2007 were primarily due to:*

increased reserves for settlement of the Horizon litigation;  
restructuring actions taken to streamline general and administrative costs during the second quarter of 2008; and  
higher selling and general expense to fund investments in future growth with emphasis on growth in the international markets, including personnel and business infrastructure investments.

*These increases were partially offset by:*

reduced costs related to productivity actions taken in the second half of 2007; and  
reduced costs related to the completion of the European SAP implementation in 2007.

**Research and development (R&D)**

<i>In thousands</i>	<b>Three months ended</b>				<b>Six months ended</b>			
	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>
R&D	\$16,314	1.8%	\$14,808	1.6%	\$32,180	1.8%	\$29,758	1.8%

Percentage point

change

0.2pts

0.0pts

*The 0.2 percentage point increase as a percentage of sales in the second quarter 2008 from 2007 and consistent in the first half of 2008 from 2007 were primarily due to:*

increased R&D expense spending on flat volume.

**Operating income****Water**

<i>In thousands</i>	<b>Three months ended</b>				<b>Six months ended</b>			
	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>	<b>June 28 2008</b>	<b>% of sales</b>	<b>June 30 2007</b>	<b>% of sales</b>
Operating income	\$57,822	9.5%	\$89,195	13.9%	\$122,241	10.5%	\$151,621	12.8%

Percentage point

change

(4.4)pts

(2.3)pts

*The 4.4 and 2.3 percentage point decreases in Water Group operating income as a percentage of sales in the second quarter and first half, respectively, of 2008 from 2007 were primarily the result of:*

inflationary increases related to raw materials and labor;  
a decline in sales of certain pump, pool and filtration products resulting from the downturn in the North American residential housing markets;  
increased reserves for settlement of the Horizon litigation; and  
second quarter 2007 sales of municipal pumps related to a large flood control project, which did not recur in 2008.

*These decreases were partially offset by:*

selective increases in selling prices to mitigate inflationary cost increases;  
savings generated from our PIMS initiatives, including lean and supply management practices;  
an increase in sales volume driven by our February 2, 2007 acquisition of Jung Pump as well as the April 30, 2007 acquisition of Porous Media; and  
lower cost in 2008 as a result of a fair market value inventory step-up related to the Jung and Porous Media acquisitions recorded in 2007.



**Table of Contents****Technical Products**

<i>In thousands</i>	<b>June 28 2008</b>	<b>Three months ended</b>		<b>% of sales</b>	<b>June 28 2008</b>	<b>Six months ended</b>		<b>% of sales</b>
		<b>% of sales</b>	<b>June 30 2007</b>			<b>% of sales</b>	<b>June 30 2007</b>	
Operating income	\$49,732	16.3%	\$36,140	14.1%	\$95,069	16.1%	\$67,771	13.3%

Percentage point  
change

2.2pts

2.8pts

*The 2.2 and 2.8 percentage point increases in Technical Products Group operating income as a percentage of sales in the second quarter and first half, respectively, of 2008 from 2007 were primarily the result of:*

an increase in sales to electrical markets, which includes selective increases in selling prices to mitigate inflationary cost increases;

savings realized from the continued success of PIMS, including lean and supply management activities;

an increase in sales into electronics markets as orders and sales to our telecommunications customers rebounded and we continued to expand into other vertical markets; and

no longer incurring exit costs related to a previously announced 2001 French facility closure.

*These increases were partially offset by:*

inflationary increases related to raw materials such as carbon steel and labor costs.

**Net interest expense**

<i>In thousands</i>	<b>June 28 2008</b>	<b>Three months ended</b>		<b>% change</b>	<b>June 28 2008</b>	<b>Six months ended</b>		<b>% change</b>
		<b>June 30 2007</b>	<b>Difference</b>			<b>June 30 2007</b>	<b>Difference</b>	
Net interest expense	\$15,862	\$18,483	\$(2,621)	(14.2%)	\$31,950	\$33,194	\$(1,244)	(3.7%)

*The 14.2 and 3.7 percentage point decreases in interest expense in the second quarter and first half, respectively, of 2008 from 2007 were primarily the result of:*

a decrease in outstanding debt; and

favorable impact of lower interest rates.

**Provision for income taxes from continuing operations**

<i>In thousands</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>	<b>June 28 2008</b>	<b>June 30 2007</b>
Income before income taxes	\$187,941	\$94,341	\$267,755	\$160,172
Provision for income taxes	49,206	33,348	76,376	56,550
Effective tax rate	26.2%	35.4%	28.5%	35.3%

*The 9.2 and 6.8 percentage point decreases in the effective tax rate in the second quarter and first half, respectively, of 2008 from 2007 were primarily the result of:*

higher earnings in lower-tax rate jurisdictions during 2008; and

a portion of the gain on the GE Transaction is taxed at a rate of 0%.

We estimate our effective income tax rate for the remaining quarters of this year will be between 33% and 34% resulting in a full year effective income tax rate of between 30.0% and 31.0%.





**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

Cash requirements for working capital, capital expenditures, equity investments, acquisitions, debt repayments, share repurchases, and dividend payments are generally funded from cash generated from operations, availability under existing committed revolving credit facilities, and in certain instances, public and private debt and equity offerings. We experience seasonal cash flows primarily due to seasonal demand in a number of markets within our Water Group. End-user demand for pool equipment normally follows warm weather trends and is at seasonal highs from April to August. The magnitude of the sales spike is partially mitigated by employing some advance sales early buy programs (generally including extended payment terms and/or additional discounts). Demand for residential and agricultural water systems is also impacted by weather patterns, particularly by heavy flooding and droughts. The following table presents selected working capital measurements calculated from our monthly operating results based on a 13-month moving average:

<i>Days</i>	<b>June 28</b>	<b>December</b>	<b>June 30</b>
	<b>2008</b>	<b>31 2007</b>	<b>2007</b>
Days of sales in accounts receivable	56	53	55
Days inventory on hand	77	75	76
Days in accounts payable	57	54	55

***Operating activities***

Cash provided by operating activities was \$75.6 million in the first six months of 2008 compared with cash provided by operating activities of \$97.9 million in the prior year comparable period. The decrease in cash provided by operating activities was primarily due to an increase in cash used for working capital in the first half of 2008 versus the same period of last year. In the future, we expect our working capital ratios to improve as we are able to capitalize on our PIMS initiatives.

***Investing activities***

Capital expenditures in the first six months of 2008 were \$26.3 million compared with \$30.1 million in the prior year period. We currently anticipate capital expenditures for fiscal 2008 will be approximately \$65 to \$75 million, primarily for capacity expansions in our low cost country manufacturing facilities, new product development, and replacement capital.

Cash proceeds from the sale of property and equipment of \$3.8 million in 2008 was primarily related to the sale of a facility in our Water Group.

In connection with the GE Transaction, we received cash of \$6.2 million that will be used to acquire additional assets and to fund restructuring initiatives.

On February 29, 2008, we sold our NPT business to Pool Corporation in a cash transaction for approximately \$30.0 million subject to certain price adjustments. The results of NPT have been reported as discontinued operations for all periods presented. The assets and liabilities of NPT have been reclassified as discontinued operations for all periods presented.

***Financing activities***

Net cash used for financing activities was \$84.9 million in the first six months of 2008 compared with \$409.4 million provided by financing activities in the prior year period. The change primarily relates to the funds borrowed in 2007 for the Porous Media and Jung Pump acquisition. Financing activities included draw downs and repayments on our revolving credit facilities to fund our operations in the normal course of business, payments of dividends, cash used to repurchase Company stock, cash received from stock option exercises, and tax benefits related to stock-based compensation.

We have a multi-currency Credit Facility. The Credit Facility creates an unsecured, committed revolving credit facility of up to \$800 million, with multi-currency sub facilities to support investments outside the U.S. The Credit Facility expires on June 4, 2012. Borrowings under the Credit Facility will bear interest at the rate of LIBOR plus 0.50%. Interest rates and fees on the Credit Facility vary based on our credit ratings.

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. We use the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. As of June 28, 2008, we had \$49.4 million of commercial paper outstanding that matures within 34 days. All of the commercial paper was classified as long-term as we have the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

Total availability under our existing Credit Facility was \$609.1 million at June 28, 2008.

In addition to the Credit Facility, we have \$25.0 million of uncommitted credit facilities, under which we had no borrowings as of June 28, 2008.

On July 8, 2008, we announced the commencement of a cash tender offer for all of the outstanding \$250 million aggregate principal 7.85% Senior Notes due 2009 (the Notes). The tender offer is being made pursuant to an Offer to Purchase and related Letter of Transmittal

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dated July 8, 2008, which sets forth more fully the terms and conditions of the tender offer, including a minimum tender condition and other general conditions. On July 17, 2008, we amended the tender offer to increase the effective tender price and remove the minimum tender condition. We intend to use the available capacity under our Credit Facility to fund the purchase of the Notes.

We were in compliance with all debt covenants as of June 28, 2008.

Our current credit ratings are as follows:

<b>Rating Agency</b>	<b>Long-Term Debt Rating</b>	<b>Current Rating Outlook</b>
Standard & Poor's	BBB	Negative
Moody's	Baa3	Stable

In March 2007, Standard & Poor's Ratings Services revised its current rating outlook on us from stable to negative. At the same time, Standard & Poor's affirmed its long-term debt rating of BBB. Standard & Poor's stated that the outlook revision reflects the additional leverage and stress on credit metrics that will result from the acquisition of Porous Media, which had been announced at the time. The negative outlook indicates the rating could be lowered if financial policies become more aggressive or if operating results are weaker than expected.

As of June 28, 2008, our capital structure consisted of \$1,028.8 million in total indebtedness and \$2,097.2 million in shareholders' equity. The ratio of debt-to-total capital at June 28, 2008 was 32.9 percent, compared with 35.7 percent at December 31, 2007 and 40.1 percent at June 30, 2007. Our targeted debt-to-total capital ratio is approximately 40 percent. We will exceed this target ratio from time to time as needed for operational purposes and/or acquisitions. We expect to continue to have cash requirements to support working capital needs and capital expenditures, to pay interest and service debt, to pay dividends to shareholders, and to repurchase Company stock. In order to meet these cash requirements, we intend to use available cash and internally generated funds, and to borrow under our committed and uncommitted credit facilities.

Dividends paid in the first six months of 2008 were \$33.7 million, or \$0.34 per common share, compared with \$30.0 million, or \$0.30 per common share, in the prior year period. We have increased dividends every year for the last 32 years and expect to continue paying dividends on a quarterly basis.

In December 2007, the Board of Directors authorized the repurchase of shares of our common stock during 2008 up to a maximum dollar limit of \$50 million. As of June 28, 2008, we had repurchased an additional 654,118 shares for \$22.4 million pursuant to this plan and, accordingly, we have the authority to repurchase additional shares up to a maximum dollar limit of \$27.6 million for the remainder of 2008.

The total gross liability for uncertain tax positions under FIN 48 at June 28, 2008 is approximately \$24.4 million. We are not able to reasonably estimate the amount by which the estimate will increase or decrease over time; however, at this time, we do not expect a significant payment related to these obligations within the next twelve months.

There have been no material changes with respect to the contractual obligations, other than noted above, or off-balance sheet arrangements described in our 2007 Annual Report on Form 10-K.

**Other financial measures**

In addition to measuring our cash flow generation or usage based upon operating, investing, and financing classifications included in the Consolidated Statements of Cash Flows, we also measure our free cash flow and our conversion of income from continuing operations. We have a long-term goal to consistently generate free cash flow that equals or exceeds 100% conversion of adjusted income from continuing operations. Free cash flow and conversion of income from continuing operations are non-GAAP financial measures that we use to assess our cash flow performance. We believe free cash flow and conversion of income from continuing operations are important measures of operating performance because they provide us and our investors a measurement of cash generated from operations that is available to pay dividends, repurchase common stock and repay debt. In addition, free cash flow and conversion of income from continuing operations are used as a criterion to measure and pay compensation-based incentives. Our measure of free cash flow and conversion of income from continuing operations may not be comparable to similarly titled measures reported by other companies. The following table is a reconciliation of free cash flow to cash flows from continuing operations:

<i>In thousands</i>	<b>Six months ended</b>	
	<b>June 28 2008</b>	<b>June 30 2007</b>
Net cash provided by (used for) continuing operations	\$ 79,748	\$ 99,576
Capital expenditures	(26,328)	(30,058)
Proceeds from sale of property and equipment	3,802	1,526
Free Cash Flow	57,222	71,044

In 2008, our objective is to generate free cash flow that equals or exceeds 100% conversion of adjusted net income.

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**NEW ACCOUNTING STANDARDS**

See Note 2 (New Accounting Standards) of ITEM 1.

**CRITICAL ACCOUNTING POLICIES**

In our 2007 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not changed these policies from those previously disclosed in our Annual Report.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risk during the quarter ended June 28, 2008. For additional information, refer to Item 7A of our 2007 Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended June 28, 2008 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act ). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarter ended June 28, 2008 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

**(b) Changes in Internal Controls**

There was no change in our internal control over financial reporting that occurred during the quarter ended June 28, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Pentair, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Pentair, Inc. and subsidiaries (the Corporation ) as of June 28, 2008 and June 30, 2007, and the related condensed consolidated statements of income for the three month and six month periods ended June 28, 2008 and June 30, 2007, and of cash flows for the six-month periods ended June 28, 2008 and June 30, 2007. These interim condensed consolidated financial statements are the responsibility of the Corporation s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pentair, Inc. and subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in shareholders equity, and cash flows for the year then ended prior to the reclassification for the discontinued operations described in Note 7 to the accompanying condensed consolidated financial statements (not presented herein). Our report dated February 25, 2008, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the Corporation s changes in its method of accounting for uncertain tax positions in 2007. We also audited the adjustments described in Note 7 that were applied to reclassify the December 31, 2007 consolidated balance sheet of Pentair, Inc. and subsidiaries (not presented herein) for discontinued operations. In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted condensed consolidated balance sheet as of December 31, 2007.

*DELOITTE & TOUCHE LLP*

Minneapolis, MN

July 22, 2008

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**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

*Environmental and Litigation*

There have been no further material developments from the disclosures contained in our 2007 Annual Report on Form 10-K.

*Horizon Litigation*

Twenty-eight separate lawsuits involving 29 primary plaintiffs, a class action and claims for indemnity by Celebrity Cruise Lines, Inc. ( Celebrity ) were brought against Essef Corporation and certain of its subsidiaries (the Essef Defendants ) prior to our acquisition of Essef in August 1999. The claims against Essef and its involved subsidiaries were based upon the allegation that Essef designed, manufactured and marketed two sand swimming pool filters that were installed as a part of the spa system on the Horizon cruise ship and allegations that the spa and filters contained Legionnaire s disease bacteria that infected certain passengers on cruises in July 1994.

The remaining claims in this case were those brought by Celebrity for damages resulting from the outbreak. Celebrity filed an amended complaint seeking attorney fees and costs for prior litigation as well as out-of-pocket losses, lost profits and loss of business enterprise value. The first trial in 2006 resulted in a verdict against the Essef Defendants for Celebrity s out-of-pocket expenses of \$10.4 million. Verdicts for lost profits (\$47.6 million) and lost enterprise value (\$135 million) were reversed in January 2007. In the retrial in June 2007, the jury awarded Celebrity damages for lost profits for 1994 and 1995 of \$15.2 million (after netting for amounts taken into account by the earlier verdict for out-of-pocket expenses). The verdicts were exclusive of pre-judgment interest and attorneys fees.

In February 2008, the District Court entered judgment against the Essef Defendants in the aggregate amount of \$30.4 million for out-of-pocket costs and expenses and lost profits, including interest accrued to February 29, 2008. On March 28, 2008, Celebrity filed a notice of appeal to the Second Circuit Court of Appeals. The Essef Defendants filed their notice of cross-appeal on April 10, 2008.

In late June 2008, the parties agreed to settle the outstanding claims for a total of \$35 million, inclusive of all costs and interest to the date of payment. A Settlement Agreement and Release was entered into on July 8, 2008 pursuant to which we will pay Celebrity approximately \$28 million no later than August 7, 2008. The first layer excess liability insurer with respect to this claim will pay Celebrity the balance of its policy limits, which is approximately \$7 million. With those payments, the case will be closed.

We have assessed the impact of the final judgment and appeals on our previously established reserves for this matter and have increased the accruals as of June 28, 2008 by approximately \$20 million to an aggregate of \$28 million. We have identified an additional insurance policy that we believe applies to this liability. The insurer has denied coverage, and we have initiated suit to recover for our loss in the Horizon case. The increase in our accruals discussed above does not take into account any potential recovery under this additional insurance policy.

We believe that this settlement amount will be tax-deductible in 2008. We will borrow the amount of the settlement payment of \$28 million under our revolving credit agreement with our banks.

**ITEM 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in ITEM 1A. of our 2007 Annual Report on Form 10-K.



**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides information with respect to purchases we made of our common stock during the second quarter of 2008:

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
March 30 - April 26, 2008	137,008	\$ 34.61	103,527	\$ 33,974,176
April 27 - May 24, 2008	84,674	\$ 37.21	56,656	\$ 31,874,614
May 25 - June 28, 2008	122,810	\$ 35.12	122,322	\$ 27,578,808
<b>Total</b>	<b>344,492</b>		<b>282,505</b>	

(a) The purchases in this column include shares repurchased as part of our publicly announced programs and, in addition, 33,481 shares for the period March 30 -April 26, 2008, 28,018 shares for the period April 27 - May 24, 2008, and 488 shares for the period May 25 - June 28, 2008 deemed surrendered to us by participants in our Omnibus Stock Incentive Plan and the Outside Directors Nonqualified Stock Option

Plan (the Plans )  
to satisfy the  
exercise price or  
withholding of  
tax obligations  
related to the  
exercise of stock  
options and  
non-vested  
shares.

(b) The average  
price paid in this  
column includes  
shares  
repurchased as  
part of our  
publicly  
announced  
programs and  
shares deemed  
surrendered to us  
by participants in  
the Plans to  
satisfy the  
exercise price or  
withholding of  
tax obligations  
related to the  
exercise price of  
stock options  
and non-vested  
shares.

(c) The number of  
shares in this  
column  
represents the  
number of shares  
repurchased as  
part of a publicly  
announced  
program to  
repurchase up to  
\$50 million of  
our common  
stock.

(d) In  
December 2007,  
the Board of

Directors authorized the repurchase of shares of our common stock during 2008 up to a maximum dollar limit of \$50 million. As of June 28, 2008, we had purchased 654,118 shares for \$22.4 million pursuant to this authorization during 2008. This authorization expires on December 31, 2008.

**Table of Contents****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company's annual meeting of shareholders was held on May 1, 2008. There were 98,979,984 shares of Common Stock entitled to vote at the meeting and a total of 84,902,973 shares (85.78%) were represented at the meeting.

**Proposal 1. Election of Directors**

To elect three directors of the Company to terms expiring in 2011. Each nominee for director was elected by a vote of the shareholders as follows:

Nominees	Votes For	Votes Withheld
Leslie Abi-Karam	80,362,507	4,540,466
Jerry W. Burris	81,338,613	3,564,360
Ronald L. Merriman	70,958,515	13,944,458

The Company's other directors that were in office prior to the annual meeting of shareholders and with terms of office that continue after the annual meeting of shareholders are Glynis A. Bryan, T. Michael Glenn, Charles A. Haggerty, David H. Y. Ho, Randall J. Hogan, David A. Jones and William T. Monahan.

**Proposal 2. Proposal to Approve the Pentair, Inc. 2008 Omnibus Stock Incentive Plan**

To approve the Pentair, Inc. 2008 Omnibus Stock Incentive Plan. The proposal was approved by a vote of the shareholders as follows:

Votes For	Votes Against	Abstain	Broker Non-Vote
52,738,356	15,672,395	422,864	16,069,357

**Proposal 3. Ratification of Appointment of Deloitte & Touche LLP as our Independent Registered Public Accounting Firm for 2008**

To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year ending December 31, 2008. The proposal was approved by a vote of the shareholders as follows:

Votes For	Votes Against	Abstain	Broker Non-Vote
82,990,447	1,690,482	222,044	

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**ITEM 6. Exhibits**

**(a) Exhibits**

- 15** Letter Regarding Unaudited Interim Financial Information.
- 31.1** Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2** Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on July 22, 2008.

PENTAIR, INC.

Registrant

By /s/ John L. Stauch

John L. Stauch

Executive Vice President and Chief Financial  
Officer

By /s/ Mark C. Borin

Mark C. Borin

Corporate Controller and Chief Accounting  
Officer

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**Exhibit Index to Form 10-Q for the Period Ended June 28, 2008**

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