PENTAIR INC
Form 10-Q
July 24, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2012

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ 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 þ

On June 30, 2012, 99,204,048 shares of Registrant s common stock were outstanding.

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Pentair, Inc. and Subsidiaries

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income (Loss) (Unaudited)

	Three months ended		Six months ended	
	June 30,	**July 2,**	**June 30,**	**July 2,**
In thousands, except per-share data	**2012**	**2011**	**2012**	**2011**
Net sales	$ 941,525	$ 910,175	$ 1,799,702	$ 1,700,448
Cost of goods sold	629,397	622,439	1,206,855	1,163,653
Gross profit	312,128	287,736	592,847	536,795
Selling, general and administrative	173,445	158,432	348,455	303,192
Research and development	20,891	19,882	41,648	38,004
Operating income	117,792	109,422	202,744	195,599
Other (income) expense:				
Equity income of unconsolidated subsidiaries	(636)	(672)	(1,685)	(907)
Net interest expense	16,079	14,613	30,847	23,938
Income before income taxes and noncontrolling interest	102,349	95,481	173,582	172,568
Provision for income taxes	28,864	27,344	37,943	52,397
Net income before noncontrolling interest	73,485	68,137	135,639	120,171
Noncontrolling interest	1,655	1,425	2,995	2,918
Net income attributable to Pentair, Inc.	$ 71,830	$ 66,712	$ 132,644	$ 117,253
Comprehensive income (loss)	$ (10,430)	$ 92,306	$ 93,808	$ 187,119
Less: Comprehensive income (loss) attributable to noncontrolling interest	(223)	2,216	2,020	5,621
Comprehensive income (loss) attributable to Pentair, Inc.	$ (10,207)	$ 90,090	$ 91,788	$ 181,498
Earnings per common share attributable to Pentair, Inc.				
Basic	$ 0.73	$ 0.68	$ 1.34	$ 1.19
Diluted	$ 0.71	$ 0.67	$ 1.32	$ 1.17
Weighted average common shares outstanding				
Basic	99,047	98,333	98,856	98,190
Diluted	101,165	100,065	100,785	99,825
Cash dividends declared per common share	$ 0.22	$ 0.20	$ 0.44	$ 0.40

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

In thousands, except share and per-share data		**June 30, 2012**		**December 31, 2011**		**July 2, 2011**
Assets						
Current assets						
Cash and cash equivalents	$	60,598	$	50,077	$	68,972
Accounts and notes receivable, net of allowances of $32,958, $39,111 and $41,120, respectively		572,144		569,204		595,407
Inventories		460,039		449,863		484,795
Deferred tax assets		58,899		60,899		60,833
Prepaid expenses and other current assets		124,345		107,792		124,632
Total current assets		1,276,025		1,237,835		1,334,639
Property, plant and equipment, net		381,063		387,525		410,547
Other assets						
Goodwill		2,255,134		2,273,918		2,573,430
Intangibles, net		570,503		592,285		654,908
Other		103,544		94,750		78,788
Total other assets		2,929,181		2,960,953		3,307,126
Total assets	$	4,586,269	$	4,586,313	$	5,052,312
Liabilities and Shareholders Equity						
Current liabilities						
Short-term borrowings	$	222	$	3,694	$	21,451
Current maturities of long-term debt		1,193		1,168		1,289
Accounts payable		288,265		294,858		315,403
Employee compensation and benefits		89,514		109,361		108,836
Current pension and post-retirement benefits		9,052		9,052		8,733
Accrued product claims and warranties		44,935		42,630		47,259
Income taxes		32,228		14,547		21,498
Accrued rebates and sales incentives		45,870		37,009		42,567
Other current liabilities		150,437		129,522		144,366
Total current liabilities		661,716		641,841		711,402
Other liabilities						
Long-term debt		1,233,794		1,304,225		1,384,167
Pension and other retirement compensation		247,324		248,615		217,021
Post-retirement medical and other benefits		29,921		31,774		27,954
Long-term income taxes payable		13,294		26,470		23,832
Deferred tax liabilities		190,173		188,957		235,422
Other non-current liabilities		92,175		97,039		85,660
Total liabilities		2,468,397		2,538,921		2,685,458

Commitments and contingencies						
Shareholders equity						
Common shares par value $0.16 2/3; 99,204,048, 98,622,564 and 98,766,335 shares issued and outstanding, respectively		16,534		16,437		16,460
Additional paid-in capital		509,558		488,843		488,873
Retained earnings		1,667,794		1,579,290		1,702,119
Accumulated other comprehensive income (loss)		(192,097)		(151,241)		41,902
Noncontrolling interest		116,083		114,063		117,500
Total shareholders equity		2,117,872		2,047,392		2,366,854
Total liabilities and shareholders equity	$	4,586,269	$	4,586,313	$	5,052,312

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

In thousands	Six months ended June 30, 2012	Six months ended July 2, 2011
Operating activities		
Net income before noncontrolling interest	$ 135,639	$ 120,171
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Equity income of unconsolidated subsidiaries	(1,685)	(907)
Depreciation	32,666	32,685
Amortization	19,677	17,180
Deferred income taxes	3,654	3,012
Stock compensation	10,075	10,527
Excess tax benefits from stock-based compensation	(1,740)	(1,465)
Loss (gain) on sale of assets	(3,106)	229
Changes in assets and liabilities, net of effects of business acquisitions and dispositions		
Accounts and notes receivable	(5,531)	(1,111)
Inventories	(12,276)	2,425
Prepaid expenses and other current assets	(983)	(2,696)
Accounts payable	(4,271)	(22,878)
Employee compensation and benefits	(18,686)	(22,675)
Accrued product claims and warranties	2,466	2,901
Income taxes	17,709	12,780
Other current liabilities	10,209	25,481
Pension and post-retirement benefits	(553)	(853)
Other assets and liabilities	(16,503)	(22,195)
Net cash provided by (used for) operating activities	166,761	152,611
Investing activities		
Capital expenditures	(31,312)	(35,221)
Proceeds from sale of property and equipment	4,868	89
Acquisitions, net of cash acquired	(19,905)	(733,105)
Other	(3,073)	119
Net cash provided by (used for) investing activities	(49,422)	(768,118)
Financing activities		
Net short-term borrowings	(3,472)	16,518
Proceeds from long-term debt	352,463	1,320,957
Repayment of long-term debt	(420,810)	(661,422)
Debt issuance costs		(8,721)
Excess tax benefits from stock-based compensation	1,740	1,465
Stock issued to employees, net of shares withheld	16,163	9,551
Repurchases of common stock		(287)
Dividends paid	(44,140)	(39,739)
Net cash provided by (used for) financing activities	(98,056)	638,322
Effect of exchange rate changes on cash and cash equivalents	(8,762)	101
Change in cash and cash equivalents	10,521	22,916

Cash and cash equivalents, beginning of period		50,077		46,056
Cash and cash equivalents, end of period	$	60,598	$	68,972

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Shareholders Equity (Unaudited)

In thousands, except share and per-share data	Common shares Number	Common shares Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair, Inc.	Noncontrolling interest	Total
Balance - December 31, 2011	98,622,564	$ 16,437	$ 488,843	$ 1,579,290	$ (151,241)	$ 1,933,329	$ 114,063	$ 2,047,392
Net income				132,644		132,644	2,995	135,639
Change in cumulative translation adjustment					(44,006)	(44,006)	(975)	(44,981)
Changes in market value of derivative financial instruments, net of $1,436 tax					3,150	3,150		3,150
Cash dividends - $0.44 per common share				(44,140)		(44,140)		(44,140)
Exercise of stock options, net of 35,570 shares tendered for payment	492,777	82	14,973			15,055		15,055
Issuance of restricted shares, net of cancellations	154,536	26	3,532			3,558		3,558
Amortization of restricted shares			352			352		352
Shares surrendered by employees to pay taxes	(65,829)	(11)	(2,439)			(2,450)		(2,450)
Stock compensation			4,297			4,297		4,297
Balance - June 30, 2012	99,204,048	$ 16,534	$ 509,558	$ 1,667,794	$ (192,097)	$ 2,001,789	$ 116,083	$ 2,117,872

In thousands, except share and per-share data	Common shares Number	Common shares Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair, Inc.	Noncontrolling interest	Total
Balance - December 31, 2010	98,409,192	$ 16,401	$ 474,489	$ 1,624,605	$ (22,342)	$ 2,093,153	$ 111,879	$ 2,205,032
Net income				117,253		117,253	2,918	120,171

Change in cumulative translation adjustment					62,456	62,456	2,703	65,159
Changes in market value of derivative financial instruments, net of $1,249 tax					1,788	1,788		1,788
Cash dividends - $0.40 per common share				(39,739)		(39,739)		(39,739)
Share repurchase	(7,826)	(1)	(286)			(287)		(287)
Exercise of stock options, net of 3,266 shares tendered for payment	408,637	68	10,741			10,809		10,809
Issuance of restricted shares, net of cancellations	29,131	5	1,432			1,437		1,437
Amortization of restricted shares			480			480		480
Shares surrendered by employees to pay taxes	(72,799)	(13)	(2,683)			(2,696)		(2,696)
Stock compensation			4,700			4,700		4,700
Balance - July 2, 2011	98,766,335	$ 16,460	$ 488,873	$ 1,702,119	$ 41,902	$ 2,249,354	$ 117,500	$ 2,366,854

See accompanying notes to condensed consolidated financial statements

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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 for the year ended December 31, 2011, which are included in our 2011 Annual Report on Form 10-K for the year ended December 31, 2011.

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.

In connection with preparing the unaudited condensed consolidated financial statements for the six months ended June 30, 2012, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing.

2. New Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance to improve the consistency of fair value measurement and disclosure requirements between US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. The provisions of this guidance change certain of the fair value principles related to the highest and best use premise, the consideration of blockage factors and other premiums and discounts, and the measurement of financial instruments held in a portfolio and instruments classified within shareholders equity. Further, the guidance provides additional disclosure requirements surrounding Level 3 fair value measurements, the uses of nonfinancial assets in certain circumstances, and identification of the level in the fair value hierarchy used for assets and liabilities which are not recorded at fair value, but where fair value is disclosed. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on our financial condition or results of operations.

In June 2011, the FASB issued authoritative guidance surrounding the presentation of comprehensive income, with an objective of increasing the prominence of items reported in other comprehensive income (OCI). This guidance provides entities with the option to present the total of comprehensive income, the components of net income and the components of OCI in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, entities must present on the face of the financial statement, items reclassified from OCI to net income in the section of the financial statement where the components of net income and OCI are presented, regardless of the option selected to present comprehensive income. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The FASB subsequently deferred the effective date of certain provisions of this standard pertaining to the reclassification of items out of accumulated other comprehensive income, pending the issuance of further guidance on that matter. We have adopted this guidance as of January 1, 2012, and have presented total comprehensive income (loss) in our Condensed Consolidated Statements of Income and Comprehensive Income (Loss).

3. Stock-based Compensation

Total stock-based compensation expense was $4.8 million for each of the three months ended June 30, 2012 and July 2, 2011, and was $10.1 million and $10.5 million for the six months ended June 30, 2012 and July 2, 2011, respectively.

During the first half of 2012, restricted shares and restricted stock units of our common stock were granted under the 2008 Omnibus Stock Incentive Plan to eligible employees with a vesting period of three to four years after issuance. Restricted share awards and restricted stock units are valued at market value on the date of grant and are typically expensed over the vesting period. Total compensation expense for restricted share awards and restricted stock units was $2.8 million and $2.5 million for the three months ended June 30, 2012 and July 2, 2011, respectively, and was $5.8 million for each of the six months ended June 30, 2012 and July 2, 2011.

During the first half of 2012, option awards were granted under the 2008 Omnibus Stock Incentive Plan with an exercise price equal to the market price of our common stock on the date of grant. Option awards are typically expensed over the vesting period. Total compensation expense for stock option awards was $2.0 million and $2.3 million for the three months ended June 30, 2012 and July 2, 2011, respectively, and $4.3 million and $4.7 million for the six months ended June 30, 2012 and July 2, 2011, respectively.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

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:

	June 30, 2012	**July 2, 2011**
Expected stock price volatility	36.5%	35.5%
Expected life	5.7 yrs	5.5 yrs
Risk-free interest rate	0.90%	2.12%
Dividend yield	2.29%	2.16%

The weighted-average fair value of options granted during the second quarter of 2012 and 2011 were $11.74 and $10.89 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 the accounting guidance, 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.

4. Earnings Per Common Share

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

	Three months ended		**Six months ended**	
In thousands	**June 30, 2012**	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Weighted average common shares outstanding basic	99,047	98,333	98,856	98,190
Dilutive impact of stock options and restricted stock	2,118	1,732	1,929	1,635
Weighted average common shares outstanding diluted	101,165	100,065	100,785	99,825
Stock options excluded from the calculation of diluted earnings per share because the exercise	443	1,776	2,010	2,001

price was greater than the average market
price of the common shares

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

5. Restructuring

During 2012 and 2011, we initiated certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business. The 2012 initiatives included the reduction in hourly and salaried headcount of approximately 140 employees, which included 85 in Water & Fluid Solutions and 55 in Technical Products. The 2011 initiatives included the reduction in hourly and salaried headcount of approximately 210 employees, which included 160 in Water & Fluid Solutions and 50 in Technical Products.

Restructuring related costs included in *Selling, general and administrative* expenses on the Condensed Consolidated Statements of Income and Comprehensive Income (Loss) include costs for severance and other restructuring costs as follows for the six months ended June 30, 2012, and July 2, 2011, and the year ended December 31, 2011:

In thousands	June 30, 2012	December 31, 2011	July 2, 2011
Severance and related costs	$ 9,660	$ 11,500	$
Asset impairment and other restructuring costs	710	1,500	
Total restructuring costs	$ 10,370	$ 13,000	$

Restructuring accrual activity recorded in *Other current liabilities* and *Employee compensation and benefits* on the Condensed Consolidated Balance Sheets is summarized as follows for the six months ended June 30, 2012, and July 2, 2011, and the year ended December 31, 2011:

In thousands	June 30, 2012	December 31, 2011	July 2, 2011
Beginning balance	$ 12,805	$ 3,994	$ 3,994
Costs incurred	9,660	11,500	
Cash payments and other	(8,570)	(2,689)	(909)
Ending balance	$ 13,895	$ 12,805	$ 3,085

6. Acquisitions

On April 4, 2012, we acquired, as part of Water & Fluid Solutions, all of the outstanding shares of capital stock of Sibrape Indústria E Comércio de Artigos Para Lazer Ltda. and its subsidiary Hidrovachek Ltda. (collectively Sibrape) for $19.9 million, net of cash acquired. The Sibrape results have been included in our consolidated financial statements since the date of acquisition. Sibrape offers a complete line of pool products and is a market leader in pool liner sales throughout Brazil. Goodwill recorded as part of the purchase price allocation was $8.8 million, none of which is tax deductible. Identified intangible assets acquired as part of the acquisition were $4.8 million and were comprised entirely of customer lists, which have an estimated life of 11 years. The pro forma impact of this acquisition was not deemed material.

In May 2011, we acquired, as part of Water & Fluid Solutions, the Clean Process Technologies (CPT) division of privately held Norit Holding B.V. for $715.3 million (502.7 million translated at the May 12, 2011 exchange rate). CPT s results of operations have been included in our consolidated financial statements since the date of acquisition. CPT is a global leader in membrane solutions and clean process technologies in the high growth water and beverage filtration and separation segments. CPT provides sustainable purification systems and solutions for desalination, water reuse, industrial applications and beverage segments that effectively address the increasing challenges of clean water scarcity, rising energy costs and pollution. CPT s product offerings include innovative ultrafiltration and nanofiltration membrane technologies, aseptic valves, CO_2 recovery and control systems and specialty pumping equipment. Based in the Netherlands, CPT has broad sales diversity with the majority of 2011 and 2010 revenues generated in European Union and Asia-Pacific countries.

The fair value of CPT 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 $451.8 million, none of which is tax deductible. Identifiable intangible assets acquired as part of the acquisition were $197.2 million, including definite-lived intangibles, such as customer relationships and proprietary technology with a weighted average amortization period of approximately 10 years.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

The following pro forma consolidated condensed financial results of operations are presented as if the CPT acquisition described above had been completed at the beginning of the comparable period:

In thousands, except share and per-share data		**Three months ended July 2, 2011**		**Six months ended July 2, 2011**
Pro forma net sales	$	953,375	$	1,822,224
Pro forma income before noncontrolling interest		66,075		115,517
Pro forma net income attributable to Pentair, Inc.		64,650		112,599
Pro forma earnings per common share				
Basic	$	0.66	$	1.15
Diluted	$	0.65	$	1.13
Weighted average common shares outstanding				
Basic		98,333		98,190
Diluted		100,065		99,825

The 2011 unaudited pro forma net income was adjusted to exclude the impact of approximately $5.5 million in non-recurring items related to acquisition date fair value adjustments to inventory and customer backlog. Acquisition-related transaction costs of approximately $6.1 million and $7.8 million associated with the CPT acquisition were excluded from the pro forma net income for the three and six month periods ended July 2, 2011, respectively.

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 the acquisition. 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.

In January 2011 we acquired as part of Water & Fluid Solutions all of the outstanding shares of capital stock of Hidro Filtros do Brasil (Hidro Filtros) for cash of $14.9 million and a note payable of $2.1 million. The Hidro Filtros results of operations have been included in our consolidated financial statements since the date of acquisition. Hidro Filtros is a leading manufacturer of water filters and filtering elements for residential and industrial applications operating in Brazil and neighboring countries. Goodwill recorded as part of the purchase price allocation was $10.1 million, none of which is tax deductible. Identified intangible assets acquired as part of the acquisition were $6.3 million including definite-lived intangibles, primarily customer relationships of $5.5 million, with an estimated life of 13 years. The pro forma impact of this acquisition was not material.

Additionally, during 2011, we completed other small acquisitions with purchase prices totaling $4.6 million, consisting of $2.9 million in cash and $1.7 million as a note payable, adding to Water & Fluid Solutions. Total goodwill recorded as part of the purchase price allocation was $4.3 million, none of which is tax deductible. The pro forma impact of these acquisitions was not material.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

7. Supplemental Balance Sheet Disclosures

In thousands

Inventories		**June 30, 2012**		**December 31, 2011**		**July 2, 2011**
Raw materials and supplies	$	227,780	$	219,487	$	246,414
Work-in-process		50,860		47,707		49,515
Finished goods		181,399		182,669		188,866
Total inventories	$	460,039	$	449,863	$	484,795
Property, plant and equipment						
Land and land improvements	$	40,519	$	41,111	$	43,322
Buildings and leasehold improvements		251,977		244,246		255,317
Machinery and equipment		713,819		692,930		697,802
Construction in progress		34,699		40,251		41,066
Total property, plant and equipment		1,041,014		1,018,538		1,037,507
Less accumulated depreciation and amortization		659,951		631,013		626,960
Property, plant and equipment, net	$	381,063	$	387,525	$	410,547

8. Goodwill and Other Identifiable Intangible Assets
The changes in the carrying amount of goodwill by segment were as follows:

In thousands		**December 31, 2011**		**Acquisitions/ divestitures**		**Foreign currency translation/other**		**June 30, 2012**
Water & Fluid Solutions	$	1,994,781	$	8,768	$	(25,034)	$	1,978,515
Technical Products		279,137				(2,518)		276,619
Consolidated Total	$	2,273,918	$	8,768	$	(27,552)	$	2,255,134

In thousands	**December 31, 2010**	**Acquisitions/ divestitures**	**Foreign currency translation/other**	**July 2, 2011**

Water & Fluid Solutions	$	1,784,100	$	466,182	$	35,686	$	2,285,968
Technical Products		281,944				5,518		287,462
Consolidated Total	$	2,066,044	$	466,182	$	41,204	$	2,573,430

Accumulated goodwill impairment losses were $200.5 million, $200.5 million and $0 as of June 30, 2012, December 31, 2011, and July 2, 2011, respectively.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

The detail of acquired intangible assets consisted of the following:

	June 30, 2012			December 31, 2011			July 2, 2011		
In thousands	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Finite-life intangibles									
Patents	$ 5,895	$ (4,298)	$ 1,597	$ 5,896	$ (4,038)	$ 1,858	$ 15,485	$ (13,306)	$ 2,179
Proprietary technology	129,748	(45,994)	83,754	128,841	(39,956)	88,885	136,737	(34,423)	102,314
Customer relationships	356,814	(120,738)	236,076	358,410	(109,887)	248,523	380,263	(97,232)	283,031
Trade names	1,501	(600)	901	1,515	(530)	985	1,569	(467)	1,102
Total finite-life intangibles	$ 493,958	$ (171,630)	$ 322,328	$ 494,662	$ (154,411)	$ 340,251	$ 534,054	$ (145,428)	$ 388,626
Indefinite-life intangibles									
Trade names	248,175		248,175	252,034		252,034	266,282		266,282
Total intangibles, net	$ 742,133	$ (171,630)	$ 570,503	$ 746,696	$ (154,411)	$ 592,285	$ 800,336	$ (145,428)	$ 654,908

Intangible asset amortization expense was approximately $9.9 million and $10.8 million for the three months ended June 30, 2012 and July 2, 2011, respectively, and was approximately $19.7 million and $17.2 million for the six months ended June 30, 2012 and July 2, 2011, respectively.

The estimated future amortization expense for identifiable intangible assets during the remainder of 2012 and the next five years is as follows:

In thousands	Q3-Q4 2012	2013	2014	2015	2016	2017
Estimated amortization expense	$ 19,253	$ 38,685	$ 38,331	$ 38,047	$ 37,137	$ 35,542

9. Debt

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

In thousands	Average interest rate June 30, 2012	Maturity (Year)	June 30, 2012	December 31, 2011	July 2, 2011
Commercial paper	1.22%	2016	$ 6,993	$ 3,497	$
Revolving credit facilities	1.99%	2016	205,600	168,500	262,064
Private placement - fixed rate	5.65%	2013-2017	400,000	400,000	400,000
Private placement - floating rate	1.07%	2013	100,000	205,000	205,000
Public - fixed rate	5.00%	2021	500,000	500,000	500,000
Capital lease obligations	3.72%	2025	14,671	15,788	18,362
Other	3.10%	2012-2016	7,945	16,302	21,481
Total debt			1,235,209	1,309,087	1,406,907
Less: Current maturities			(1,193)	(1,168)	(1,289)
Short-term borrowings			(222)	(3,694)	(21,451)
Long-term debt			$ 1,233,794	$ 1,304,225	$ 1,384,167

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

The fair value of total debt excluding the effect of the interest rate swaps was $1,299.2 million, $1,361.0 million and $1,440.1 million as of June 30, 2012, December 31, 2011 and July 2, 2011, respectively. This fair value measurement of debt is classified as Level 2 in the valuation hierarchy as defined in Note 10, Derivatives and Financial Instruments .

In May 2011, we completed a public offering of $500 million aggregate principal amount of our 5.00% Senior Notes due 2021 (the Notes). The Notes are guaranteed by certain of our wholly-owned domestic subsidiaries that are also guarantors under our primary bank credit facility. We used the net proceeds from the offering of the Notes to finance in part the CPT acquisition.

In April 2011, we entered into a Fourth Amended and Restated Credit Agreement (the Credit Facility). The Credit Facility replaced our previous $800 million revolving credit facility. The Credit Facility creates an unsecured, committed credit facility of up to $700 million, with multi-currency sub facilities to support investments outside the U.S. The Credit Facility expires on April 28, 2016. Borrowings under the Credit Facility currently bear interest at the rate of London Interbank Offered Rate (LIBOR) plus 1.75%. Interest rates and fees on the Credit Facility will vary based on our credit ratings. We used borrowings under the Credit Facility to fund a portion of the CPT acquisition and to fund ongoing operations.

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. Our use of commercial paper as a funding vehicle depends upon the relative interest rates for our commercial paper compared to the cost of borrowing under our Credit Facility. As of June 30, 2012, we had $7.0 million of commercial paper outstanding.

In May 2012, we repaid $105 million of matured private placement debt with borrowings under the Credit Facility.

All of the commercial paper and private placement floating rate debt 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 Credit Facility was $487.4 million as of June 30, 2012, which was not limited by the leverage ratio financial covenant in the credit agreement.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio in the Credit Facility (total consolidated indebtedness, as defined, over consolidated net income before interest, taxes, depreciation, amortization and non-cash compensation expense, as defined) that may not exceed 3.5 to 1.0 as of the last date of each of our fiscal quarters. As of June 30, 2012, we were in compliance with all financial covenants in our debt agreements.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $73.1 million, of which $7.6 million was outstanding at June 30, 2012. Borrowings under these credit facilities bear interest at variable rates.

Debt outstanding at June 30, 2012 matures on a calendar year basis as follows:

In thousands	**Q3 -Q4 2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Contractual debt obligation maturities	$ 246	$ 200,057	$ 17	$	$ 220,218	$ 300,000	$ 500,000	$ 1,220,538
Capital lease obligations	585	1,169	1,169	1,169	1,169	1,170	8,240	14,671

Total maturities	$ 831	$ 201,226	$ 1,186	$ 1,169	$ 221,387	$ 301,170	$ 508,240	$ 1,235,209

As part of the CPT acquisition, we assumed two capital lease obligations related to land and buildings. As of June 30, 2012, December 31, 2011 and July 2, 2011, we recorded cost of $22.0 million, $22.7 million and $25.6 million and accumulated amortization of $5.2 million, $5.1 million and $5.3 million, respectively, all of which are included in *Property, plant and equipment* on the Condensed Consolidated Balance Sheets.

Capital lease obligations consist of total future minimum lease payments of $17.4 million less the imputed interest of $2.7 million as of June 30, 2012.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

10. Derivatives and Financial Instruments

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

Level 1: Valuation is based on observable inputs such as quoted market prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Valuation is based on inputs such as quoted market prices for similar assets or liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

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 principal amounts in order to manage interest rate exposures. The effective date of the swap was August 30, 2007. The swap agreement had a fixed interest rate of 4.89% and expired in May 2012. The fixed interest rate of 4.89% plus the .50% interest rate spread over LIBOR resulted in an effective fixed interest rate of 5.39%. The fair value of the swap was a liability of $1.7 million and $4.2 million at December 31, 2011 and July 2, 2011, respectively, and was recorded in *Accumulated other comprehensive income (loss)* (AOCI) on the Condensed Consolidated Balance Sheets.

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 principal 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 $4.5 million, $6.3 million and $8.3 million at June 30, 2012, December 31, 2011 and July 2, 2011, respectively, and was recorded in AOCI on the Condensed Consolidated Balance Sheets.

The variable to fixed interest rate swaps are designated as and are effective as cash-flow hedges. The fair values of these swaps are recorded as assets or liabilities on the Condensed Consolidated Balance Sheets, with changes in their fair value included in AOCI. Derivative gains and losses included in AOCI are reclassified into earnings at the time the related interest expense is recognized or the settlement of the related commitment occurs. Realized income/expense and amounts to/from swap counterparties are recorded in *Net interest expense* in our Condensed Consolidated Statements of Income and Comprehensive Income (Loss). We realized incremental expense resulting from the swaps of $1.7 million and $2.3 million for the three months ended and $3.9 million and $4.7 million for the six months ended June 30, 2012 and July 2, 2011, respectively.

Failure of one or more of our swap counterparties would result in the loss of any benefit to us of the swap agreement. In this case, we would continue to be obligated to pay the variable interest payments per the underlying debt agreements which are at a variable interest rate of 3 month LIBOR plus 0.60% for $100 million of debt. Additionally, failure of one or all of our swap counterparties would not eliminate our obligation to continue to make payments under our existing swap agreements if we continue to be in a net pay position.

Our interest rate swaps 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 defined by the accounting guidance.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

In April 2011, as part of our planned debt issuance to fund the CPT acquisition, we entered into interest rate swap contracts to hedge movement in interest rates through the expected date of closing for a portion of the expected fixed rate debt offering. The swaps had a notional amount of $400 million with an average interest rate of 3.65%. In May 2011, upon the sale of the Notes, the swaps were terminated at a cost of $11.0 million. Because we used the contracts to hedge future interest payments, the short term and long term portions are recorded in *Prepaid expenses and other current assets* and *Other*, respectively, within the Condensed Consolidated Balance Sheets and will be amortized as interest exposure over the 10 year life of the Notes.

Foreign currency contract

We manage our economic and transaction exposure to certain market-based risks through the use of foreign currency derivative instruments. Our objective in holding derivatives is to reduce the volatility of net earnings and cash flows associated with changes in foreign currency exchange rates.

In March 2011, we entered into a foreign currency option contract to reduce our exposure to fluctuations in the euro related to our 503 million acquisition of CPT. The contract had a notional amount of 286.0 million, a strike price of 1.4375 and matured May 13, 2011. The fair value of the contract was an asset of $2.8 million at April 2, 2011, and was recorded in *Prepaid expenses and other current assets* on the Condensed Consolidated Balance Sheets. In May 2011, we sold the foreign currency option contract for $1.0 million. The net cost of $2.1 million was recorded in *Selling, general and administrative* on the Condensed Consolidated Statements of Income and Comprehensive Income (Loss).

Fair value of financial information

Financial assets and liabilities measured at fair value on a recurring basis were as follows:

Recurring fair value measurements	**As of June 30, 2012**			
In thousands	**Fair value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash-flow hedges	$ (4,519)	$	$ (4,519)	$
Foreign currency contract	(1,425)		(1,425)	
Deferred compensation plan (1)	26,327	26,327		
Total recurring fair value measurements	$ 20,383	$ 26,327	$ (5,944)	$

Recurring fair value measurements	**As of December 31, 2011**			
In thousands	**Fair value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash-flow hedges	$ (8,034)	$	$ (8,034)	$
Foreign currency contract	(99)		(99)	
Deferred compensation plan (1)	22,987	22,987		

Total recurring fair value measurements	$	14,854	$	22,987	$	(8,133)	$	
Nonrecurring fair value measurements								
Goodwill (2)	$	242,800	$		$		$	242,800
Total nonrecurring fair value measurement	$	242,800	$		$		$	242,800

Recurring fair value measurements						**As of July 2, 2011**		
In thousands		**Fair value**		**(Level 1)**		**(Level 2)**		**(Level 3)**
Cash-flow hedges	$	(12,486)	$		$	(12,486)	$	
Foreign currency contract								
Deferred compensation plan (1)		24,967		24,967				
Total recurring fair value measurements	$	12,481	$	24,967	$	(12,486)	$	

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

(1) Deferred compensation plan assets include mutual funds and cash equivalents for payment of certain non-qualified benefits for retired, terminated and active employees. The fair value of these assets was based on quoted market prices in active markets.

(2) In the fourth quarter of 2011, we completed our annual goodwill impairment review. As a result, we recorded a pre-tax non-cash goodwill impairment charge of $200.5 million in our Residential Filtration reporting unit. The fair value of each reporting unit is determined using a discounted cash flow analysis and market approach. Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate. Use of the market approach consists of comparisons to comparable publicly-traded companies that are similar in size and industry. Actual results may differ from those used in our valuations. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation.

11. 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 30, 2012 was 21.9% compared to 30.4% for the six months ended July 2, 2011. Our effective tax rate was lower due to the resolution of U.S. federal and state tax audits, the mix of global earnings and favorable benefits related to the May 2011 acquisition of CPT.

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 was $13.3 million, $26.5 million and $24.8 million at June 30, 2012, December 31, 2011 and July 2, 2011, respectively. We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, on the Condensed Consolidated Statements of Income and Comprehensive Income (Loss), which is consistent with our past practices.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

12. Benefit Plans

Components of net periodic benefit cost were as follows:

	Three months ended			
	Pension benefits		Post-retirement	
In thousands	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Service cost	$ 3,761	$ 3,131	$ 55	$ 45
Interest cost	8,087	8,225	422	472
Expected return on plan assets	(7,844)	(7,964)		
Amortization of prior year service cost (benefit)			(6)	(7)
Recognized net actuarial loss (gains)	2,577	972	(602)	(827)
Net periodic benefit cost (income)	$ 6,581	$ 4,364	$ (131)	$ (317)

	Six months ended			
	Pension benefits		Post-retirement	
In thousands	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Service cost	$ 7,522	$ 6,261	$ 110	$ 90
Interest cost	16,174	16,450	844	944
Expected return on plan assets	(15,688)	(15,927)		
Amortization of prior year service cost (benefit)			(12)	(14)
Recognized net actuarial loss (gains)	5,154	1,943	(1,204)	(1,653)
Net periodic benefit cost (income)	$ 13,162	$ 8,727	$ (262)	$ (633)

13. Business Segments

Financial information by reportable segment is shown below:

	Three months ended	Six months ended

In thousands	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales to external customers				
Water & Fluid Solutions	$ 675,522	$ 631,994	$ 1,262,500	$ 1,147,362
Technical Products	266,003	278,181	537,202	553,086
Consolidated	$ 941,525	$ 910,175	$ 1,799,702	$ 1,700,448
Intersegment sales				
Water & Fluid Solutions	$ (116)	$ 316	$ (43)	$ 771
Technical Products	1,535	1,559	2,894	2,558
Other	(1,419)	(1,875)	(2,851)	(3,329)
Consolidated	$	$	$	$
Operating income (loss)				
Water & Fluid Solutions	$ 91,989	$ 84,521	$ 155,666	$ 141,049
Technical Products	50,624	48,261	101,083	96,348
Other	(24,821)	(23,360)	(54,005)	(41,798)
Consolidated	$ 117,792	$ 109,422	$ 202,744	$ 195,599

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

14. Warranty

The changes in the carrying amount of service and product warranties for the six months ended June 30, 2012, and July 2, 2011, and the year ended December 31, 2011, were as follows:

In thousands	**June 30, 2012**	**December 31, 2011**	**July 2, 2011**
Balance at beginning of the year	$ 29,355	$ 30,050	$ 30,050
Service and product warranty provision	26,579	50,096	26,035
Payments	(24,025)	(53,937)	(25,040)
Acquired	156	3,575	3,623
Translation	(222)	(429)	343
Balance at end of the period	$ 31,843	$ 29,355	$ 35,011

15. Commitments and Contingencies

There have been no further material developments from the disclosures contained in our 2011 Annual Report on Form 10-K.

Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

16. Financial Statements of Subsidiary Guarantors

Certain of the domestic subsidiaries (the Guarantor Subsidiaries) of Pentair, Inc. (the Parent Company), each of which is directly or indirectly wholly-owned by the Parent Company, jointly and severally, and fully and unconditionally, guarantee the Parent Company s indebtedness under the Notes and the Credit Facility. The following supplemental financial information sets forth the Condensed Consolidated Statements of Income and Comprehensive Income (Loss), the Condensed Consolidated Balance Sheets, and the Condensed Consolidated Statements of Cash Flows for the Parent Company, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries, and total consolidated Pentair and subsidiaries.

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

For the three months ended June 30, 2012

In thousands	**Parent company**	**Guarantor subsidiaries**	**Non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
Net sales	$	$ 628,860	$ 392,347	$ (79,682)	$ 941,525
Cost of goods sold		421,655	287,437	(79,695)	629,397
Gross profit		207,205	104,910	13	312,128
Selling, general and administrative	11,905	85,781	75,746	13	173,445
Research and development	245	10,958	9,688		20,891
Operating income (loss)	(12,150)	110,466	19,476		117,792
Earnings from investment in subsidiaries	(62,199)	(527)	600	62,126	
Other (income) expense:					
Equity income of unconsolidated subsidiaries		(636)			(636)
Net interest (income) expense	(27,676)	38,301	5,454		16,079
Income before income taxes and noncontrolling interest	77,725	73,328	13,422	(62,126)	102,349
Provision for income taxes	5,895	23,935	(966)		28,864
Net income before noncontrolling interest	71,830	49,393	14,388	(62,126)	73,485
Noncontrolling interest			1,655		1,655
Net income attributable to Pentair, Inc.	$ 71,830	$ 49,393	$ 12,733	$ (62,126)	$ 71,830
Comprehensive income (loss)	$ (10,207)	$ 22,945	$ (42,332)	$ 19,164	$ (10,430)
Less: Comprehensive income attributable to noncontrolling interest			(223)		(223)
Comprehensive income (loss) attributable to Pentair, Inc.	$ (10,207)	$ 22,945	$ (42,109)	$ 19,164	$ (10,207)

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

For the six months ended June 30, 2012

In thousands	**Parent company**	**Guarantor subsidiaries**	**Non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
Net sales	$	$ 1,186,928	$ 778,524	$ (165,750)	$ 1,799,702
Cost of goods sold		807,713	564,599	(165,457)	1,206,855
Gross profit		379,215	213,925	(293)	592,847
Selling, general and administrative	28,789	174,144	145,815	(293)	348,455
Research and development	468	21,568	19,612		41,648
Operating income (loss)	(29,257)	183,503	48,498		202,744
Earnings from investment in subsidiaries	(115,592)	(1,325)	(364)	117,281	
Other (income) expense:					
Equity income of unconsolidated subsidiaries		(1,544)	(141)		(1,685)
Net interest (income) expense	(56,710)	76,484	11,073		30,847
Income before income taxes and noncontrolling interest	143,045	109,888	37,930	(117,281)	173,582
Provision for income taxes	10,401	24,242	3,300		37,943
Net income before noncontrolling interest	132,644	85,646	34,630	(117,281)	135,639
Noncontrolling interest			2,995		2,995
Net income attributable to Pentair, Inc.	$ 132,644	$ 85,646	$ 31,635	$ (117,281)	$ 132,644
Comprehensive income (loss)	$ 91,788	$ 59,198	$ 16,435	$ (73,613)	$ 93,808
Less: Comprehensive income attributable to noncontrolling interest			2,020		2,020
Comprehensive income (loss) attributable to Pentair, Inc.	$ 91,788	$ 59,198	$ 14,415	$ (73,613)	$ 91,788

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

June 30, 2012

In thousands	**Parent company**	**Guarantor subsidiaries**	**Non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
			Assets		
Current assets					
Cash and cash equivalents	$ 6,135	$ 14,339	$ 40,124	$	$ 60,598
Accounts and notes receivable, net	736	348,556	281,087	(58,235)	572,144
Inventories		241,629	218,410		460,039
Deferred tax assets	130,151	40,698	12,674	(124,624)	58,899
Prepaid expenses and other current assets	44,061	12,282	107,023	(39,021)	124,345
Total current assets	181,083	657,504	659,318	(221,880)	1,276,025
Property, plant and equipment, net	17,953	132,314	230,796		381,063
Other assets					
Investments in/advances to subsidiaries	2,911,498	1,414,260	85,952	(4,411,710)	
Goodwill		1,330,265	924,869		2,255,134
Intangibles, net		243,431	327,072		570,503
Other	65,638	8,931	48,115	(19,140)	103,544
Total other assets	2,977,136	2,996,887	1,386,008	(4,430,850)	2,929,181
Total assets	$ 3,176,172	$ 3,786,705	$ 2,276,122	$ (4,652,730)	$ 4,586,269
		Liabilities and Shareholders Equity			
Current liabilities					
Short-term borrowings	$	$	$ 222	$	$ 222
Current maturities of long-term debt			1,193		1,193
Accounts payable	5,334	188,673	152,549	(58,291)	288,265
Employee compensation and benefits	15,771	19,855	53,888		89,514
Current pension and post-retirement benefits	9,052				9,052
Accrued product claims and warranties	165	24,385	20,385		44,935
Income taxes	35,498	(1,801)	(1,469)		32,228
Accrued rebates and sales incentives		36,212	9,658		45,870
Other current liabilities	30,824	64,436	94,191	(39,014)	150,437
Total current liabilities	96,644	331,760	330,617	(97,305)	661,716
Other liabilities					

Long-term debt	1,245,055	2,417,922	520,265	(2,949,448)	1,233,794
Pension and other retirement compensation	185,513	(10,541)	72,352		247,324
Post-retirement medical and other benefits	17,512	31,549		(19,140)	29,921
Long-term income taxes payable	13,294				13,294
Deferred tax liabilities		229,962	84,835	(124,624)	190,173
Due to (from) affiliates	(442,406)	675,455	601,727	(834,776)	
Other non-current liabilities	58,771	1,323	32,081		92,175
Total liabilities	1,174,383	3,677,430	1,641,877	(4,025,293)	2,468,397
Shareholders equity attributable to Pentair, Inc.	2,001,789	109,275	518,162	(627,437)	2,001,789
Noncontrolling interest			116,083		116,083
Total shareholders equity	2,001,789	109,275	634,245	(627,437)	2,117,872
Total liabilities and shareholders equity	$ 3,176,172	$ 3,786,705	$ 2,276,122	$ (4,652,730)	$ 4,586,269

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the six months ended June 30, 2012

In thousands	Parent company	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
Net cash provided by (used for) operating activities	$ 10,612	$ 108,550	$ 47,599	$	$ 166,761
Investing activities					
Capital expenditures	(1,980)	(14,562)	(14,770)		(31,312)
Proceeds from sale of property and equipment		1,538	3,330		4,868
Acquisitions, net of cash acquired			(19,905)		(19,905)
Other			(3,073)		(3,073)
Net cash provided by (used for) investing activities	(1,980)	(13,024)	(34,418)		(49,422)
Financing activities					
Net short-term borrowings	(3,472)				(3,472)
Proceeds from long-term debt	352,463				352,463
Repayment of long-term debt	(420,810)				(420,810)
Net change in advances to subsidiaries	98,720	(84,519)	(14,201)		
Excess tax benefits from stock-based compensation	1,740				1,740
Stock issued to employees, net of shares withheld	16,163				16,163
Dividends paid	(43,628)		(512)		(44,140)
Net cash provided by (used for) financing activities	1,176	(84,519)	(14,713)		(98,056)
Effect of exchange rate changes on cash and cash equivalents	(6,770)		(1,992)		(8,762)
Change in cash and cash equivalents	3,038	11,007	(3,524)		10,521
Cash and cash equivalents, beginning of period	3,097	3,332	43,648		50,077
Cash and cash equivalents, end of period	$ 6,135	$ 14,339	$ 40,124	$	$ 60,598

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

For the three months ended July 2, 2011

In thousands	Parent company	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
Net sales	$	$ 586,395	$ 398,634	$ (74,854)	$ 910,175
Cost of goods sold		399,270	297,830	(74,661)	622,439
Gross profit		187,125	100,804	(193)	287,736
Selling, general and administrative	6,664	83,632	68,329	(193)	158,432
Research and development	435	10,509	8,938		19,882
Operating (loss) income	(7,099)	92,984	23,537		109,422
Earnings from investment in subsidiaries	(53,988)			53,988	
Other (income) expense:					
Equity income of unconsolidated subsidiaries	(607)		(65)		(672)
Net interest (income) expense	(26,636)	38,107	3,142		14,613
Income before income taxes and noncontrolling interest	74,132	54,877	20,460	(53,988)	95,481
Provision for income taxes	7,420	18,301	1,623		27,344
Net income before noncontrolling interest	66,712	36,576	18,837	(53,988)	68,137
Noncontrolling interest			1,425		1,425
Net income attributable to Pentair, Inc.	$ 66,712	$ 36,576	$ 17,412	$ (53,988)	$ 66,712
Comprehensive income (loss)	$ 90,090	$ 41,534	$ 29,491	$ (68,809)	$ 92,306
Less: Comprehensive income attributable to noncontrolling interest			2,216		2,216
Comprehensive income (loss) attributable to Pentair, Inc.	$ 90,090	$ 41,534	$ 27,275	$ (68,809)	$ 90,090

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income (Loss)

For the six months ended July 2, 2011

In thousands	Parent company	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
Net sales	$	$ 1,101,449	$ 740,212	$ (141,213)	$ 1,700,448
Cost of goods sold		754,831	549,560	(140,738)	1,163,653
Gross profit		346,618	190,652	(475)	536,795
Selling, general and administrative	13,272	168,751	121,644	(475)	303,192
Research and development	605	21,355	16,044		38,004
Operating (loss) income	(13,877)	156,512	52,964		195,599
Earnings from investment in subsidiaries	(91,295)			91,295	
Other (income) expense:					
Equity income of unconsolidated subsidiaries	(783)		(124)		(907)
Net interest (income) expense	(54,016)	76,593	1,361		23,938
Income before income taxes and noncontrolling interest	132,217	79,919	51,727	(91,295)	172,568
Provision for income taxes	14,964	26,782	10,651		52,397
Net income before noncontrolling interest	117,253	53,137	41,076	(91,295)	120,171
Noncontrolling interest			2,918		2,918
Net income attributable to Pentair, Inc.	$ 117,253	$ 53,137	$ 38,158	$ (91,295)	$ 117,253
Comprehensive income (loss)	$ 181,498	$ 63,306	$ 67,508	$ (125,193)	$ 187,119
Less: Comprehensive income attributable to noncontrolling interest			5,621		5,621
Comprehensive income (loss) attributable to Pentair, Inc.	$ 181,498	$ 63,306	$ 61,887	$ (125,193)	$ 181,498

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

July 2, 2011

In thousands	Parent company	Guarantor subsidiaries	Non-guarantor subsidiaries	Eliminations	Consolidated
		Assets			
Current assets					
Cash and cash equivalents	$ 4,836	$ 4,651	$ 59,485	$	$ 68,972
Accounts and notes receivable, net	796	317,365	375,242	(97,996)	595,407
Inventories		203,998	280,797		484,795
Deferred tax assets	113,205	40,363	13,247	(105,982)	60,833
Prepaid expenses and other current assets	8,958	14,973	118,638	(17,937)	124,632
Total current assets	127,795	581,350	847,409	(221,915)	1,334,639
Property, plant and equipment, net	20,172	110,551	279,824		410,547
Other assets					
Investments in/advances to subsidiaries	2,856,562	599,056	686,070	(4,141,688)	
Goodwill		1,471,582	1,101,848		2,573,430
Intangibles, net		217,311	437,597		654,908
Other	75,538	4,821	23,477	(25,048)	78,788
Total other assets	2,932,100	2,292,770	2,248,992	(4,166,736)	3,307,126
Total assets	$ 3,080,067	$ 2,984,671	$ 3,376,225	$ (4,388,651)	$ 5,052,312
		Liabilities and Shareholders Equity			
Current liabilities					
Short-term borrowings	$	$	$ 21,451	$	$ 21,451
Current maturities of long-term debt	2,905		29,220	(30,836)	1,289
Accounts payable	5,781	160,537	247,182	(98,097)	315,403
Employee compensation and benefits	32,294	22,791	53,751		108,836
Current pension and post-retirement benefits	8,733				8,733
Accrued product claims and warranties	12,248	22,574	12,437		47,259
Income taxes	9,106	5,720	6,672		21,498
Accrued rebates and sales incentives		32,219	10,348		42,567
Other current liabilities	14,874	37,558	110,149	(18,215)	144,366

Total current liabilities		85,941		281,399		491,210		(147,148)		711,402
Other liabilities										
Long-term debt		1,265,400		2,417,890		1,033,600		(3,332,723)		1,384,167
Pension and other retirement compensation		136,901		38		80,082				217,021
Post-retirement medical and other benefits		17,679		35,323				(25,048)		27,954
Long-term income taxes payable		23,832								23,832
Deferred tax liabilities		10		213,201		128,192		(105,981)		235,422
Due to (from) affiliates		(743,661)		(261,361)		1,024,935		(19,913)		
Other non-current liabilities		44,611		1,701		39,348				85,660
Total liabilities		830,713		2,688,191		2,797,367		(3,630,813)		2,685,458
Shareholders equity attributable to Pentair, Inc.		2,249,354		296,480		461,358		(757,838)		2,249,354
Noncontrolling interest						117,500				117,500
Total shareholders equity		2,249,354		296,480		578,858		(757,838)		2,366,854
Total liabilities and shareholders equity	$	3,080,067	$	2,984,671	$	3,376,225	$	(4,388,651)	$	5,052,312

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the six months ended July 2, 2011

In thousands	**Parent company**	**Guarantor subsidiaries**	**Non-guarantor subsidiaries**	**Eliminations**	**Consolidated**
Net cash provided by (used for) operating activities	$ (12,254)	$ 190,161	$ (25,296)	$	$ 152,611
Investing activities					
Capital expenditures	(5,368)	(13,584)	(16,269)		(35,221)
Proceeds from sale of property and equipment		42	47		89
Acquisitions, net of cash acquired			(733,105)		(733,105)
Other	902	(783)			119
Net cash provided by (used for) investing activities	(4,466)	(14,325)	(749,327)		(768,118)
Financing activities					
Net short-term borrowings	16,518	(29)	29		16,518
Proceeds from long-term debt	1,320,957				1,320,957
Repayment of long-term debt	(661,422)				(661,422)
Debt issuance costs	(8,721)				(8,721)
Net change in advances to subsidiaries	(670,522)	(174,560)	845,082		
Excess tax benefits from stock-based compensation	1,465				1,465
Stock issued to employees, net of shares withheld	9,551				9,551
Repurchases of common stock	(287)	&			