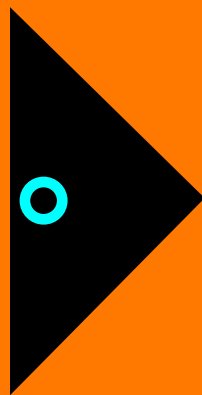


**CREATING
VALUE 360°**



**ORGANIC
GROWTH**

FINANCIAL HIGHLIGHTS

Pentair is a diversified operating company whose Water Technologies Group is principally engaged in providing innovative products and systems used worldwide in the movement, treatment, storage and enjoyment of water. Pentair also participates in electronic technology markets through its Enclosures Group, and professional and do-it-yourself tool markets through its Tools Group. Pentair's 2003 revenues totaled \$2.7 billion, while operating income was \$259.6 million. Headquartered in Minnesota, the company employs 12,000 people in more than 50 locations around the world. Pentair common stock is traded on the New York Stock Exchange under the symbol: PNR.

Pentair, Inc. and Subsidiaries

Years ended December 31

(Dollars in thousands, except per-share data)

	2003	2002	2001	2000	1999
Operations:					
Net sales	\$ 2,724,365	\$2,580,783	\$2,574,080	\$2,705,630	\$2,087,063
Operating income	259,554	235,992	157,761	202,030	201,726
Excluding certain items (1)	259,554	235,992	234,928	263,275	249,183
Net income — continuing operations	144,288	129,902	57,516	81,868	98,088
Excluding certain items (1)	144,288	129,902	119,328	130,240	133,557
Diluted EPS — continuing operations	2.90	2.61	1.17	1.68	2.21
Excluding certain items (1)	2.90	2.61	2.42	2.68	3.02
Net cash provided by operating activities	262,939	270,794	232,334	184,947	144,296
Capital expenditures (2)	43,622	56,696	53,668	68,041	53,671
Free cash flow (3)	219,317	214,098	178,666	116,906	90,625
Number of employees at year end	12,300	11,900	11,700	13,100	12,400
Other financial data:					
Total debt	806,493	735,085	723,706	913,974	1,035,084
Shareholders' equity	1,261,478	1,105,724	1,015,002	1,010,591	990,771
Total debt as a percent of total capital	39.0%	39.9%	41.6%	47.5%	51.1%
Return on average shareholders' equity	11.9%	12.3%	3.2%	5.6%	12.2%
Cash dividends declared per common share	0.82	0.74	0.70	0.66	0.64
Closing stock price	45.70	34.55	36.52	24.19	38.50
Restructuring charge	—	—	41,060	24,789	23,048
Tax effect of restructuring charge	—	—	(11,291)	(8,887)	(8,413)
Diluted EPS effect of restructuring charge	—	—	0.60	0.33	0.34
Goodwill amortization (4)	—	—	36,107	36,456	24,409
Tax effect of goodwill amortization (4)	—	—	(4,064)	(3,986)	(3,575)
Diluted EPS effect of goodwill amortization (4)	—	—	0.65	0.67	0.47
Weighted-average shares — diluted	49,810	49,744	49,297	48,645	44,287

(1) Excludes restructuring charge and goodwill amortization. (2) Includes \$23.0 million for the acquisition of a previously leased facility. (3) Free cash flow defined as net cash provided by operating activities less capital expenditures. (4) Effective January 1, 2002, we adopted SFAS No. 142 which requires goodwill and intangible assets deemed to have an indefinite life no longer be amortized. This standard did not require restatement of prior period amounts to be consistent with the current year presentation. Certain financial information has been presented to show the effect of excluding goodwill amortization for the prior year periods to be comparable with the current year presentation.

Everywhere you look in Pentair, you can see the results of efforts to **build shareholder value**. We have established critical operating disciplines to strengthen our internal processes, reinforce command and control mechanisms, and support the practice of strategy deployment. Overlaying these disciplines, we have applied **five key operating initiatives**, focused on **cash flow, supply management, lean enterprise, talent management, and organic growth**. Collectively, these actions have positioned Pentair for a bold, strategy driven transformation that is



RANDALL J. HOGAN
Chairman and Chief Executive Officer

CREATING VALUE 360°

Certainly, that is something we do well. Consider that Murray Harpole founded Pentair in the mid-'60s and within a decade transformed it into a paper business. Murray and Pentair's second CEO, Gene Nugent, then diversified into industrial products. When Pentair's third CEO, Winslow Buxton, led the divestiture of the paper business in 1995, Pentair transformed into a diversified manufacturing company, with operations in three areas of enterprise: Water, Enclosures and Tools. With each transformation, Pentair reached a higher level of performance and added value for its shareholders.

Today, we are transforming again, with a pending acquisition that could help us build the highest-performing water technologies company in the world.

In February 2004, Pentair entered into an agreement to purchase WICOR, a unit of Wisconsin Energy Corporation, which manufactures water system, filtration, and pool equipment products under the Sta-Rite, SHURflo, and Hypro brands. The company employs 3,500 people in 24 locations worldwide.

When we complete the acquisition of WICOR, Pentair will have a \$2 billion Water Technologies business, comprised of a \$900 million water and wastewater systems business, a global pool and spa equipment business with revenues of roughly \$600 million, and a filtration and purification business of approximately \$500 million. Equally significant, we will become more global in scope, with anticipated international water-related sales of 20 percent, or about \$400 million.

Our acquisition of WICOR underscores our commitment to the water business, which we identified as an attractive market nine years ago. It also strengthens our ability to provide highly innovative, quality products designed to meet the broad needs of customers in filtration and purification, pool and spa, and water and wastewater systems markets. Our Water Technologies business will continue to be a growth engine and driver of shareholder value going forward.

Looking ahead: The best of both businesses

2003 Highlights

- > Earnings per share from continuing operations were \$2.90 in 2003, reflecting an 11 percent gain over 2002;
- > For the seventh year in a row, we achieved record cash flow reaching \$219 million in 2003;
- > We continued to drive operating excellence through our Lean Enterprise and Supply Management practices, which generated savings of more than \$50 million in 2003;
- > Our Enclosures Group recorded its eighth consecutive quarter of margin improvement;
- > Margins have stabilized in our Water Technologies Group and are on an upward trend;
- > We acquired the Everpure commercial water filtration business, significantly strengthening our position in water filtration markets, and purchased the product lines and/or assets of four small water-related businesses;
- > We recorded the sixth consecutive quarter of income gains in our European businesses; and,
- > Return on Invested Capital reached 14.1 percent, 30 basis points higher than in 2002.

When we complete the acquisition of WICOR, we expect to bring together the best of both businesses. For example, the WICOR organization has a very strong customer service capability which we foresee using as a model to strengthen our existing customer service functions. Similarly, Pentair has a proven set of operating disciplines, which we anticipate will be adopted within the WICOR businesses after completion of the transaction.

Our priorities in the acquisition of WICOR are to maintain a long-term focus on growing the



This graphic communicates the value and potential of Pentair's operating initiatives: Cash Flow, Supply Management, PIMS/Lean Enterprise, and Organic Growth. A fifth initiative — Talent Management — is a foundation for the other four.

Pentair is improving its performance by pursuing these initiatives, which drive Return on Invested Capital (ROIC) and Revenue. For example, cash flow from improved margins and reduced working capital increase ROIC. Improved supply management performance and Pentair's lean enterprise initiative (PIMS) contribute to higher ROIC through higher cost productivity. These can also contribute to higher revenue through lower costs, reduced cycle times, and higher service levels, which can mean higher volume. The organic growth initiative drives actions targeted to achieve revenue growth at rates higher than the market.

We have made excellent progress on our five key initiatives: our emphasis on cash flow has become part of our culture; our Supply Management initiative is driving performance gains in all of our businesses; our PIMS program is advancing new concepts across the organization and we are further accelerating its implementation; our commitment to our Talent Management efforts has been redoubled; and we are pursuing clear well-defined plans to build organic growth while remaining alert to acquisition opportunities that have the potential to expand or extend our existing business interests and offer unique value for our shareholders. Pentair's progress in executing its five strategic initiatives is detailed throughout the pages of this annual report.

**CREATING
VALUE
360°**



Susan Gangsei

Ram Ramakrishnan

Steve Cotarin

Bonnie Schneider

ORGANIC GROWTH

To leverage Pentair's improved operating capabilities, product development, and cost productivity efforts, we committed to grow by defining concrete initiatives and driving execution for top-line results. Our goal is to realize organic sales growth of between five percent and eight percent. Exploring new business platforms within our existing operations, expanding product lines, entering new channels, and establishing our businesses in new geographic markets are all avenues we are pursuing in an effort to accelerate Pentair's performance.

Our organic growth initiatives continue to show tangible results. For example, the Enclosures Group performed exceptionally well in the midst of 2003's soft markets by pursuing several attractive market segments having unique requirements for specialized enclosure products. This initiative has already led to seven new million-dollar customers in medical, security, defense, and food and beverage markets. These contributed to organic growth of six percent in the fourth quarter of 2003 versus the same period in the prior year.

Our Water Technologies Group achieved five percent organic growth in 2003, driven by expansion of the international water businesses, new pool and spa equipment products, a broader Water Treatment distributor base and new residential Water Treatment products. With the shift in Pentair's business mix resulting from the planned acquisition of WICOR, we expect to further accelerate our organic growth in Water Technologies in the years ahead.

In Tools, an array of new products — including the 890 Router line, the new 12-inch Delta miter saws, various private-label products, and new nailers and reciprocating saws — contributed to a fourth quarter 2003 organic sales gain of three percent compared to the same period in the prior year.

Pentair continues to pursue clear, well-defined plans to build organic sales growth while remaining alert to acquisition opportunities that have the potential to expand or extend our existing business interests and offer high value for our shareholders.



Rodney Jackson

Gary Witt



Gary Anderson

Bob McCory

Bob Brown

Ning Hong

Bob McKone

Linling Gan

Dave Roland

Steve Pilla

On average, more than 50 percent of Pentair's costs are attributable to goods and services purchased from outside suppliers. The goal of Pentair's Supply Management initiative is to lower the total cost

of ownership for these goods and services by

more than five percent annually through the strategic selection, purchase, and transport of materials and services. This is accomplished by greater integration of Pentair buying across business units; developing and working with suppliers in low cost regions; improving efficiency in the use of goods and services; and working with suppliers to lower their costs.

In 2003, Pentair's Supply Management initiative realized incremental savings of more than \$50 million, which is a savings of approximately four percent of our total spend. With upward pressure on commodity prices, the supply management initiatives will be increasingly critical to Pentair's performance in the coming years.

SUPPLY MANAGEMENT

business, and to act quickly in the first 18 months to capture an expected \$30 million in synergies primarily from operations, including sourcing, supply chain, and manufacturing. Material cost savings will play the most important role as we consolidate global sourcing and supply management initiatives. Finally, we expect to benefit from balance sheet and cash flow improvements, including one-time working capital reductions of some \$40 million.

Our integration planning process — which is based on our own proven approaches, industry best practices, and dedicated resources — is well underway. In this process, the similarities between Pentair and WICOR are both an advantage and an opportunity. We intend to hit the ground running once the transaction is complete. More importantly, both companies' emphasis on values and integrity gives us confidence that we will be successful in our integration. As in past integrations, our first priority will be to satisfy every one of our current customers and deliver on our current business commitments. Throughout the integration, we will keep the following fundamentals firmly in our minds:

1) We will maintain focus on our values by:

- > Treating people with respect;
- > Maintaining absolute integrity; and
- > Communicating openly and often.

2) This is an acquisition in which we will:

- > Maintain a long-term focus on growing the business; and
- > Act quickly to capture some \$30 million in synergies.

3) We will retain the best of both businesses by:

- > Developing a shared vision and common culture;
- > Identifying and retaining key talent and capabilities at all levels; and
- > Strengthening the brands, products, and channel relationships of both businesses.

4) We will take advantage of what we consider to be a transformational opportunity by:

- > Putting speed before perfection;
- > By maintaining momentum and securing ongoing business; and by
- > Thinking big.



Enclosures: Near-flawless execution of operating initiatives

Although the Water Technologies Group will be our largest business, we remain committed to a diverse business mix. This diversity has provided a measure of performance consistency across business and economic cycles. In keeping with this desire for a diverse business mix, Pentair's Enclosures business will continue to be a key element of Pentair's portfolio.

The value of the Enclosures business today is seen clearly in its recent history. In the second half of 2001, a dramatic drop in industrial capital spending, commercial construction spending, and technology spending led to declining sales. The sustained contraction of the market forced the Enclosures Group to focus on strengthening its cost position, a process that was achieved by pursuing Pentair's five operating initiatives. As the initiatives began to take effect, the downward sales trend flattened and margins began to climb. Since that time, the Enclosures Group has recorded eight consecutive quarters of improved margin performance.

Today, the Enclosures Group sets the standard for performance in many of Pentair's five operating initiatives. Consider the following:

- > Focusing on total cost productivity, the Pentair Integrated Management System (PIMS) and Supply Management have become the foundation of the Group's operating structure. Productivity generated through PIMS has enabled the Enclosures Group to reduce structural costs — including a reduction of six facilities over the past three years — while increasing responsiveness to the customer. With raw material as the Group's largest component of cost, the Group's supply management expertise has generated significant overall savings.
- > Increased productivity, improving inventory turns and a philosophy of “creativity before capital” have also produced dramatic results in cash flow as the group provided cash in excess of 150 percent of net operating profit after taxes for the second year in a row.
- > The Enclosures Group has served as a proving ground for strong, talented leaders. Many of these leaders, having demonstrated their skills in the turnaround of the Enclosures Group, have been transplanted to other Pentair groups where they share best practices ▶

Pentair has launched a new, more proactive talent management process as a central part of driving a high performance culture. The talent management initiative has grown to encompass a variety of programs and best practices. These include an executive development program for high potential managers, individual development planning processes, cross-group/business rotations and assignments, and an executive compensation program which more closely links rewards to the strategic priorities of the business. The human resources function has instituted an improved process to integrate acquisitions comprising cross-company integration management teams, diagnostic tools designed to assess the compatibility of organizational cultures, an organization design model, and a battery of performance targets and communication protocols. A highlight of the 2003 talent management activity was the

Company's first all-employee opinion survey, the results of which

emphasize the fact that Pentair has been — and continues to be — an organization characterized by integrity and guided by shared values.

TALENT MANAGEMENT



Tom Carman

Roma Anderson

Linda Evans

Fred Koury

PIMS

LEAN
ENTERPRISE

The Pentair Integrated Management System (PIMS) is Pentair's application of Lean Enterprise concepts. The essence of PIMS is the unending quest to eliminate waste and variability from every business process, with the ultimate goal of providing world-class quality, delivery, and service to customers at the lowest possible cost.

Rolled-out company wide in early 2001, PIMS activities have reduced floor space, improved quality, accelerated on-time delivery, increased inventory turns, and cut lead-times. These gains, in turn, are reflected in productivity improvements, increased sales per employee, and higher margins. In Enclosures, for example, an order for 30 stainless steel built-to-order cabinets used to require about eight to 10 weeks to complete. After applying PIMS techniques to streamline material flow, improve automated design tools, and shrink the size of manufacturing cells, the Group can now complete the same order within three days and at a reduced cost.

PIMS is also being executed in functions not associated with the manufacturing process. In 2003, a group of Pentair Finance employees conducted a company wide PIMS event designed to improve the complex month-end accounting close process. The event involved gathering financial activities data from various sources, constructing the activity flow, analyzing the process, and reconciling for error and oversight. The event delivered 18 process improvement opportunities, a two-day reduction in the closing cycle, the elimination of three work steps, and the implementation of four new quality-control steps. Pentair's goal is to realize five percent total cost productivity improvement on core business cost each year through PIMS activities.



Paul Whalen

Tracy Theisen

Ed Smith

Serban Simian

Sheronda Rivers

Don Westman

Amy Risley

Heidi Desormey

Lisa Beck

Michelle Kissel

Jorge Rodriguez

and apply their knowledge and experience. Meanwhile, their protégés advance within the Enclosures organization and continue to build upon their predecessors' work.

- > Enclosures Group sales declines were reversed by expansion into growing markets including medical, data networking, security, defense, and food and beverage. This was further supported by targeting Original Equipment Manufacturers (OEMs).

With competition hurt by three years of soft markets, the Enclosures Group has capitalized on its strengths — the largest distribution network in North America, the broadest geographic presence, and the highest brand recognition in the industry — to build market share. As markets continue to recover, the Group's outstanding lean enterprise programs and tight cost structure is expected to deliver substantial benefit to the Group's bottom line results.

Opportunity to examine the future of tools

For many years, and particularly during the 1990s, the Tools business was Pentair's key driver of sales and profit growth. It was, and still is, a good business equipped with an excellent reputation built on a long history of innovation and quality.

The Group has made significant progress in its performance over the last three years, driving our five operating initiatives. A strengthened Tools management team continues to effect cost reductions and productivity improvements while supporting a stream of new products offered under the strong core brand names of Porter-Cable, Delta, and FLEX, and others offered by the DeVilbiss Air Power Company and Oldham Saw businesses. Aided by its established Asian manufacturing base, these excellent businesses and their strong brands have bright prospects ahead.


In recent years, however, our Water Technologies Group has taken the leading sales and profit-generating position among our businesses. Now, with the pending WICOR transaction, we have an ideal opportunity to examine the future of our Tools business. ▶

Accordingly, we have engaged Goldman Sachs to assist us as we explore strategic alternatives for our Tools Group. This action is entirely consistent with our desire to expand our presence and core strengths in the water industry. Indeed, we are confident that the Tools Group will continue to improve its performance, strengthen its brands, produce quality products, maintain good relationships with customers and vendors, and generate good profits in the future. We believe that it is in the best interests of our shareholders, as well as the employees and customers of our Tools business, to pursue strategic alternatives for this business.

That said, Pentair will continue to support, invest in, and operate the Tools businesses throughout the decision-making process, just as we have for the last 22 years. As always, our employees will continue their focus on improving performance and meeting the needs of their customers.

We anticipate that a final decision regarding strategic alternatives for the Tools business will be made sometime before the fourth quarter of 2004.

Solid results from a growing water technologies group

The Water Technologies arena has been a focus for expansion for nearly a decade. The most recent acquisition in water was completed on December 31, 2003, when Pentair purchased water filtration products manufacturer, Everpure, Inc., of Northbrook, Illinois, from United States Filter Corporation, a unit of Veolia Environnement. Everpure is a leading global provider of water filtration products and services principally for the commercial sector, and complements Pentair's Plymouth Products business, which manufactures water filtration products used principally in residential applications. Together with Plymouth Products, Everpure gives Pentair a solid position in the global water filtration market. Everpure's strong brand name, industry leading process technology, rapid product development capabilities, and broad footprint in North America, Europe, and Asia, are expected to build our strengths while accelerating the long-term growth and profitability of our business. 

CASH FLOW

Pentair's cash flow initiative was an early success that quickly became a key element of the Company's operating routine and business culture. In the last four years, we have generated three times more cash than in the previous four years. This resulted in a significant decrease in interest expense. The resulting lower debt levels have allowed us to fund the expansion of our business, both in terms of strategic investments for growth in our existing businesses, as well as in acquisitions. In 2003, we again exceeded our free cash flow target of \$200 million, generating a total of \$219 million, or cash EPS of \$4.40. Pentair's success in generating cash comes from a disciplined focus on the basics. First, cash flow has increased as our margins have improved.

Secondly, cash flow has increased as our Balance Sheet productivity has improved, giving us a significant reduction in Working Capital. As we progressed through 2003, our Accounts Receivable and Inventory ratios improved.

Our PIMS activities have also made Pentair far more capital-efficient, reducing our level of annual capital expenditures. We expect that we will continue to make progress, both in terms of margin improvement and Working Capital reduction.



Steve Ragaller

Mike Meyer

Jeff Grund

Dave Harrison

Karen Durant

Acquisitions aside, Water Technologies continues to improve its performance on all fronts. For 2003, Water Technologies Group sales were up nearly 14 percent, representing five percent organic growth, excluding acquisitions and the impact of currency translation. The Group recorded margins of 13.6 percent, equal to 2002 levels and reversing a decline related to Asian investments and unfavorable retail mix in 2001 and 2002. Margin improvements have been driven by the continued success of our PIMS and supply chain initiatives, particularly in the pump business. These strong fundamentals give our Water Technologies business good momentum that we can carry into the WICOR integration.


Upholding our commitment to values and growth

While the integration of WICOR will be a major task and the sole focus of a dedicated team of people, we will continue to pursue our plans to grow and enhance value for our shareholders. Our immediate priorities in addition to the WICOR acquisition are to complete the integration of the Everpure acquisition. We also will complete our review of strategic alternatives for the Tools Group. Most important, we will continue driving the five operating initiatives — Cash Flow, Supply Management, PIMS/Lean Enterprise, Talent Management, and Organic Growth — across the company.

As we move forward, we remain committed to our focus on values and long-term growth. Water technology will transform the company, while we continue to grow our Enclosures business.

These are good times for Pentair. And while change is in the air, it is change that we confidently embrace. We always have.

Sincerely,



RANDALL J. HOGAN
Chairman and Chief Executive Officer

CODE OF BUSINESS CONDUCT

Pentair, Inc. chooses to be an independent, publicly owned company, and this statement is to guide the development of its organization and the conduct of its business affairs. Our businesses are to be managed in keeping with the highest business, ethical, moral and patriotic standards applicable to a publicly owned corporation. Our businesses are to be operated so that we are respected for our actions by shareholders, employees, plant communities, customers, suppliers, investors and all other stakeholders. Our approach to business is intended to make Pentair, Inc. a top-performing company managed and operated to provide long-term benefits to all constituents.

- Balanced consideration will be given to the interests of shareholders and employees in managing the corporation.
- The corporation staff will be kept to minimum size, and subsidiary operations will be as autonomous as practicable.
- A strong work ethic is expected of all constituents. Good performance will be freely recognized. Poor performance will not be condoned.
- We will strive to: operate with the highest regard for the environment; eliminate environmental risks from the workplace; and minimize emissions and waste.
- The dignity and self-worth of all persons involved with the Company will be respected.
- Safety in the workplace and in work practices shall be maximized.
- We will encourage, aid and promote the physical and mental health and wellness of employees and their families.
- Qualified employees will be given priority for internal employment opportunities.
- Standards of ethics, integrity and work practices shall apply equally to all employees.
- We will honor agreements, meet obligations timely, maintain the spirit and intent of our commitments, and value good relationships.
- Hiring emphasis will recognize ability, compatibility and integrity, and will not discriminate on the basis of sex, religion, race or age.
 - We will promote open and candid communications with emphasis on informality and on conversational exchanges.

OPERATING GUIDELINES

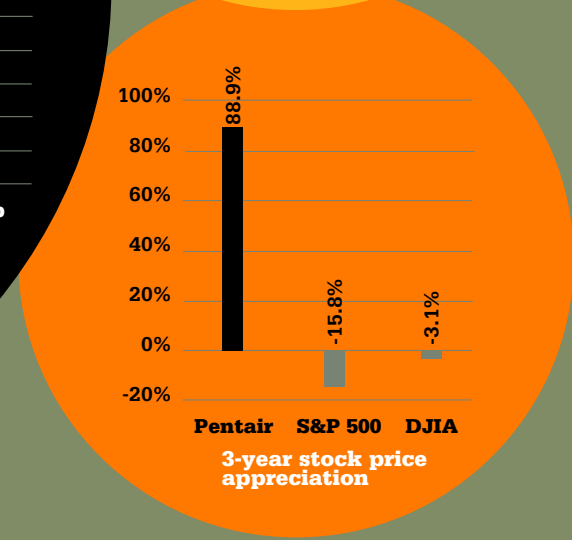
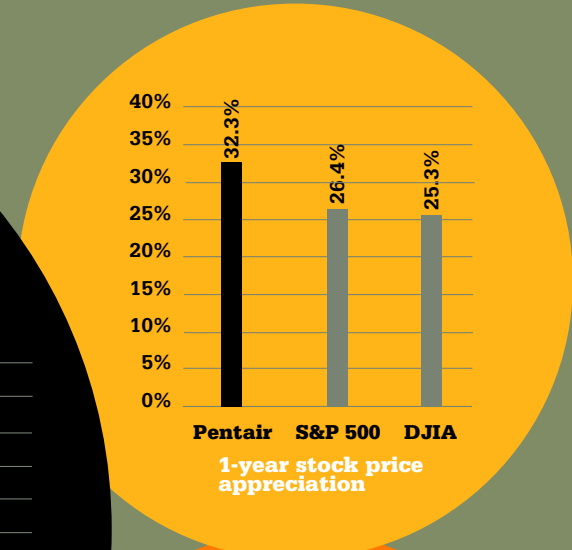
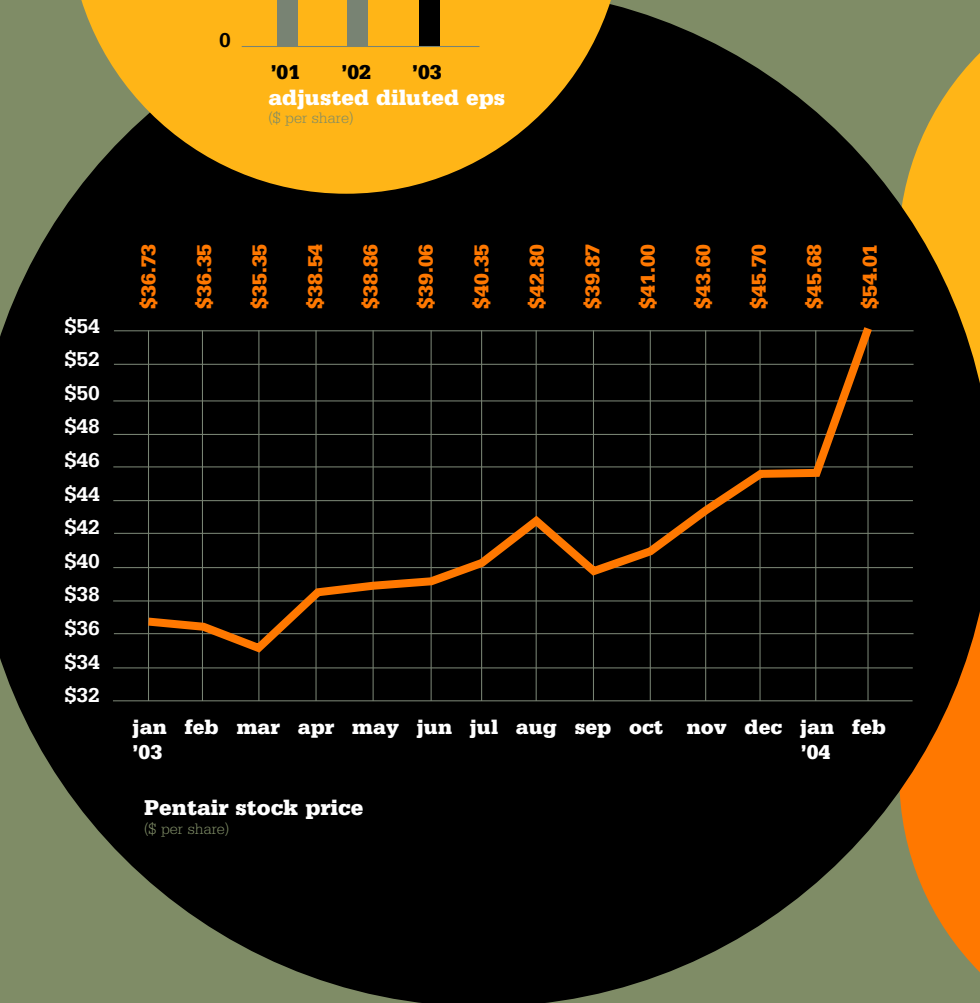
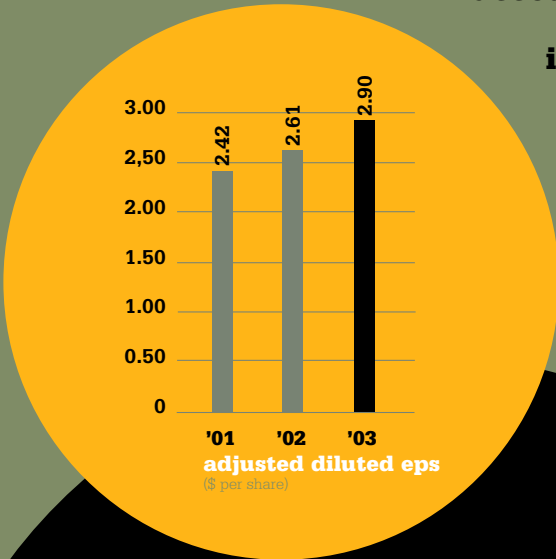
	offerings	brands	applications	market segments
Pentair Pump Group	Products range from light duty household utility pumps to massive, high-flow turbine pumps designed for municipal water applications.	Myers, Fairbanks Morse, Shur-Dri, Hydromatic, Aurora, Verti-line, Layne & Bowler, Water Ace.	Pumps for residential and municipal wells; water treatment and wastewater solids handling; and fire protection.	Residential, commercial, municipal applications for sump, well and irrigation, fire, commercial HVAC, waste and water treatment, general industrial.
Pentair Water Treatment	Control valves; fiberglass pressure vessels; storage tanks; residential, commercial, and industrial filtration housings; replaceable cartridge elements; and drinking water filtration system components.	Fleck, SIATA, CodeLine, Structural, WellMate, American Plumber, Armor, Everpure, Pentek.	Products used in the manufacture of water softeners and filtration, deionization, desalination systems, and residential water filtration.	Residential, Commercial, Industrial, Municipal.
Pentair Pool Products	A complete line of pool/spa equipment and accessories including pumps, filters, valves, heaters, automatic controls, lights, automatic cleaners, commercial deck equipment, pool tile/finishing materials, cleaning/maintenance equipment, spa/jetted tub hydrotherapy fittings and pool/spa accessories.	Pentair Pool Products, National Pool Tile, Pentair Aquatics, Letro Products, Kreepy Krauly, Intellitouch.	Pool and spa construction, maintenance, repair, and operations.	Residential, Commercial, and Municipal markets for in-ground and above-ground pools, Spas, and jetted tubs.
Hoffman Enclosures	Enclosures, cabinets, data networking and communication, structural support, and thermal management solutions to protect electrical and electronic control components, and instruments.	Hoffman	Housing and protection of electrical and electronic controls, instruments, and components.	Automotive; petroleum and petrochemical; food; machine tool, and other industrial manufacturing customers; defense and security; and commercial construction.
Pentair Enclosures Europe	Metallic enclosures consisting of 19-inch racks, subracks and cabinets as structural parts for electrical and electronic devices/installations, as well as integrated solutions with power supplies, backplanes and thermal management products.	Schroff	Structural parts/housings for electrical and electronic devices/ installations.	Telecom, computer networks, data communication, industrial controls, transport, test and measurement, medical, defense, and aerospace.
Pentair Electronic Packaging	Standard, modified, and custom enclosures and cabinets; cases, subracks, backplanes, turn-key, and custom microcomputer systems; and high-volume stamped chassis and assemblies.	Schroff, Taunus, Pentair Electronic Packaging.	Housing and storage of electrical and electronic controls, instruments, and components.	Electronics; datacom and telecom; medical; general industrial; security and defense; test and measurement.
Delta	A full line of benchtop and stationary woodworking machines, and a complete line of accessories.	Delta, Delta Shopmaster, Delta Industrial, and Biesemeyer.	Woodworking, cabinet and furniture making, commercial and residential construction.	DIY/homeshop craftsmen; residential, commercial, and industrial construction; remodelers; cabinet manufacturers, case goods, and furniture makers.
Porter-Cable	Portable electric tools and related accessories; pneumatic nailers; and cordless tools including saws, routers, sanders, grinders, drills, etc.	Porter-Cable and FLEX.	Commercial and residential construction, professional woodworking and DIY.	Contractor, remodeler, DIYer, woodworker; furniture manufacturer, industrial fabrication and maintenance.
DeVilbiss Air Power Company	Pressure washers, air compressors, generators, pneumatic tools.	Air America, Ex-Cell, Power Back, Charge Air Pro, 2 by 4, and a variety of private label brands.	Commercial, contractor, and DIY activities.	Homeowners; professional building contractors; and automotive, woodworking, and industrial markets.
Tools Accessories Platform	Router bits, circular saw blades, and related accessories.	Oldham, Viper, Hickory, United States Saw, Delta, and Porter-Cable.	Commercial and residential construction and DIY activities.	Contractor, remodeler, DIYer, woodworker, furniture manufacturer, industry.

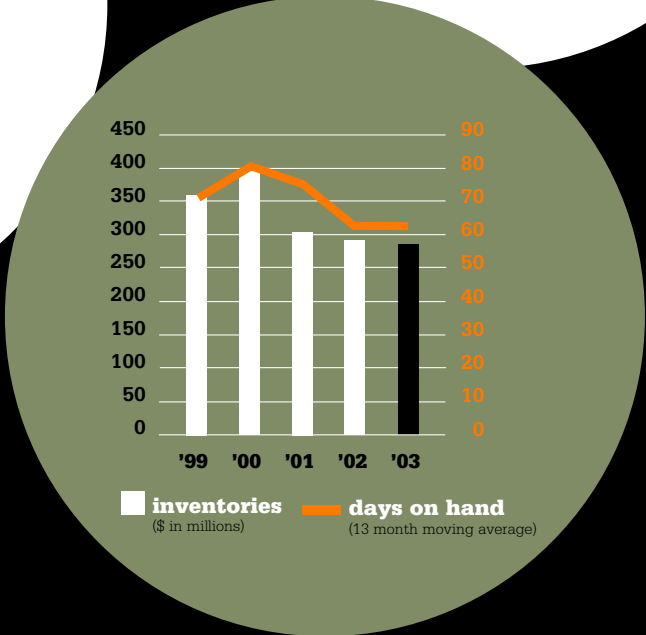
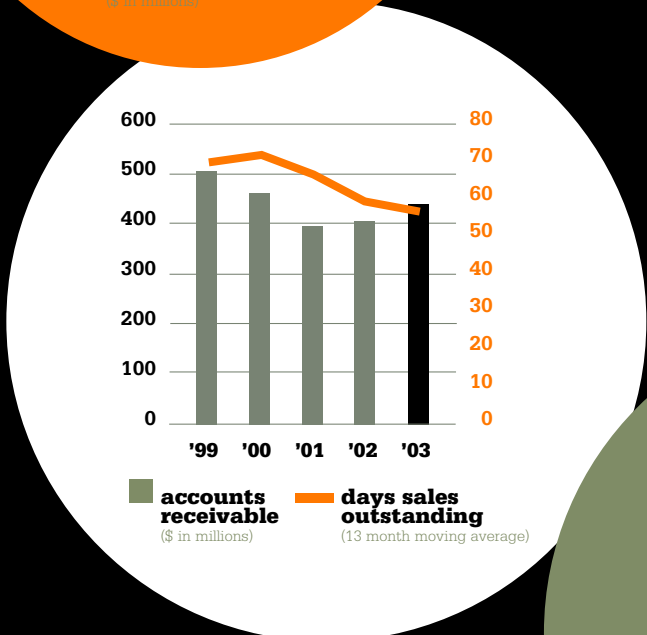
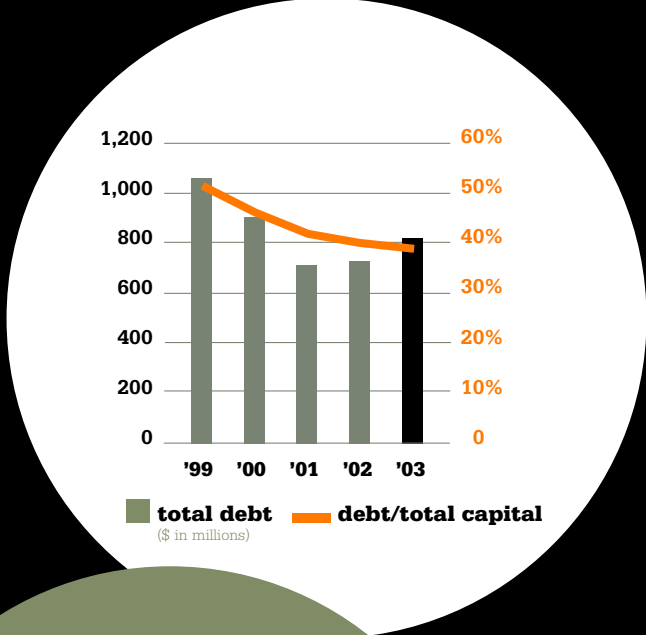
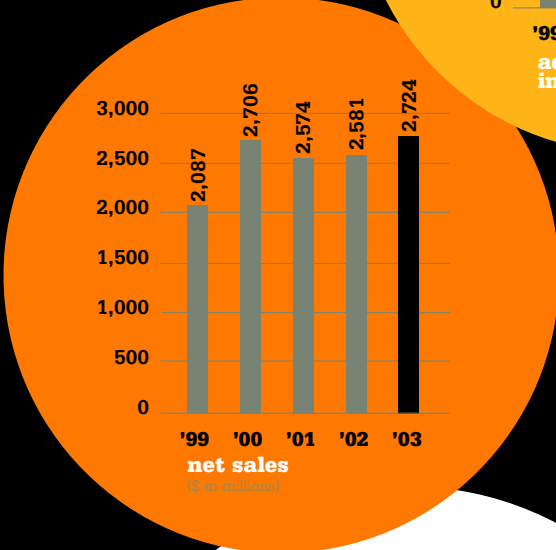
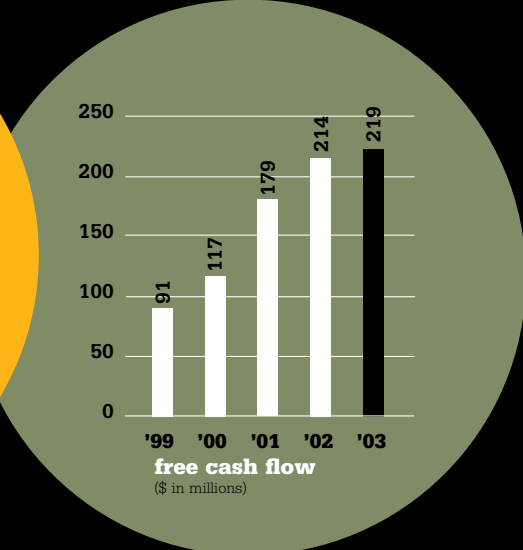
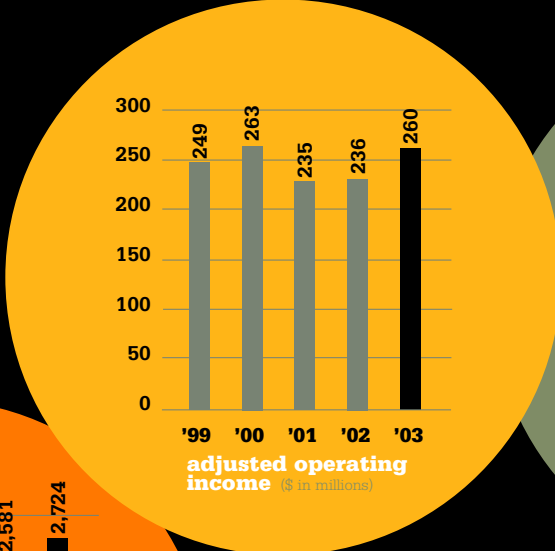
customers	competitors	strengths	locations	web
Home centers, wholesale and retail distributors, plumbing wholesalers, supply houses, contractors, direct.	ITT, Grundfos, Flowserve, Gormann Rupp, Wayne.	One of the top 10 pump businesses in the world, and the second largest water and wastewater pump business in North America.	Ashland, Ohio; North Aurora, Illinois; Kansas City, Kansas; Shanghai, China.	aurorapump.com fairbanksmorsepump.com hydromatic.com femyers.com waterace.com shur-dri.com
Independent dealers, vertically integrated dealers, plumbing supply houses, OEMs.	Cuno, Pall, Osmonics/GE.	Holds the number one position in the worldwide water treatment control valve and fiberglass pressure vessel market, leading supplier of filtration products to residential, commercial, industrial markets.	Brookfield and Sheboygan, Wisconsin; Chardon, Ohio; Northbrook, Illinois; Buc and Colombes, France; Herentals, Belgium; New Delhi and Goa, India; Florence and Milan, Italy; Billingham, England; Shanghai, China.	pentairwater.com fleckcontrols.com structural.com wellmate.com everpure.com
Distributors, OEMs, builders, commercial contractors, pool service and specialty pool retailers.	Hayward, Astral.	The world's largest pool and spa equipment manufacturer.	Sanford, North Carolina; Moorpark, El Monte, and Anaheim, California; Lagrangeville, New York; Johannesburg, South Africa; Milan, Italy.	nptgonline.com paragonaquatics.com pentairpool.com
Industrial/Electrical MRO, OEM, electrical and data (on-premise) contractors.	Rittal, Saginaw, Hammond, Wiegmann, Cooper B-Line, local machine shops.	The leading North American producer of electrical enclosures; depth and breadth of product offering; low cost manufacturing; strong brand; and premier electrical distribution.	Mt. Sterling, Kentucky; Anoka, Minnesota; Reynosa and Mexico City, Mexico; Scarborough, Ontario, Canada; Boituva, Brazil; Chinyokaha, Japan; Singapore.	hoffmanonline.com
OEMs, Motorola, Ericsson, Siemens, Intel and electronic components distributors.	Rittal, Knuerr, APW, Elma.	Worldwide brand recognition; Schroff pioneered the market for standardized 19-inch electronics packaging; product expertise; unit-cost efficiencies, integration capabilities.	Germany, United Kingdom, France, Sweden, Italy, Poland, China, Japan, and Singapore.	schroff.de schroff.fr schroff.uk schroff.se
OEMs, Telecom, Datacom, Motorola, Lucent, Dell, HP, Distributors.	APW, Rittal, regional competitors.	Platform-based full-line solutions, speed and flexibility, global reach, supply chain management.	Warwick, Rhode Island; Des Plaines, Illinois; Reynosa, Mexico; Boituva, Brazil; Qingdao, China.	pentair-ep.com
Home Depot, Lowe's, Sears, industrial tool distributors, mail order/e-commerce, hardware stores.	DeWalt, Makita, Ryobi, Grizzly, Skil, Powermatic, Emerson, and Jet.	Strong brand name — one of the most respected names in the business; Asian manufacturing capability.	Mesa, Arizona; Jackson, Tennessee; Ontario, Canada; Taichung, Taiwan; Qingdao and Suzhou, China.	deltawoodworking.com
Home Depot, Lowe's, Sears, industrial tool distributors, Mail order/e-commerce, hardware stores, lumber and building supply.	Skil/Bosch, Hitachi, Black & Decker/DeWalt, Stanley Works, Makita, and Milwaukee.	Professional brand name recognition, innovation, and best-in-class quality and value.	Jackson, Tennessee; Steinheim, Germany; Ontario, Canada.	porter-cable.com
Home Depot, Lowe's, Sears, Sam's Club, regional home centers, farm & agriculture stores, hardware, and STAFDA/Industrial.	Campbell-Hausfeld, Coleman, Karcher, Generac, DeWalt, Ingersoll Rand, and Florida Pneumatic.	Innovative new products, high quality, performance, and value has made DeVilbiss a leader in air compressor and pressure washer markets, and a strong player in generators and air tool markets.	Jackson, Tennessee; Decatur, Arkansas.	devap.com
Home Depot, Lowe's, Sears; lumber yards; industrial tool distributors; mail order/e-commerce; hardware stores.	DeWalt/Black & Decker, American Tool, Vermont American, Freud, various tool manufacturers.	Oldham Saw holds a leading share in the router bit category, and a second place position in the circular saw blade category in North America.	West Jefferson, North Carolina.	oldham-usa.com

full-circle financials

Pentair focuses on delivering full circle financial value, striving to optimize the balance between growth (sales), quality of earnings (income), and leverage (balance sheet productivity). Financial results are delivered within a framework of financial controls, forthright communication, and ethical conduct in all aspects of business, and especially so in matters related to finance and accounting practices. We will continue to operate

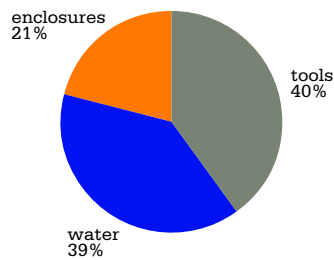
in accordance with our long-standing Code of Business Conduct and strive to deliver ever-improving financials, thereby delivering added value to our shareholders.



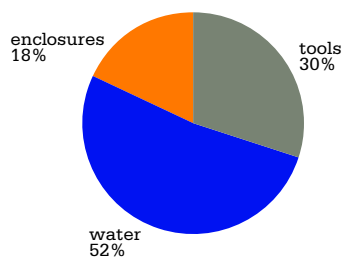


financial overview

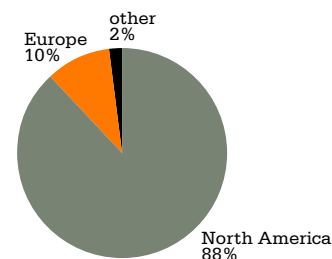
We are a diversified industrial manufacturer operating in three segments: Water, Enclosures, and Tools. Our Water segment manufactures and markets essential products for the transport and treatment of water and wastewater and generates approximately 39 percent of revenues. Our Enclosures segment accounts for approximately 21 percent of revenues, and designs, manufactures, and markets standard, modified and custom enclosures that protect sensitive controls and components for markets that include data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense, and general electronics. Our Tools segment manufactures and markets a wide range of power tools under several brand names generating approximately 40 percent of total revenues.



2003 net sales by business segment
2003 = \$2.7 billion



2003 operating income by business segment



2003 geographic sales from point of origin

We refer to a non-GAAP financial measure, adjusted operating income (GAAP operating income excluding goodwill amortization and restructuring charges), because we believe it allows investors and management to meaningfully compare our operating performance between different periods.

water

(Dollars in thousands)	2003	2002	2001	2000	1999
Net sales	\$ 1,060,303	\$ 932,420	\$ 882,615	\$ 898,247	\$ 579,236
<i>Sales growth %</i>	13.7%	5.6%	(1.7%)	55.1%	32.0%
Operating income as reported	\$ 143,962	\$ 126,559	\$ 109,792	\$ 120,732	\$ 73,362
<i>Add back goodwill amortization</i>	—	—	18,560	18,074	12,714
Operating income excluding goodwill amortization	\$ 143,962	\$ 126,559	\$ 128,352	\$ 138,806	\$ 86,076
<i>% of net sales</i>	13.6%	13.6%	14.5%	15.5%	14.9%
<i>Percentage point change</i>	0.0	(0.9)	(1.0)	0.6	0.3

Net sales

The 13.7 percent increase in Water segment sales in 2003 from 2002 was primarily due to:

- > sales attributable to the fourth quarter 2002 acquisition of Plymouth Products;
- > higher sales of residential pumps and pool equipment;
- > an increase in European sales, particularly commercial valves, water conditioning and pool products;
- > continued growth in the developing markets of Asia and India; and
- > favorable foreign currency effects.

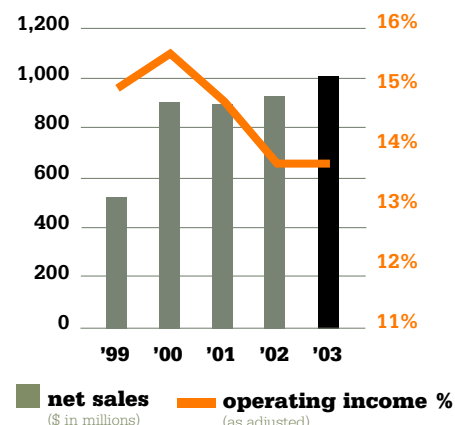
The 5.6 percent increase in Water segment sales in 2002 from 2001 was primarily due to:

- > higher pump sales, with most of the growth coming from residential retail and municipal products;
- > the fourth quarter 2002 acquisition of Plymouth Products; and
- > higher sales volume in our pool and spa equipment business.

Operating income

The unchanged operating income percentage in the Water segment as a percent of net sales in 2003 from 2002 was primarily due to:

- > benefits from the continued success of our Pentair Integrated Management System (PIMS) and supply management initiatives;
- > increased volume in our expanding markets of Europe, Asia, and India; and
- > favorable foreign currency effects.



These benefits were offset by:

- > increased selling and R&D expense;
- > higher insurance costs in 2003; and
- > price and volume declines related to our reverse osmosis product line and costs associated with downsizing the Chardon, Ohio operation and moving most of this product line to our factory in India.

The 0.9 percentage point decline in Water segment operating income as a percent of net sales in 2002 from 2001 was primarily due to:

- > unfavorable product mix as a result of higher sales of lower margin residential retail pumps;
- > higher costs at certain pump and water treatment businesses; and
- > price declines, primarily related to large international water treatment projects for reverse osmosis housings.

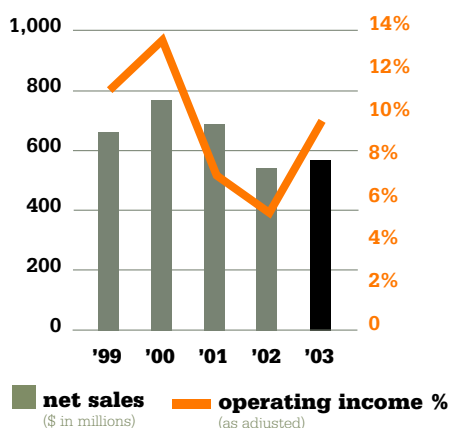
enclosures

(Dollars in thousands)	2003	2002	2001	2000	1999
Net sales	\$ 582,684	\$ 556,032	\$ 689,820	\$ 777,725	\$ 657,500
<i>Sales growth %</i>	4.8%	(19.4%)	(11.3%)	18.3%	12.0%
Operating income as reported	\$ 51,094	\$ 29,942	\$ 1,857	\$ 96,268	\$ 46,346
Add back goodwill amortization	—	—	8,273	9,097	8,413
Add back restructuring charge	—	—	39,382	(1,625)	16,743
Operating income excluding goodwill amortization and restructuring charge	\$ 51,094	\$ 29,942	\$ 49,512	\$ 103,740	\$ 71,502
<i>% of net sales</i>	8.8%	5.4%	7.2%	13.3%	10.9%
<i>Percentage point change</i>	3.4	(1.8)	(6.1)	2.4	2.1

Net sales

The 4.8 percent increase in Enclosures segment sales in 2003 from 2002 was primarily due to:

- > favorable foreign currency effects; and
- > share growth in targeted markets such as networking, security, and medical.



The 19.4 percent decline in Enclosures segment sales in 2002 from 2001 was primarily due to:

- > lower sales volume reflecting severely reduced capital spending in the industrial market; and
- > over-capacity and weak demand in the datacom and telecom markets.

These decreases were partially offset by:

- > favorable foreign currency effects.

Operating income

The 3.4 percentage point increase in Enclosures segment operating income as a percent of net sales in 2003 from 2002 was primarily due to:

- > efficiencies resulting from our continued implementation of PIMS and stronger sourcing practices;
- > volume-related efficiencies and improved product mix; and
- > shifting more production to lower-cost labor markets.

These increases were partially offset by:

- > expenses related to downsizing.

The 1.8 percentage point decline in Enclosures segment operating income as a percent of net sales in 2002 from 2001 was primarily due to:

- > lower sales volume due to continuing significant industry-wide sales declines, resulting in unabsorbed overhead despite reductions in overall cost structure.

The decline was partially offset by:

- > savings realized as part of our restructuring program, net of one-time nonrecurring costs.

tools

(Dollars in thousands)	2003	2002	2001	2000	1999
Net sales	\$ 1,081,378	\$ 1,092,331	\$ 1,001,645	\$ 1,029,658	\$ 850,327
<i>Sales growth %</i>	(1.0%)	9.1%	(2.7%)	21.1%	32.0%
Operating income as reported	\$ 81,774	\$ 97,598	\$ 63,232	\$ 23,751	\$ 100,680
Add back goodwill amortization	—	—	9,274	9,285	3,282
Add back restructuring charge	—	—	—	5,396	6,305
Operating income excluding goodwill amortization and restructuring charge	\$ 81,774	\$ 97,598	\$ 72,506	\$ 38,432	\$ 110,267
<i>% of net sales</i>	7.6%	8.9%	7.2%	3.7%	13.0%
<i>Percentage point change</i>	(1.3)	1.7	3.5	(9.3)	0.5

Net sales

The 1.0 percent decrease in Tools segment sales in 2003 from 2002 was primarily due to:

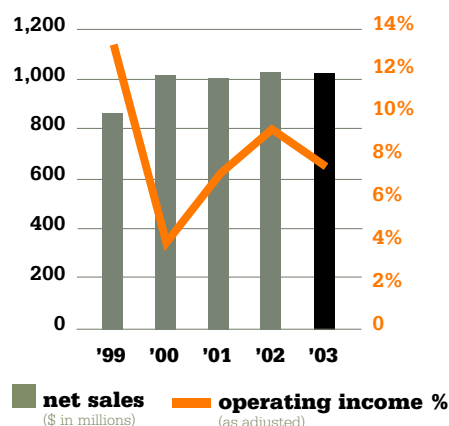
- > lower organic sales volume due to the effects of a slow economy and competitive marketplace; and
- > a decline in average selling prices due to increased promotional pricing.

These decreases were partially offset by:

- > sales attributable to the fourth quarter 2002 acquisition of Oldham Saw.

The 9.1 percent increase in Tools segment sales in 2002 from 2001 was primarily due to:

- > higher sales volume in our DeVilbiss Air Power Company business, particularly for pressure washers;
- > higher sales volume in our Delta business as a result of our new sub-branding strategy through the creation of Delta Shopmaster™ and Delta Industrial™ brands. The Delta Shopmaster™ brand is targeted toward the entry-level do-it-yourselfer and the Delta Industrial™ brand is targeted toward the professional craftsman; and
- > the fourth quarter 2002 acquisition of Oldham Saw.



These increases were partially offset by:

- > declines in average selling prices due to the introduction of lower price point products for the Delta Shopmaster™ brand and heavy second-half 2002 promotional pricing in a more competitive marketplace.

Operating income

The 1.3 percentage point decrease in Tools segment operating income as a percent of net sales in 2003 from 2002 was primarily due to:

- > a decline in average selling prices due to increased promotional pricing;
- > lower sales volumes;
- > higher ocean transportation costs and higher raw material prices;
- > anticipated settlement and defense costs for a class action suit launched against the compressor industry for alleged mislabeling; and
- > expenses related to capacity downsizing.

These decreases were partially offset by:

- > cost savings as a result of our supply management and PIMS initiatives; and
- > lower distribution and outbound freight costs.

The 1.7 percentage point increase in Tools segment operating income as a percent of net sales in 2002 from 2001 was primarily due to:

- > higher sales volume, partially offset by price declines due to promotional discounting;
- > cost savings as a result of our supply management and PIMS; and
- > the fourth quarter 2002 acquisition of Oldham Saw.

financial reports

Report of management

We are responsible for the integrity and objectivity of the financial information presented in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include certain amounts based on our best estimates and judgment.

We are also responsible for establishing and maintaining our accounting systems and related internal controls, which are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded. These systems and controls are reviewed by the internal auditors. In addition, our code of conduct states that our affairs are to be conducted under the highest ethical standards.

The independent auditors provide an independent review of the financial statements and the fairness of the information presented therein. The Audit and Finance Committee of the Board of Directors, composed solely of outside directors, meets regularly with us, our internal auditors, and our independent auditors to review audit activities, internal controls, and other accounting, reporting, and financial matters. Both the independent auditors and internal auditors have unrestricted access to the Audit and Finance Committee.



RANDALL J. HOGAN
Chairman and Chief Executive Officer
Golden Valley, Minnesota
March 4, 2004



DAVID D. HARRISON
Executive Vice President and Chief Financial Officer

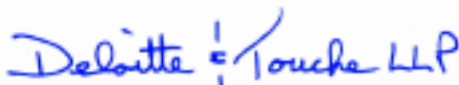
Independent auditors' report on condensed financial information

Board of Directors and Shareholders of Pentair, Inc.

We have audited the consolidated balance sheets of Pentair, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2003. Such consolidated financial statements and our report thereon dated March 4, 2004, expressing an unqualified opinion (which are not included herein), are included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2003. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed balance sheets [page 26] as of December 31, 2003 and 2002, and the related condensed consolidated statements of income [page 25] and cash flows [page 27] for each of the three years in the period ended December 31, 2003, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

As discussed in Note 1 to the consolidated financial statements included in the Annual Report on Form 10-K, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.



Deloitte & Touche LLP
Minneapolis, Minnesota
March 4, 2004

condensed consolidated statements of income

Pentair, Inc. and Subsidiaries

Years ended December 31

(Dollars in thousands, except per-share data)

	2003	2002	2001
Net sales	\$ 2,724,365	\$ 2,580,783	\$ 2,574,080
Cost of goods sold	2,045,327	1,965,076	1,967,945
Gross profit	679,038	615,707	606,135
Selling, general and administrative	375,586	342,806	377,098
Research and development	43,898	36,909	31,171
Restructuring charge	—	—	40,105
Operating income	259,554	235,992	157,761
Interest income	654	793	960
Interest expense	41,590	44,338	62,448
Other expense, write-off of investment	—	—	2,985
Income from continuing operations before income taxes	218,618	192,447	93,288
Provision for income taxes	74,330	62,545	35,772
Income from continuing operations	144,288	129,902	57,516
Loss from discontinued operations, net of tax	(2,936)	—	(24,647)
Net income	\$ 141,352	\$ 129,902	\$ 32,869

Earnings per common share:

Basic

Continuing operations	\$ 2.95	\$ 2.64	\$ 1.17
Discontinued operations	(0.06)	—	(0.50)
Basic earnings per common share	\$ 2.89	\$ 2.64	\$ 0.67

Diluted

Continuing operations	\$ 2.90	\$ 2.61	\$ 1.17
Discontinued operations	(0.06)	—	(0.50)
Diluted earnings per common share	\$ 2.84	\$ 2.61	\$ 0.67

Weighted average common shares outstanding

Basic	48,938	49,235	49,047
Diluted	49,810	49,744	49,297

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in Pentair's Annual Report on Form 10-K.

condensed consolidated balance sheets

Pentair, Inc. and Subsidiaries

December 31

(Dollars in thousands, except per-share data)

2003

2002

Assets:

Current assets

Cash and cash equivalents	\$ 47,989	\$ 39,648
Accounts and notes receivable, net of allowance of \$15,359 and \$16,676, respectively	420,403	403,793
Inventories	285,577	293,202
Deferred tax assets	50,989	55,234
Prepaid expenses and other current assets	24,493	18,931
Total current assets	829,451	810,808

Property, plant and equipment, net

343,550 351,316

Other assets

Goodwill	1,373,549	1,218,341
Intangibles, net	108,118	19,194
Other	126,009	114,791
Total other assets	1,607,676	1,352,326
Total assets	\$ 2,780,677	\$ 2,514,450

Liabilities and Shareholders' Equity:

Current liabilities

Short-term borrowings	\$ —	\$ 686
Current maturities of long-term debt	73,631	60,488
Accounts payable	170,077	171,709
Employee compensation and benefits	84,587	84,965
Accrued product claims and warranties	37,148	36,855
Income taxes	13,198	12,071
Other current liabilities	118,810	109,426
Total current liabilities	497,451	476,200

Long-term debt

732,862 673,911

Pension and other retirement compensation

101,704 124,301

Postretirement medical and other benefits

42,134 42,815

Deferred tax liabilities

78,532 31,728

Other noncurrent liabilities

66,516 59,771

Total liabilities

1,519,199 1,408,726

Commitments and contingencies

Shareholders' equity

Common shares par value \$0.16 2/3;

49,502,542 and 49,222,450 shares issued and outstanding, respectively **8,250** 8,204

Additional paid-in capital

492,619 482,695

Retained earnings

760,966 660,108

Unearned restricted stock compensation

(6,189) (5,138)

Accumulated other comprehensive loss

5,832 (40,145)

Total shareholders' equity

1,261,478 1,105,724

Total liabilities and shareholders' equity

\$ 2,780,677 **\$ 2,514,450**

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in Pentair's Annual Report on Form 10-K.

condensed consolidated statements of cash flows

Pentair, Inc. and Subsidiaries

Years ended December 31

(Dollars in thousands, except per-share data)

	2003	2002	2001
Operating activities:			
Net income	\$ 141,352	\$ 129,902	\$ 32,869
Depreciation	61,129	58,833	62,674
Other amortization	4,514	5,869	5,568
Goodwill amortization	—	—	36,107
Deferred income taxes	33,134	29,677	(4,916)
Restructuring charge	—	—	41,060
Stock compensation	306	—	—
Other expense, write-off of investment	—	—	2,985
Loss from discontinued operations	2,936	—	24,647
Changes in assets and liabilities, net of effects of business acquisitions and dispositions:			
Accounts and notes receivable	9,400	25,535	70,057
Inventories	25,782	29,717	87,840
Prepaid expenses and other current assets	(2,779)	8,147	383
Accounts payable	(15,530)	(18,356)	(68,488)
Employee compensation and benefits	(6,423)	6,289	(12,919)
Accrued product claims and warranties	(1,012)	(1,704)	(4,468)
Income taxes	2,349	5,863	9,942
Other current liabilities	3,135	(18,384)	(51,025)
Pension and post-retirement benefits	5,621	(4,787)	16,816
Other assets and liabilities	(179)	10,667	(6,950)
Net cash provided by continuing operations	263,735	267,268	242,182
Net cash provided by (used for) discontinued operations	(796)	3,526	(9,848)
Net cash provided by operating activities	262,939	270,794	232,334
Investing activities:			
Capital expenditures	(43,622)	(33,744)	(53,668)
Acquisition of previously leased facility	—	(22,952)	—
Proceeds (payments) from sale of businesses	(2,400)	1,744	70,100
Acquisitions, net of cash acquired	(229,094)	(170,270)	(1,937)
Equity investments	(5,294)	(9,383)	(25,438)
Other	48	(7)	(186)
Net cash used for investing activities	(280,362)	(234,612)	(11,129)
Financing activities:			
Net short-term borrowings (repayments)	(873)	665	(108,336)
Proceeds from long-term debt	780,857	462,599	2,811
Repayment of long-term debt	(709,886)	(468,161)	(84,525)
Proceeds from exercise of stock options	5,795	2,730	2,913
Repurchases of common stock	(1,589)	—	(1,458)
Dividends paid	(40,494)	(36,420)	(34,327)
Net cash provided by (used for) financing activities	33,810	(38,587)	(222,922)
Effect of exchange rate changes on cash	(8,046)	2,209	6,617
Change in cash and cash equivalents	8,341	(196)	4,900
Cash and cash equivalents, beginning of period	39,648	39,844	34,944
Cash and cash equivalents, end of period	\$ 47,989	\$39,648	\$39,844

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in Pentair's Annual Report on Form 10-K.

selected financial data

Pentair, Inc. and Subsidiaries

Years ended December 31

(Dollars in thousands, except per-share data)

	2003	2002	2001
Statement of operations:			
Net sales	\$ 2,724,365	\$ 2,580,783	\$ 2,574,080
<i>Sales growth</i>	5.6%	0.3%	(4.9%)
Cost of goods sold	2,045,327	1,965,076	1,967,945
Gross profit	679,038	615,707	606,135
<i>Margin %</i>	24.9%	23.9%	23.5%
Selling, general and administrative	375,586	342,806	377,098
Research and development	43,898	36,909	31,171
Restructuring charge	—	—	40,105
Operating income	259,554	235,992	157,761
<i>Margin %</i>	9.5%	9.1%	6.1%
<i>Margin % excluding restructuring charge</i>	9.5%	9.1%	7.7%
Gain on sale of business	—	—	—
Net interest expense	40,936	43,545	61,488
Other expense, write-off of investment	—	—	2,985
Provision for income taxes	74,330	62,545	35,772
Income from continuing operations	144,288	129,902	57,516
Income (loss) from discontinued operations, net of tax	(2,936)	—	(24,647)
Cumulative effect of accounting change, net of tax	—	—	—
Net income	141,352	129,902	32,869
Preferred dividends	—	—	—
Income available to common shareholders	141,352	129,902	32,869
Common share data:			
Basic EPS — continuing operations	2.95	2.64	1.17
Diluted EPS — continuing operations	2.90	2.61	1.17
Cash dividends declared per common share	0.82	0.74	0.70
Stock dividends declared per common share	—	—	—
Market value per share (December 31)	45.70	34.55	36.52
Balance sheet data:			
Accounts Receivable	420,403	403,793	398,579
Inventories	285,577	293,202	300,923
Property and equipment, net	343,550	351,316	329,500
Goodwill, net	1,373,549	1,218,341	1,088,206
Total assets	2,780,677	2,514,450	2,372,198
Total debt	806,493	735,805	723,706
Shareholders' equity	1,261,478	1,105,724	1,015,002
Other data:			
Debt/total capital	39.0%	39.9%	41.6%
Depreciation	61,129	58,833	62,674
Goodwill amortization	—	—	36,107
Tax effect of goodwill amortization (1)	—	—	(4,064)
Diluted EPS effect of goodwill amortization (1)	—	—	0.65
Other amortization	4,514	5,869	5,568
Net cash provided by operating activities	262,939	270,794	232,334
Capital expenditures	43,622	56,696	53,668
Employees of continuing operations	12,300	11,900	11,700
Days sales outstanding (DSO) (13 mo moving avg)	56	59	65
Days inventory on hand (DOH) (13 mo moving avg)	63	63	75

(1) Effective January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This new standard requires that goodwill and intangible assets deemed to have an indefinite life no longer be amortized. This standard did not require restatement of prior period amounts to be consistent with the current year presentation and therefore we have not made

Years ended December 31

	2000	1999	1998	1997	1996
	\$ 2,705,630	\$ 2,087,063	\$ 1,669,865	\$ 1,593,181	\$ 1,384,512
	29.6%	25.0%	4.8%	15.1%	
	2,051,515	1,529,419	1,227,427	1,189,777	1,032,343
	654,115	557,644	442,438	403,404	352,169
	24.2%	26.7%	26.5%	25.3%	25.4%
	396,105	310,700	261,302	241,062	216,775
	31,191	22,170	16,894	16,236	11,989
	24,789	23,048	—	—	—
	202,030	201,726	164,242	146,106	123,405
	7.5%	9.7%	9.8%	9.2%	8.9%
	8.4%	10.8%	9.8%	9.2%	8.9%
	—	—	—	10,313	—
	74,899	43,582	19,855	19,729	16,849
	—	—	—	—	—
	45,263	60,056	53,667	58,089	42,860
	81,868	98,088	90,720	78,601	63,696
	(24,759)	5,221	16,120	12,999	10,813
	(1,222)	—	—	—	—
	55,887	103,309	106,840	91,600	74,509
	—	—	(4,267)	(4,867)	(4,928)
	55,887	103,309	102,573	86,733	69,581
	1.68	2.24	2.25	1.94	1.57
	1.68	2.21	2.09	1.81	1.47
	0.66	0.64	0.60	0.54	0.50
	—	—	—	—	100%
	24.19	38.50	39.81	35.94	32.25
	468,081	502,235	331,672	314,289	246,436
	392,495	352,830	216,084	215,957	206,957
	352,984	367,783	271,389	261,486	270,071
	1,141,102	1,164,056	448,893	416,605	287,417
	2,644,025	2,706,516	1,484,207	1,413,494	1,236,694
	913,974	1,035,084	340,721	328,538	312,817
	1,010,591	990,771	707,628	627,653	560,751
	47.5%	51.1%	32.5%	34.4%	35.8%
	59,897	56,081	46,571	47,577	42,620
	36,456	24,409	13,912	13,571	11,395
	(3,986)	(3,575)	(2,520)	(2,321)	(1,576)
	0.67	0.47	0.26	0.25	0.22
	2,675	1,578	1,571	1,669	1,400
	184,947	144,296	120,872	107,896	104,479
	68,041	53,671	43,335	69,364	67,216
	13,100	12,400	8,800	8,800	8,000
	71	68	68	65	64
	80	71	75	80	85

any adjustments to historical financial information presented. However, we have provided supplemental tax and diluted EPS information as we believe it is necessary to the understanding of our financial trend.

corporate leadership

Corporate officers

RANDALL J. HOGAN
Chairman and Chief Executive Officer

DAVID D. HARRISON
Executive Vice President and Chief Financial Officer

RICHARD J. CATHCART
President and Chief Operating Officer, Water Technologies

MICHAEL V. SCHROCK
President and Chief Operating Officer, Enclosures

CHARLES M. BROWN
President and Chief Operating Officer, Tools

LOUIS L. AINSWORTH
Senior Vice President, General Counsel, and Secretary

FREDERICK S. KOURY
Senior Vice President, Human Resources

KAREN A. DURANT
Vice President, Finance and Controller

Board of directors

GLYNIS A. BRYAN ⁽¹⁾, 45
Chief Financial Officer of APL Logistics

BARBARA B. GROGAN ^(2,3,4), 56
Chairman and President of Western Industrial Contractors, Inc.

CHARLES A. HAGGERTY ^(2,3,4), 62
Chief Executive Officer of LeConte Associates, LLC

RANDALL J. HOGAN ⁽⁴⁾, 48
Chairman and Chief Executive Officer of Pentair, Inc.

DAVID A. JONES ⁽¹⁾, 54
Chairman and Chief Executive Officer of Rayovac Corporation

STUART MAITLAND ⁽²⁾, 58
Former Director of Manufacturing Operations for Vehicle Operations, Ford Motor Company

AUGUSTO MEOZZI ^(1,4), 64
Member of the Supervisory Board of the ISOLA Group

WILLIAM T. MONAHAN ^(2, 3), 56
Chairman of the Board and Chief Executive Officer of Imation Corp.

KAREN E. WELKE ^(1,4), 59
Former Group Vice President for Medical Markets, 3M Company

⁽¹⁾ Audit and Finance Committee

⁽²⁾ Compensation Committee

⁽³⁾ Governance Committee

⁽⁴⁾ International Committee

David A. Jones

Karen Welke

Glynis Bryan

Augusto Meozzi



Stuart Maitland

Randall J. Hogan

Charles A. Haggerty

Barbara B. Grogan

William T. Monahan



common stock data

Pentair common stock is listed on the New York Stock Exchange under the symbol PNR. The price information below represents closing sale prices reported in the *Wall Street Journal* for the calendar year 2003. There were 3,980 shareholder accounts on December 31, 2003.

Price range and dividends of common stock (\$)

2003	High	Low	Div.	Close	2002	High	Low	Div.	Close
1Q	37.55	32.80	.19	36.47	1Q	45.14	32.38	0.18	44.97
2Q	41.90	35.35	.21	39.38	2Q	49.61	42.34	0.18	48.08
3Q	43.53	38.58	.21	39.44	3Q	47.11	36.84	0.19	37.79
4Q	46.57	36.85	.21	45.70	4Q	38.31	29.34	0.19	34.55

Common dividends Dividends are \$0.21 per share paid quarterly in February, May, August, and November. Pentair has now paid 112 consecutive quarterly dividends.

Dividend reinvestment Pentair has established a Dividend Reinvestment Plan. This plan enables shareholders to automatically reinvest Pentair dividends and to invest up to an additional \$3,000 per calendar quarter in Pentair common stock, with any costs of purchasing the shares paid by the Company. The plan brochure and enrollment cards are available from the Company or Wells Fargo Bank, N.A.

Direct book entry registration Pentair offers its shareholders the opportunity to participate in the Company's Direct Book Entry Registration service. Direct Book Entry is an uncertificated form of stock ownership that provides protection against loss, theft, and inadvertent destruction of stock certificate(s), while reducing administrative costs. Shareholders can contact Wells Fargo Bank, N.A. for more information.

Shareholder account information available online Shareholders of record can view their shareholder account information online at <http://www.wellsfargo.com>. For assistance, shareholders can contact Wells Fargo Bank, N.A.

Annual meeting The annual meeting of shareholders will be held in the Auditorium at Thrivent Financial (formerly Lutheran Brotherhood), 625 Fourth Avenue South, Minneapolis, Minnesota, at 10:00 a.m. on April 30, 2004. Management and directors encourage all shareholders to attend the annual meeting.

Form 10-K available A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be provided on request. Written requests should be directed to Pentair Investor Relations. All Pentair reports and filings are available on line at <http://www.pentair.com> under the Financial Information section.

Forward-looking statements This summary annual report contains forward-looking statements that are based on current expectations, estimates, and projections. These statements are not guarantees of future performance and involve risks and uncertainties, which are difficult to predict. Important factors that could cause actual results to differ materially include changes in industry conditions, changes in business strategies, governmental and regulatory policies, general economic conditions, and changes in operating factors.

Trademarks, copyrights, and trade names Certain trademarks, copyrights, and trade names are owned or licensed by Pentair, Inc. or its wholly owned subsidiaries. Other trademarks, copyrights, and trade names may also appear in this report. It is not Pentair's intent to imply that these are its own.

Registrar, stock transfer, and dividend paying agent Wells Fargo Bank, N.A., P.O. Box 64854, St. Paul, MN 55164-0854, 1-877-536-3554, http://www.wellsfargo.com/com/shareowner_services

Certified public accountants Deloitte & Touche LLP, Minneapolis, MN 55402

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2003

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-11625

Pentair, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0907434

(I.R.S. Employer Identification number)

5500 Wayzata Boulevard, Suite 800,
Golden Valley, Minnesota

(Address of principal executive offices)

55416-1259

(Zip code)

Registrant's telephone number, including area code: (763) 545-1730

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Shares, \$0.16 2/3 par value

New York Stock Exchange

Common Share Purchase Rights

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes No

Aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of \$39.38 per share as reported on the New York Stock Exchange on June 28, 2003 (the last day of Registrant's most recently completed second quarter): \$1,813,237,884.

The number of shares outstanding of Registrant's only class of common stock on February 18, 2004, was 49,834,191.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the company's definitive proxy statement for its annual meeting to be held on April 30, 2004, are incorporated by reference in this Form 10-K in response to Part III, Item 10, 11, 12 and 14.

Pentair, Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2003

PART I

	<u>Page</u>
ITEM 1. Business	3
ITEM 2. Properties	9
ITEM 3. Legal Proceedings	9
ITEM 4. Submission of Matters to a Vote of Security Holders	12

PART II

ITEM 5. Market for Registrant's Common Stock and Related Security Holder Matters	13
ITEM 6. Selected Financial Data	14
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk	33
ITEM 8. Financial Statements and Supplementary Data	34
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	74
ITEM 9A. Controls and Procedures	74

PART III

ITEM 10. Directors and Executive Officers of the Registrant	74
ITEM 11. Executive Compensation	74
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	75
ITEM 13. Certain Relationships and Related Transactions	75
ITEM 14. Principal Accountant Fees and Services	75

PART IV

ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	76
Signatures	

PART I

ITEM 1. BUSINESS

Unless otherwise indicated, all references to “Pentair,” “we,” “our,” and “us” refer to Pentair, Inc., a Minnesota corporation (incorporated in 1966), and its subsidiaries.

Overview

We are a focused diversified industrial manufacturer operating in three segments:

- Water;
- Enclosures; and
- Tools.

Our Water segment manufactures and markets essential products and systems used in the movement, treatment, storage and enjoyment of water and generates approximately 39 percent of total revenues. Trade names within the Water segment include Myers[®], Fairbanks Morse[®], Hydromatic[®], Aurora[®], Water Ace[®], Shur-Dri[®], Fleck[®], SIATA[™], CodeLine[™], Structural[™], WellMate[™], Verti-line[™], Layne & Bowler[™], American Plumber[™], Armor[™], National Pool Tile[™], Rainbow Lifeguard[™], Paragon Aquatics[™], Kreepy Krauly[™], Pentair Pool Products[™], PENTEK[™], and Everpure[®].

Our Enclosures segment accounts for approximately 21 percent of total revenues, and designs, manufactures, and markets standard, modified and custom enclosures that protect sensitive controls and components for markets that include industrial machinery, data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense, and general electronics. The segment goes to market under four primary trade names: Hoffman[®], Schroff[®], Pentair Electronic Packaging[™], and Taunus[™].

Our Tools segment designs, manufactures and markets a wide range of power tools under several well established trade names — Porter-Cable[™], Delta[®], Delta Shopmaster[™], Delta Industrial[™], Biesemeyer[®], FLEX[™], Ex-Cell[™], Air America[®], Charge Air Pro[®], 2 x 4[™], Oldham[®], Contractor SuperDuty[™], Viper[®], Hickory Woodworking[®], and The Woodworker’s Choice[®], — generating approximately 40 percent of total revenues.

Pentair Strategy

Our basic operating strategies include:

- long-term growth in sales, income and cash flows, driven by internal growth initiatives and acquisitions;
- ongoing cost containment and productivity improvement driven by lean enterprise initiatives, which we call the Pentair Integrated Management System (PIMS), coupled with strong supply management;
- new product development and consistent product enhancement;
- multi-channel distribution; and
- portfolio management of our businesses.

Pentair Financial Objectives

Our long-term financial objectives are:

- Sales growth: 5-8% organic, plus acquisitions
- Achieve benchmark financial performance:
 - EBIT Margin 12+%
 - Net Return on Sales (NROS) 7.5%
 - Return on Invested Capital (ROIC) 20%
 - Free Cash Flow (FCF) 100% conversion of net income
 - EPS Growth 10+% (sales growth plus margin expansion)
 - Debt/Total Capital 40%
- Achieve 5% annual productivity improvement on core business cost

RECENT DEVELOPMENTS

Growth of our business

We continually look at each of our businesses to determine whether they fit with our evolving strategic vision. Our primary focus is on businesses with strong fundamentals and growth opportunities. We seek growth through product and service innovation, market expansion, and acquisitions. Acquisitions have played an important part in the growth of our business and will continue to be an important part of our growth in the future.

Recent announcements

On February 3, 2004, we entered into an agreement to acquire WICOR Inc. ("WICOR"), a unit of Wisconsin Energy Corporation, Milwaukee, Wisconsin. WICOR, which manufactures water system, filtration, and pool equipment products under the Sta-Rite, SHURflo, and Hypro brands, generated sales of approximately \$746 million in 2003. The \$850 million cash transaction, which we plan to complete in the second or third quarter of 2004, is subject to satisfaction of customary conditions and regulatory approvals. As part of the transaction, we will assume approximately \$24 million of WICOR debt.

We also announced that we have engaged Goldman Sachs to explore strategic alternatives for our Tools Segment, comprising the Porter-Cable, Delta, DeVilbiss Air Power Company, Oldham Saw, and Flex businesses with \$1,081.4 million in net sales in 2003.

Acquisitions

On December 31, 2003, we acquired all of the common stock of Everpure, Inc. (Everpure), from United States Filter Corporation, a unit of Veolia Environnement, for \$217.3 million in cash, including cash acquired of \$5.5 million. Everpure is a manufacturer of water filtration products for the commercial and consumer sectors and they generated approximately \$60 million in net sales for fiscal 2003.

During 2003, we also completed four product line acquisitions in our Water segment for total consideration of \$21.4 million in cash: Hydrotamp Manufacturing Co., Inc., Letro Products, Inc. and certain assets of TwinPumps, Inc. and K&M Plastics, Inc.

We have invested approximately \$30.5 million to acquire a 49 percent interest in the joint venture operations of a long time Asian supplier for bench top power tools, of which \$5.6 million was paid in 2003, \$4.5 million was paid in 2002 and \$20.4 million was paid in 2001. In February 2004, we signed a letter of intent to purchase the remaining 51 percent ownership interest in this supplier.

On September 30, 2002, we acquired all of the common stock of Plymouth Products, Inc. and affiliated entities (Plymouth Products) from USF Consumer & Commercial WaterGroup, a unit of Vivendi Environnement (now Veolia Environnement), for total consideration of \$121.7 million in cash, including debt assumed of \$1.2 million. Plymouth Products is a manufacturer of water filtration products used in residential, commercial, and industrial applications. In the first quarter of 2003, we received \$1.9 million in purchase price adjustments relative to our fourth quarter 2002 acquisition of Plymouth Products. The adjustments primarily related to final determination of closing date net assets.

On October 1, 2002, we acquired all of the common stock of privately held Oldham Saw Co., Inc. and affiliated entities (Oldham Saw) for total consideration of \$53.0 million cash, including debt assumed of \$1.5 million and cash acquired of \$1.7 million. Oldham Saw designs, manufactures, and markets router bits, circular saw blades, and related accessories for the do-it-yourself (DIY) and professional power tool markets.

These acquisitions were financed through available lines of credit, supported by strong cash flow.

Also refer to ITEM 7, Management's Discussion and Analysis, and ITEM 8, Note 2 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Discontinued operations/divestitures

In December 2000, we adopted a plan to sell our Equipment segment businesses, Service Equipment (Century Mfg. Co./Lincoln Automotive Company) and Lincoln Industrial, Inc. (Lincoln Industrial). In October 2001, we completed the sale of the Service Equipment businesses to Clore Automotive, LLC for total consideration of \$18.2 million. In December 2001, we completed the sale of Lincoln Industrial to affiliates of The Jordan Company LLC (Jordan), other investors, and members of management of Lincoln Industrial for total consideration of \$78.4 million, including a preferred stock interest. The selling price of Lincoln Industrial was subject to a final purchase price adjustment that was finalized in January 2003, in which we paid Jordan \$2.4 million. In the fourth quarter of 2003, we reported an additional loss from discontinued operations of \$2.9 million, or \$0.06 per diluted share, primarily due to a reduction in estimated proceeds related to exiting two remaining facilities.

Also refer to ITEM 7, Management's Discussion and Analysis, and ITEM 8, Note 3 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

BUSINESS SEGMENTS

We classify our continuing operations into the following business segments:

- **Water** — manufactures and markets essential products and systems used in the movement, treatment, storage and enjoyment of water. Water segment products include water and wastewater pumps; filtration and purification components and systems; storage tanks and pressure vessels; and pool and spa equipment and accessories.
- **Enclosures** — designs, manufactures, and markets standard, modified and custom enclosures that protect sensitive controls and components. Markets served include industrial machinery, data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense, and general electronics. Products include metallic and composite enclosures, cabinets, cases, subracks, backplanes, and associated thermal management systems.
- **Tools** — designs, manufactures and markets power tool products positioned at the mid- to upper-end of the market and targets non-professional DIY, upscale hobbyists, and professional end users. Tools segment products include woodworking machinery, portable power tools, power tool accessories, metal and stoneworking tools, pneumatic tools, compressors, generators, and pressure washers.
- **Other** — is primarily composed of unallocated corporate expenses, our captive insurance subsidiary, intermediate finance companies, divested operations, and intercompany eliminations.

Business segment and geographical financial information is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

WATER SEGMENT

Strategy

Our Water segment strategies are to:

- Capture opportunities and drive for break-through growth in filtration, pool, and water and wastewater systems;
- Drive for double-digit profitable growth through improved service levels and aligning with key channel partners;
- Create value by maximizing cash flow while achieving moderate growth through continued operational improvements;
- Achieve low cost product development and sourcing platform by leveraging China/India; and
- Accelerate bolt-ons and make strategic acquisitions.

Seasonality

We experience strong seasonal demand in our Water segment for pool and spa equipment products in the March through July time period, with some advance sales occurring in earlier months, which generally include extended payment terms. We also experience increased sales in our pump group during droughts and heavy flooding in North America.

Competition

Our Water segment faces numerous competitors, some of which are larger, and have more resources. Competition in commercial and residential pumps focuses on brand names, product performance, quality, and price. While home center and national retailers are important for residential lines of water and wastewater pumps, they are much less important in commercial pumps. In municipal pumps, competition focuses on performance to meet required specifications, service, and price. Competition in water treatment and filtration components focuses on product performance and design, quality, delivery, and price. In pool and spa equipment, there are a number of competitors. We compete by offering a wide variety of innovative and high-quality products, which are competitively priced. We believe our existing distribution channels and reputation for quality also contribute to our continuing industry penetration.

Customer concentration

Information regarding significant customers in our Water segment is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

ENCLOSURES SEGMENT

Strategy

Our Enclosures segment strategies are to:

- Increase sales volume by:
 - focusing on growing market segments;
 - pursuing strategic OEMs;
 - expanding into adjacent markets; and
 - globalization.
- Lower our manufacturing cost by:
 - shifting manufacturing to low labor cost areas;
 - implementing PIMS enterprise practices; and
 - driving operational excellence.
- Transform the product mix by:
 - increasing product innovation; and
 - targeting higher margin markets.

Seasonality

The Enclosure segment is not significantly impacted by any seasonal demand fluctuations.

Competition

Competition in the enclosures markets can be intense, particularly in telecom and datacom markets, where product design, prototyping, global supply, and customer service are significant factors. The overall global decline in market demand over the last three years has created excess capacity throughout the industry. Despite the retrenchment of virtually all participants in these markets, the need to generate fixed-cost absorption in this period of weakened demand has caused increased price competition in many markets. Our Enclosures segment has continued to focus on cost control and improving profitability on a sequential quarter to quarter basis, while

many competitors have faced financial constraints and even bankruptcy stemming from significant volume declines. Recent growth in the Enclosures segment is a result of continued channel penetration, growth in targeted market segments, new product development, and geographic expansion. Consolidation, globalization, and outsourcing are visible trends in the enclosures marketplace and typically play to the strengths of a large and globally positioned supplier. We believe our Enclosures business has the broadest array of products available, as well as the capability to deploy them globally.

Customer concentration

Information regarding significant customers in our Enclosure segment is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

TOOLS SEGMENT

Strategy

Our Tools segment strategies are to:

- Reduce our overall cost structure by:
 - implementing PIMS enterprise practices;
 - utilizing low-cost manufacturing facilities; and
 - capturing supply management opportunities.
- Leverage brands by:
 - accelerating market driven innovation;
 - reducing product development cycle time; and
 - instituting targeted reseller and user marketing programs.
- Reinforce our multi-channel strategy by targeting under-penetrated channels.
- Drive accessories growth.

Seasonality

We experience strong seasonal demand for our pressure washer product line in the March through August time period. Demand for woodworking machinery, portable power tools, accessories, and compressors are strongest during spring, fall, and holiday promotional seasons. As a result, we typically experience stronger sales in the second and fourth quarters and weaker sales in the first and third quarters. This seasonality also drives higher inventories and accounts receivable levels in the second and third quarters of each year.

Competition

The Tools segment faces numerous competitors and strong distributors, many of which are larger and have more resources. Competition in the Tools segment has been intense and continues to increase, especially as these industries consolidate. Many competitors have extensive product lines. We anticipate growth to come from existing channel customers, product development, and continued penetration of expanding market channels.

Competition at the end-user level focuses primarily on trade names, product performance and features, quality, service, and price. The competition for shelf space at home centers and national retailers is particularly intense, demanding continuing product innovation, special inventory and delivery programs, and competitive pricing. Our strategy is to be the quality leader at a competitive price in our selected markets. We believe our success in maintaining our position in the marketplace is primarily due to strong trade names, developing product feature innovations, new products, promotions, and productivity gains.

Customer concentration

Information regarding significant customers in our Tools segment is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

INFORMATION REGARDING ALL BUSINESS SEGMENTS

Backlog

Our backlog of orders from continuing operations as of December 31 by segment was:

<i>In thousands</i>	2003	2002	\$ change	% change
Water	\$130,294	\$ 97,777	\$32,517	33.3%
Enclosures	58,234	52,525	5,709	10.9%
Tools	42,089	23,113	18,976	82.1%
Total	\$230,617	\$173,415	\$57,202	33.0%

The \$32.5 million increase in Water segment backlog was primarily due to the timing of orders in our pool business. The \$5.7 million increase in Enclosures segment backlog was largely driven by the impacts of foreign currency fluctuations. The \$19.0 million increase in Tools segment backlog was primarily due to the timing of orders. We expect our backlog at December 31, 2003 will be filled in 2004.

Research and development

Research and development costs during 2003, 2002, and 2001 were \$43.9 million, \$36.9 million, and \$31.2 million, respectively.

Environmental

Environmental matters are discussed in ITEM 3, ITEM 7, and in ITEM 8, Note 16 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Raw materials

The principal materials used in the manufacturing of products are electric motors, mild steel, stainless steel, plastic, electronic components, plastics, and paint (powder and liquid). In addition to the purchase of raw materials, some finished goods are purchased for distribution through our sales channels.

The materials used in the various manufacturing processes are purchased on the open market, and the majority are available through multiple sources and are in adequate supply. We have not experienced any significant work stoppages to date due to shortages of materials. We have certain long-term commitments, principally price commitments, for the purchase of various component parts and raw materials and believe that it is unlikely that any of these agreements would be terminated prematurely. Alternate sources of supply at competitive prices are available for most materials for which long-term commitments exist, and we believe that the termination of any of these commitments would not have a material adverse effect on operations.

Certain commodities, such as steel, are subject to a degree of market and duty-driven price fluctuations. These fluctuations are managed through several mechanisms, including long-term agreements with escalator / de-escalator clauses. Prices for raw materials, such as steel, are expected to trend higher in the future.

Distribution

We sell products through numerous distribution channels. Products are sold directly to users and through numerous wholesalers, retailers, jobbers, distributors and dealers in a wide variety of trades in many countries around the world.

Intellectual property

Patents, non-compete agreements, proprietary technologies, customer relationships, trade marks, and trade names are important to our business. However, we do not regard our business as being materially dependent upon any single patent, non-compete agreement, proprietary technology, customer relationship, trade mark, or trade name.

Employees

At the end of 2003, we employed approximately 12,300 people worldwide. Total employees in the United States were approximately 9,450, of which approximately 1,200 were represented by trade unions having collective bargaining agreements. We consider our employee relations to be very good.

Captive Insurance Subsidiary

We insure general and product liability, property, workers' compensation, and automobile liability risks through our regulated wholly owned captive insurance subsidiary, Penwald Insurance Company (Penwald). Reserves for policy claims are established based on actuarial projections of ultimate losses.

Matters pertaining to Penwald are discussed in ITEM 3 and ITEM 8, Note 1 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Available information

We make available free of charge (other than an investor's own Internet access charges) through our Internet website (<http://www.pentair.com>) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the 1934 Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Reports of beneficial ownership filed by our directors and executive officers pursuant to Section 16(a) of the 1934 Act are also available on our website. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

Our corporate office is located in Golden Valley, Minnesota. Manufacturing operations are carried out at approximately 22 plants located throughout the United States and at 17 plants located in 10 other countries. Through a 49 percent-owned joint venture with a long time Asian tool supplier, we have an interest in three additional factories in Asia. In addition, we have approximately 23 warehouse facilities and numerous distribution facilities and sales offices. We also own or lease four idle facilities.

We believe that our production facilities are suitable for their purpose and are adequate to support our businesses.

ITEM 3. LEGAL PROCEEDINGS

We have been made parties to a number of actions filed or have been given notice of potential claims relating to the conduct of our business, including those pertaining to commercial disputes, product liability, environmental, safety and health, patent infringement, and employment matters.

Some of these lawsuits and proceedings raise difficult and complex factual and legal issues, and are subject to many uncertainties, such as the facts and circumstances of the particular lawsuit, the jurisdiction and forum in which the lawsuit is pending and the applicable law. We record liabilities in those instances where we can reasonably estimate the amount of the loss and where liability will likely arise.

We cannot always definitively determine possible liabilities that exceed recorded amounts related to the legal proceedings to which we are a party. There can be no certainty that Pentair may not ultimately incur charges, whether related to products liability, antitrust, or other litigation, environmental matters, or other actions, in excess of presently recorded liabilities. However, we believe it is unlikely, based upon the nature of the legal proceedings and our current knowledge of relevant facts and circumstances, that the possible liabilities exceeding the recorded amounts would be material individually or in the aggregate to our consolidated financial position, results of operations, or cash flows. With respect to product liability claims, such a conclusion about possible liabilities considers insurance coverage available for such liabilities.

While we believe that a material adverse impact on our consolidated financial position, results of operations, or cash flows from any such future charges is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future adverse ruling or unfavorable development could result in future charges that could have a material adverse impact. We do and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and receivables and make appropriate adjustments to such estimates based on experience and developments in litigation. As a result, the current estimates of the potential impact on our consolidated financial position, results of operations, and cash flows for the proceedings and claims described in “Legal Proceedings” could change in the future.

Environmental

We have been named as defendants, targets, or potentially responsible parties (PRPs) in a small number of environmental cleanups, in which our current or former business units have generally been given *de minimis* status. To date, none of these claims have resulted in cleanup costs, fines, penalties, or damages in an amount material to our financial position or results of operations. We have disposed of a number of businesses over the past ten years and in certain cases, such as the disposition of the Cross Pointe Paper Corporation uncoated paper business in 1995, the disposition of the Federal Cartridge Company ammunition business in 1997, and the disposition of Lincoln Industrial in 2001, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers both of the paper business and the ammunition business and have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities. We settled one such claim in 2003 and our recorded accrual was adequate.

In addition, there are pending environmental issues concerning a limited number of sites, including one site acquired in the acquisition of Essef Corporation in 1999, that relates to operations no longer carried out at that site. We have established what we believe to be adequate accruals for remediation costs at this and other sites. We do not believe that projected response costs will result in a material liability.

We may be named as a PRP at other sites in the future, for both divested and acquired businesses. When it has been possible to provide reasonable estimates of our liability with respect to environmental sites, provisions have been made in accordance with generally accepted accounting principles in the United States. As of December 31, 2003, our reserve for such environmental liabilities was approximately \$11.2 million, measured on an undiscounted basis. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental cleanup costs and liabilities will not exceed the amount of our current reserves.

Product liability claims

As of February 8, 2004, we are involved in approximately 152 product liability lawsuits and personal injury claims. We believe we have in place insurance coverage adequate for our needs. A substantial number of these lawsuits and claims are insured and accrued for by Penwald. See discussion in ITEM 1 and ITEM 8, Note 1 of the Notes to the Consolidated Financial Statements – Insurance subsidiary. Accounting accruals covering the deductible portion of liability claims not covered by Penwald have been established and are reviewed on a regular basis. We have not experienced significant unfavorable trends in either the severity or frequency of product liability lawsuits or personal injury claims.

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 (Essef) and certain of its subsidiaries prior to our acquisition of Essef in August 1999. These lawsuits alleged exposure to Legionnaires bacteria by passengers aboard the cruise ship M/V Horizon, a ship operated by Celebrity. The lawsuits included a class action brought on behalf of all passengers aboard the ship during the relevant time period, individual “opt-out” passenger suits, and a suit by Celebrity. Celebrity alleged in its suit that it had sustained economic damages due to loss of use of the M/V Horizon while it was dry-docked.

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, and allegations that the spa and filters contained bacteria that infected certain passengers on cruises from December 1993 through July 1994.

Prior to the acquisition of Essef, a settlement was reached in the class action. With regard to the individual “opt out” passenger suits, the claims of one plaintiff were tried under a stipulation among all remaining parties provided that the liability findings would be applicable to all plaintiffs and defendants. The trial resulted in a jury verdict on June 13, 2000 finding liability on the part of the Essef defendants (70%) and Celebrity and its sister company, Fantasia (together 30%). Compensatory damages in the total amount of \$2.7 million were awarded, with each defendant being accountable for its proportionate share of liability. The Essef defendant’s proportionate share was covered by insurance. Punitive damages were separately awarded against the Essef defendants in the total amount of \$7.0 million, with 60% awarded to all remaining plaintiffs and 40% to Celebrity.

After exhaustion of post-trial appeals, we paid all outstanding punitive damage awards of \$7.0 million in the Horizon cases, plus interest of approximately \$1.6 million in January 2004. We had reserved for the amount of punitive damages awarded at the time of the Essef acquisition. A reserve for the \$1.6 million interest cost was recorded in 2003.

All of the personal injury cases have now been resolved through either settlement or trial. The only remaining unresolved case is that brought by Celebrity for interruption of its business. That case had been dormant, but was recently activated. One of Essef’s insurance carriers has issued a notice of rights letter. We believe we have reserves sufficient to cover the amount of any uninsured awards or settlements.

Ellerbrake et al v. DeVilbiss Air Power Company

In August 2001, a national class action was brought against DeVilbiss Air Power Company (DAPC) and four other manufacturers of retail air compressors on behalf of consumers that had purchased certain air compressors. Plaintiffs alleged that the manufacturers mislabeled horsepower ratings on compressors they manufacture. Plaintiffs sought to represent a class of all persons who had purchased since August 1996 an air compressor for which the horsepower ratings were allegedly mislabeled.

Without admitting any liability, DAPC settled with plaintiffs and the settlement was preliminarily approved by the Court in January 2004. Terms of the settlement include changes in labeling, an education program for consumers, attorney’s fees and tools or accessories for qualifying claimants. While certain elements of the settlement have specific dollars assigned to them, the ultimate cost of some elements is still unknown at this time. We believe reserves recorded in 2003 are sufficient to cover the cost of this settlement based on the information available to us at this time.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Current executive officers of Pentair, their ages, current position, and their business experience during at least the past five years are as follows:

<u>Name</u>	<u>Age</u>	<u>Current Position and Business Experience</u>
Randall J. Hogan	48	Chief Executive Officer since January 2001 and Chairman of the Board effective May 1, 2002; President and Chief Operating Officer, December 1999 — December 2000; Executive Vice President and President of Pentair's Electrical and Electronic Enclosures Group, March 1998 — December 1999; United Technologies' 1994 — 1997; Pratt & Whitney Industrial Turbines Vice President and General Manager 1994 — 1995; Carrier Transicold President 1995 — 1997; General Electric various executive positions 1988 — 1994; McKinsey & Company consultant 1981 — 1987.
David D. Harrison	56	Executive Vice President and Chief Financial Officer since February 2000; Executive Vice President and Chief Financial Officer of Scotts Company, a marketer of branded consumer products for lawn and garden care, August 1999 — February 2000; Executive Vice President and Chief Financial Officer of Coltec Industries, a manufacturer of a diversified range of highly-engineered aerospace and industrial products, August 1996 — August 1999; Executive Vice President and Chief Financial Officer of Pentair, Inc., March 1994 — July 1996; Senior Executive with General Electric Technical Services organization, January 1990 — March 1994. Various executive positions with General Electric Plastics/Borg-Warner Chemicals 1972 — 1990.
Richard J. Cathcart	59	President and Chief Operating Officer of Water Technologies segment since January 2001; Executive Vice President and President of Pentair's Water Technologies Group, February 1996 — December 2000; Executive Vice President, Corporate Development, March 1995 — January 1996.
Michael V. Schrock	51	President and Chief Operating Officer of Enclosures segment since October 2001; President, Pentair Water Technologies — Americas, January 2001 — October 2001; President, Pentair Pump and Pool Group, August 2000 — January 2001; President, Pentair Pump Group, January 1999 — August 2000; Vice President and General Manager, Aurora, Fairbanks Morse and Pentair Pump Group International, March 1998 — December 1998; Divisional Vice President and General Manager, Honeywell Inc., 1994 — 1998.
Charles M. Brown	45	President and Chief Operating Officer of Tools segment since August 2003; President of Aqua Glass Corporation, a manufacturer of acrylic and gelcoat fiberglass showers, bathtubs, and shower-tub combinations, a unit of Masco Corporation, March 1996 — August 2003; Vice President of Marketing for Masco's Plumbing Products Division, April 1993 — March 1996; Black & Decker various positions, April 1988 — April 1993.
Louis L. Ainsworth	56	Senior Vice President and General Counsel since July 1997 and Secretary since January 2002; Shareholder and Officer of the law firm of Henson & Efron, P.A., November 1985 — June 1997.
Frederick S. Koury	43	Senior Vice President, Human Resources, since August 2003; Vice President of Human Resources of the Victoria's Secret Stores unit of Limited Brands, a specialty retailer of apparel and personal care products, September 2000 — August 2003; PepsiCo, Inc., a global food and beverage company, various executive positions, June 1985 — September 2000.
Karen A. Durant	44	Vice President of Finance and Controller since April 2002; Vice President, Controller September 1997 — March 2002; Controller, January 1996 — August 1997; Assistant Controller, September 1994 — December 1995; Director of Financial Planning and Control of Hoffman Enclosures Inc. (subsidiary of Registrant), October 1989 — August 1994.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Pentair's common stock is listed for trading on the New York Stock Exchange and trades under the symbol "PNR." As of December 31, 2003, there were 3,980 shareholders of record.

The high, low, and closing sales price for our common stock and the dividends declared for each of the quarterly periods for 2003 and 2002 were as follows:

	2003				2002			
	First	Second	Third	Fourth	First	Second	Third	Fourth
High	\$37.55	\$41.90	\$43.53	\$46.57	\$45.14	\$49.61	\$47.11	\$38.31
Low	\$32.80	\$35.35	\$38.58	\$36.85	\$32.38	\$42.34	\$36.84	\$29.34
Close	\$36.47	\$39.38	\$39.44	\$45.70	\$44.97	\$48.08	\$37.79	\$34.55
Dividends declared	0.19	0.21	0.21	0.21	0.18	0.18	0.19	0.19

Pentair has paid 112 consecutive quarterly dividends. See ITEM 8, Note 9 of the Notes to Consolidated Financial Statements for certain dividend restrictions.

ITEM 6. SELECTED FINANCIAL DATA

		Years ended December 31							
<i>Dollars in thousands, except per-share data</i>		2003	2002	2001	2000	1999	1998	1997	1996
Statement of operations									
Net sales	Water	\$1,060,303	\$ 932,420	\$ 882,615	\$ 898,247	\$ 579,236	\$438,810	\$304,647	\$216,769
	Enclosures	582,684	556,032	689,820	777,725	657,500	586,829	600,491	566,919
	Tools	1,081,378	1,092,331	1,001,645	1,029,658	850,327	644,226	559,907	467,464
	Other	—	—	—	—	—	—	128,136	133,360
	Total	2,724,365	2,580,783	2,574,080	2,705,630	2,087,063	1,669,865	1,593,181	1,384,512
<i>Sales growth</i>		5.6%	0.3%	(4.9%)	29.6%	25.0%	4.8%	15.1%	
Cost of goods sold		2,045,327	1,965,076	1,967,945	2,051,515	1,529,419	1,227,427	1,189,777	1,032,343
Gross profit		679,038	615,707	606,135	654,115	557,644	442,438	403,404	352,169
<i>Margin</i>	%	24.9%	23.9%	23.5%	24.2%	26.7%	26.5%	25.3%	25.4%
Selling, general and administrative		375,586	342,806	377,098	396,105	310,700	261,302	241,062	216,775
Research and development		43,898	36,909	31,171	31,191	22,170	16,894	16,236	11,989
Restructuring charge	Water	—	—	—	—	—	—	—	—
	Enclosures	—	—	38,427	(1,625)	16,743	—	—	—
	Tools	—	—	—	5,396	6,305	—	—	—
	Other	—	—	1,678	21,018	—	—	—	—
	Total	—	—	40,105	24,789	23,048	—	—	—
Operating income	Water	143,962	126,559	109,792	120,732	73,362	56,264	32,366	30,562
	Enclosures	51,094	29,942	1,857	96,268	46,346	46,026	47,282	53,856
	Tools	81,774	97,598	63,232	23,751	100,680	80,383	62,669	45,800
	Other	(17,276)	(18,107)	(17,120)	(38,721)	(18,662)	(18,431)	3,789	(6,813)
	Total	259,554	235,992	157,761	202,030	201,726	164,242	146,106	123,405
<i>Margin</i>	%	9.5%	9.1%	6.1%	7.5%	9.7%	9.8%	9.2%	8.9%
Gain on sale of business		—	—	—	—	—	—	10,313	—
Net interest expense		40,936	43,545	61,488	74,899	43,582	19,855	19,729	16,849
Other expense, write-off of investment		—	—	2,985	—	—	—	—	—
Provision for income taxes		74,330	62,545	35,772	45,263	60,056	53,667	58,089	42,860
Income from continuing operations		144,288	129,902	57,516	81,868	98,088	90,720	78,601	63,696
Income (loss) from discontinued operations, net of tax		(2,936)	—	(24,647)	(24,759)	5,221	16,120	12,999	10,813
Cumulative effect of accounting change, net of tax		—	—	—	(1,222)	—	—	—	—
Net income		141,352	129,902	32,869	55,887	103,309	106,840	91,600	74,509
Preferred dividends		—	—	—	—	—	(4,267)	(4,867)	(4,928)
Income available to common shareholders		141,352	129,902	32,869	55,887	103,309	102,573	86,733	69,581
Common share data									
Basic EPS — continuing operations		2.95	2.64	1.17	1.68	2.24	2.25	1.94	1.57
Basic EPS — discontinued operations		(0.06)	—	(0.50)	(0.51)	0.12	0.42	0.34	0.29
Basic EPS — cumulative effect of accounting change		—	—	—	(0.02)	—	—	—	—
Basic EPS — net income		2.89	2.64	0.67	1.15	2.36	2.67	2.28	1.86
Diluted EPS — continuing operations		2.90	2.61	1.17	1.68	2.21	2.09	1.81	1.47
Diluted EPS — discontinued operations		(0.06)	—	(0.50)	(0.51)	0.12	0.37	0.30	0.26
Diluted EPS — cumulative effect of accounting change		—	—	—	(0.02)	—	—	—	—
Diluted EPS — net income		2.84	2.61	0.67	1.15	2.33	2.46	2.11	1.73
Cash dividends declared per common share		0.82	0.74	0.70	0.66	0.64	0.60	0.54	0.50
Stock dividends declared per common share		—	—	—	—	—	—	—	100%
Market value per share (December 31)		45.70	34.55	36.52	24.19	38.50	39.81	35.94	32.25

ITEM 6. SELECTED FINANCIAL DATA – (continued)

		Years ended December 31							
<i>Dollars in thousands, except per-share data</i>		2003	2002	2001	2000	1999	1998	1997	1996
Balance sheet data									
Accounts receivable		420,403	403,793	398,579	468,081	502,235	331,672	314,289	246,436
Inventories		285,577	293,202	300,923	392,495	352,830	216,084	215,957	206,957
Property, plant and equipment, net		343,550	351,316	329,500	352,984	367,783	271,389	261,486	270,071
Goodwill		1,373,549	1,218,341	1,088,206	1,141,102	1,164,056	448,893	416,605	287,417
Total assets		2,780,677	2,514,450	2,372,198	2,644,025	2,706,516	1,484,207	1,413,494	1,236,694
Total debt		806,493	735,805	723,706	913,974	1,035,084	340,721	328,538	312,817
Shareholders' equity		1,261,478	1,105,724	1,015,002	1,010,591	990,771	707,628	627,653	560,751
Other data									
Debt/total capital		39.0%	39.9%	41.6%	47.5%	51.1%	32.5%	34.4%	35.8%
Depreciation	Water	20,517	19,478	19,472	19,157	15,453	9,163	7,082	4,894
	Enclosures	19,721	19,026	23,008	20,701	26,846	26,453	24,689	22,630
	Tools	20,320	20,256	20,033	17,406	13,615	10,797	9,664	8,200
	Other	571	73	161	2,633	167	158	6,142	6,896
	Total	61,129	58,833	62,674	59,897	56,081	46,571	47,577	42,620
Goodwill amortization ⁽¹⁾	Water	—	—	18,560	18,074	12,714	7,793	7,363	4,920
	Enclosures	—	—	8,273	9,097	8,413	5,832	5,576	5,667
	Tools	—	—	9,274	9,285	3,282	287	214	306
	Other	—	—	—	—	—	—	418	502
	Total	—	—	36,107	36,456	24,409	13,912	13,571	11,395
Tax effect of goodwill amortization ⁽¹⁾		—	—	(4,064)	(3,986)	(3,575)	(2,520)	(2,321)	(1,576)
Diluted EPS effect of goodwill amortization ⁽¹⁾		—	—	0.65	0.67	0.47	0.26	0.25	0.22
Other amortization		4,514	5,869	5,568	2,675	1,578	1,571	1,669	1,400
Net cash provided by operating activities		262,939	270,794	232,334	184,947	144,296	120,872	107,896	104,479
Capital expenditures		43,622	56,696	53,668	68,041	53,671	43,335	69,364	67,216
Employees of continuing operations		12,300	11,900	11,700	13,100	12,400	8,800	8,800	8,000
Days sales outstanding in receivables ⁽²⁾		56	59	65	71	68	68	65	64
Days inventory on hand ⁽²⁾		63	63	75	80	71	75	80	85

⁽¹⁾ Effective January 1, 2002 we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This standard requires goodwill and intangible assets deemed to have an indefinite life no longer be amortized. This standard did not require restatement of prior period amount to be consistent with the current year presentation and therefore, we have not made any adjustments to the historical financial information presented. However, we have provided supplemental tax and diluted EPS information as we believe it is necessary to the understanding of our financial performance trend.

⁽²⁾ Calculated using a 13-month average.

In fiscal 2001, we discontinued our Equipment segment (Century Mfg. Co./Lincoln Automotive and Lincoln Industrial businesses). Historical financial information has been adjusted to reflect this change. The 2001 results reflect a pre-tax loss on the sale of these businesses of \$36.3 million (\$24.6 million after tax, or \$0.50 per share).

Capital expenditures in 2002 includes \$23.0 million for the acquisition of a previously leased facility.

Cost of goods sold in 2001 includes \$1.0 million related to the 2001 restructuring charge for our Enclosures segment.

The 2000 results reflect a non-cash pre-tax cumulative effect of accounting change related to revenue recognition that reduced income by \$1.9 million (\$1.2 million after tax, or \$0.02 per share).

The 1997 results include a pre-tax gain on the sale of Federal Cartridge of \$10.3 million (\$1.2 million after tax, or \$0.03 per share).

Reference should be made to the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 7. 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,” “expected,” “intend,” “estimate,” “anticipate,” “believe,” “project,” or “continue,” or the negative thereof or similar words. 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 may impact the achievement of forward-looking statements:

- changes in industry conditions, such as:
 - the strength of product demand;
 - the intensity of competition, including foreign competitors;
 - pricing pressures;
 - market acceptance of new product introductions;
 - the introduction of new products by competitors;
 - our ability to maintain and expand relationships with large retail stores;
 - our ability to source components from third parties, in particular foreign manufacturers, without interruption and at reasonable prices; and
 - the financial condition of our customers.
- risks relating to our proposed acquisition of WICOR, including our ability to integrate WICOR successfully, our ability to obtain regulatory approvals on anticipated terms and our ability to fully realize synergies on our anticipated timetable;
- changes in our business strategies, including acquisition, divestiture, and restructuring activities;
- governmental and regulatory policies;
- general economic and political conditions, such as political instability, the rate of economic growth 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 continue to successfully generate savings from our supply management and lean enterprise initiatives;
- our ability to successfully identify, complete, and integrate future acquisitions;
- our ability to accurately evaluate the effects of contingent liabilities such as taxes, product liability, environmental, and other claims;
- our ability to access capital markets and obtain anticipated financing under favorable terms; and
- no material declines in the fair market value of, or cash flows from, our equity method investments.

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 manufacturer operating in three segments: Water, Enclosures, and Tools. Our Water segment manufactures and markets essential products and systems used in the movement, treatment, storage and enjoyment of water and generates approximately 39 percent of total revenues. Our Enclosures segment accounts for approximately 21 percent of total revenues and designs, manufactures and markets standard, modified and custom enclosures that protect sensitive controls and components for markets that include industrial machinery, data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense, and general electronics. Our Tools segment designs, manufactures and markets a wide range of power tools under several well established trade names generating approximately 40 percent of total revenues.

Our Water segment has progressively become a more important part of our business portfolio with sales increasing from \$100 million in 1995 to approximately \$1 billion in 2003. We have identified target industry segments totaling \$50 billion, representing a small portion of the \$350 billion global water market. We continue to capitalize on growth opportunities in the water industry as evidenced by four product line acquisitions in our Water segment in 2003 as well as the acquisition of Everpure on December 31, 2003. In February 2004, we announced our agreement to acquire WICOR, the completion of which would mark a dramatic shift in our water segment. We anticipate that the assimilation of these acquisitions into our business operations will create a \$2 billion business in the water industry.

Our Enclosures segment operates in a large global market with significant headroom in the industry niches such as defense, security, medical, and networking. We believe we have the largest industrial and commercial distribution network in North America and highest brand recognition in the industry. During the past few years, the Enclosures segment experienced significantly lower sales volumes as a result of severely reduced capital spending in the industrial market and over-capacity and weak demand in the datacom and telecom markets. However, this segment did experience growth in 2003 across the electrical and electronic markets and we believe it is well-positioned to continue improved performance. In addition, through the success of our Pentair Integrated Management System (PIMS) and supply management initiatives we have increased Enclosures segment margins for the eighth sequential quarter.

Our Tools segment has been operating in a very competitive marketplace during the past few years. Pricing pressures and higher raw material costs have caused our operating margins to decline. In February 2004, we announced our intent to explore strategic alternatives for our Tools segment. We will continue to operate the Tools segment for the long-term and provide all appropriate management support and resources. We continue to seek opportunities to expand operating margins through cost reductions and productivity improvements as part of our PIMS initiatives. In addition, we plan to continue to launch innovative new products and pursue significant incremental volume opportunities.

Key Trends and Uncertainties

The following trends and uncertainties affected our financial performance in 2003 and will likely impact our results in the future:

- We have experienced a decrease in average selling prices and declines in operating margins in our Tools segment due to increased promotional programs. We expect these competitive pressures to lessen somewhat, but still persist in 2004.
- We expect all three segments to continue to benefit from our key initiatives, including supply management and PIMS.

- Expenses related to downsizing are anticipated to continue as we identify more efficient means to manufacture and distribute our products.
- Free cash flow, defined as cash flow from operating activities less capital expenditures, including both continuing and discontinued operations, exceeded \$200 million for the second straight year and is expected to exceed \$200 million in 2004. See our discussion of *Other financial measures* under the caption “Liquidity and Capital Resources” of this report.
- In 2003, we experienced favorable foreign currency effects, primarily for the U.S. dollar against the Euro, which may not trend favorably in the future.
- Before any effects of our planned acquisition of WICOR, we expect our effective tax rate on continuing operations to be approximately 34 percent in 2004. Our ultimate effective tax rate will depend on the timing of the planned WICOR acquisition and WICOR’s actual tax attributes.
- Following the planned acquisition of WICOR, we will need to fund the repayment of our Bridge Facility by December 31, 2004 through a disposition of our Tools Group or through equity issuance.

Business Transformation

On February 3, 2004, we entered into an agreement to acquire WICOR Inc. (“WICOR”), a unit of Wisconsin Energy Corporation, Milwaukee, Wisconsin. WICOR, which manufactures water system, filtration, and pool equipment products under the Sta-Rite, SHURflo, and Hypro brands, generated sales of approximately \$746 million in 2003. The \$850 million cash transaction, which we plan to complete in the second or third quarter of 2004, is subject to satisfaction of customary conditions and applicable regulatory approvals. As part of the transaction, we will assume approximately \$24 million of WICOR debt.

The water industry is structurally attractive as a result of its large global market, approximating \$350 billion, and a growing demand for clean water. Our vision is to become the leading global provider of innovative products and systems used in the movement, treatment, storage, and enjoyment of water.

We expect to achieve \$30 million in synergies with respect to the WICOR acquisition in the first 18 months of operations via key initiatives including PIMS, material cost savings and administrative cost savings. We also expect to achieve significant working capital reductions, fixed asset reductions and capital expenditure savings as a result of the acquisition.

We also announced that we have engaged Goldman Sachs to explore strategic alternatives for our Tools segment, comprising the Porter-Cable, Delta, DeVilbiss Air Power Company, Oldham Saw and Flex businesses with \$1,081.4 in net sales in 2003.

Outlook

In 2004, our operating objectives include the following:

- Integrate the December 31, 2003 Everpure acquisition;
- Complete and integrate the WICOR acquisition;
- Complete the review of strategic alternatives for our Tools segment; and
- Continue to drive our five strategic initiatives: cash flow, supply management, PIMS, talent management, and organic sales growth.

Financial Measures

In our Management’s Discussion and Analysis, we make reference to certain non-GAAP (generally accepted accounting principles) financial measures, including gross profit, operating income, selling, general and administrative (SG&A), income from continuing operations before income taxes, and provision for income taxes, in each case “excluding goodwill amortization and restructuring charges” or “excluding restructuring charge.” We believe that these non-GAAP financial measures are useful to investors because they provide investors with

other measures to consider, in conjunction with the GAAP results, which may be helpful to meaningfully compare our operating performance between periods. We also use these non-GAAP financial measures when assessing our own operating performance. A description of the accounting standards applicable to the elimination of the amortization of goodwill is included below under “New Accounting Standards.” A description of the restructuring charges that we exclude from GAAP results is included below under “Results of Operations – Restructuring Charges.” In each case below when we make reference to a non-GAAP financial measure, we also provide reconciliation to the comparable GAAP financial measure.

RESULTS OF OPERATIONS

Net sales

The components of the net sales change were:

<i>Percentages</i>	2003 vs. 2002	2002 vs. 2001
Volume	4.4	0.2
Price	(1.0)	(0.3)
Currency	2.2	0.4
Total	5.6	0.3

Net sales in 2003 totaled \$2,724 million, compared with \$2,581 million in 2002, and \$2,574 million in 2001. In 2003, volume increased by approximately 4.4 percent primarily due to increased demand in our Water segment and acquisitions in both our Water and Tools segments. Price declined by approximately 1.0 percent driven by promotional programs for our Tools segment products. In addition, the continued weakening of the U.S. dollar against the Euro in 2003 favorably impacted the dollar value of sales at our foreign subsidiaries by about 2.2 percent.

In 2002, volume increased by 0.2 percent primarily due to increased demand and acquisitions in both our Tools and Water segments. These increases were mostly offset by the continued weak demand for our Enclosures segment products. Price declined by 0.3 percent primarily due to the introduction of lower price point products and promotional programs for our Tools segment products. In addition, the continued weakening of the U.S. dollar in 2002 favorably impacted the dollar value of sales by about 0.4 percent.

Sales by segment and the year-over-year changes were as follows:

<i>In thousands</i>	2003	2002	2001	2003 vs. 2002		2002 vs. 2001	
				\$ change	% change	\$ change	% change
Water	\$1,060,303	\$ 932,420	\$ 882,615	\$127,883	13.7%	\$ 49,805	5.6%
Enclosures	582,684	556,032	689,820	26,652	4.8%	(133,788)	(19.4%)
Tools	1,081,378	1,092,331	1,001,645	(10,953)	(1.0%)	90,686	9.1%
Total	\$2,724,365	\$2,580,783	\$2,574,080	\$143,582	5.6%	\$ 6,703	0.3%

Water

The 13.7 percent increase in Water segment sales in 2003 from 2002 was primarily due to:

- sales attributable to the fourth quarter 2002 acquisition of Plymouth Products;
- higher sales of residential pumps and pool equipment;
- an increase in European sales, particularly commercial valves, water conditioning and pool products;
- continued growth in the developing markets of Asia and India; and
- favorable foreign currency effects.

The 5.6 percent increase in Water segment sales in 2002 from 2001 was primarily due to:

- higher pump sales, with most of the growth coming from residential retail and municipal products;
- the fourth quarter 2002 acquisition of Plymouth Products; and
- higher sales volume in our pool and spa equipment business.

Enclosures

The 4.8 percent increase in Enclosures segment sales in 2003 from 2002 was primarily due to:

- favorable foreign currency effects; and
- share growth in targeted areas such as networking, security, and medical.

The 19.4 percent decline in Enclosures segment sales in 2002 from 2001 was primarily due to:

- lower sales volume reflecting severely reduced capital spending in the industrial market; and
- over-capacity and weak demand in the datacom and telecom markets.

These decreases were partially offset by:

- favorable foreign currency effects.

Tools

The 1.0 percent decrease in Tools segment sales in 2003 from 2002 was primarily due to:

- lower organic sales volume due to the effects of a slow economy and competitive marketplace; and
- a decline in average selling prices due to increased promotional pricing.

These decreases were partially offset by:

- sales attributable to the fourth quarter 2002 acquisition of Oldham Saw.

The 9.1 percent increase in Tools segment sales in 2002 from 2001 was primarily due to:

- higher sales volume in our DeVilbiss Air Power Company (DAPC) business, particularly for pressure washers;
- higher sales volume in our Delta business as a result of our new sub-branding strategy through the creation of Delta Shopmaster™ and Delta Industrial™ brands. The Delta Shopmaster™ brand is targeted toward the entry-level do-it-yourselfer and the Delta Industrial™ brand is targeted toward the professional craftsman; and
- the fourth quarter 2002 acquisition of Oldham Saw.

These increases were partially offset by:

- declines in average selling prices due to the introduction of lower price point products for the Delta Shopmaster™ brand and heavy second-half 2002 promotional pricing in a more competitive marketplace.

Gross profit

<i>In thousands</i>	2003	% of sales	2002	% of sales	2001⁽¹⁾	% of sales
Gross profit	\$679,038	24.9%	\$615,707	23.9%	\$606,135	23.5%
Percentage point change		1.0 pts		0.4 pts		

⁽¹⁾ Includes \$1 million of inventory charges related to the 2001 restructuring charge for our Enclosures segment.

The 1.0 percentage point increase in gross profit as a percent of sales in 2003 from 2002 was primarily the result of:

- savings generated from our supply management and lean enterprise initiatives;
- improved productivity in our Enclosure and Water segments, particularly in our Pump business; and
- lower costs as a result of general downsizing throughout Pentair.

These increases were offset by:

- price declines, primarily in our Tools segment due to increased promotional pricing; and
- volume declines in our Tools segment.

The 0.4 percentage point increase in gross profit as a percent of sales in 2002 from 2001 was primarily the result of:

- savings generated from our supply management and lean enterprise initiatives, as well as cost savings realized from restructuring programs;
- volume increases in our Tools and Water segments; and
- the fourth quarter 2002 acquisitions of Oldham Saw and Plymouth Products.

These increases were partially offset by:

- volume declines in our Enclosures segment; and
- unfavorable selling prices due to increased promotional discounting in our Tools segment.

Selling, general and administrative (SG&A)

<i>In thousands</i>	2003	% of sales	2002	% of sales	2001	% of sales
SG&A as reported	\$375,586	13.8%	\$342,806	13.3%	\$377,098	14.6%
Less goodwill amortization	—	n/a	—	n/a	(36,107)	(1.4%)
SG&A excluding goodwill amortization	\$375,586	13.8%	\$342,806	13.3%	\$340,991	13.2%
Percentage point change		0.5 pts		0.1 pts		

The 0.5 percentage point increase in SG&A expense as a percent of sales in 2003 from 2002 was primarily the result of:

- higher spending for promotional costs primarily in our Tools segment;
- expenses related to downsizing throughout Pentair;
- anticipated settlement and defense costs for a class action suit launched against the compressor industry for alleged mislabeling; and
- strategic growth initiatives.

These increases were partially offset by:

- favorable foreign currency effects; and
- productivity improvements from lean enterprise initiatives in non-manufacturing areas.

The 0.1 percent point increase in SG&A expense as a percent of sales in 2002 from 2001 was primarily the result of:

- higher bad debt expense offset by lower spending for process improvement investments.

Research and development (R&D)

<i>In thousands</i>	2003	% of sales	2002	% of sales	2001	% of sales
R&D	\$43,898	1.6%	\$36,909	1.4%	\$31,171	1.2%
Percentage point change		0.2 pts		0.2 pts		

The 0.2 percentage point increase in R&D expense as a percent of sales in 2003 from 2002 and in 2002 from 2001 was primarily the result of:

- additional investments related to new product development initiatives in all three segments.

Restructuring charge

In the fourth quarter of 2001, we initiated a restructuring program designed to consolidate manufacturing operations and eliminate non-critical support facilities in our Enclosures segment. We also wrote off internal-use software development costs at corporate for the abandonment of a company-wide human resource system. Consequently, we recorded a restructuring charge of \$42.8 million, of which \$1 million is included in *cost of goods sold* on the consolidated statement of income for the write-down of inventory on certain custom enclosures product that were discontinued as a result of plant closures. In the fourth quarter of 2001, we also recorded a final change in estimate related to our 2000 restructuring charge that reduced the restructuring charge by \$1.7 million primarily due to favorable negotiation of contract termination costs. As of the end of 2001, the restructuring program initiated in 2000 was complete.

Included in *other current liabilities* on the consolidated balance sheets is the remaining portion of the restructuring charge liability of \$3.3 million, primarily related to severance obligations not yet paid to certain terminated individuals and other charges as we are awaiting the results of pending and threatened claims by former employees of the affected facilities. Therefore, we are uncertain when this remaining liability will be paid. Payments in 2003 of \$0.3 million are comprised of the payout of severance obligations and legal expenses. Funding of future payments will be paid from cash generated from operating activities.

See ITEM 8, Note 4 of the Notes to Consolidated Financial Statements for further information regarding restructuring charges.

Operating income

Water

The following table and discussion provides a comparison of our Water segment operating income as reported, and those results excluding goodwill amortization.

<i>In thousands</i>	2003	% of sales	2002	% of sales	2001	% of sales
Operating income as reported	\$143,962	13.6%	\$126,559	13.6%	\$109,792	12.4%
Add back goodwill amortization	—	n/a	—	n/a	18,560	2.1%
Operating income excluding goodwill amortization	\$143,962	13.6%	\$126,559	13.6%	\$128,352	14.5%
Percentage point change		0.0 pts		(0.9) pts		

The unchanged operating income percentage in the Water segment as a percent of net sales in 2003 from 2002 was primarily due to:

- benefits from the continued success of our PIMS and supply management initiatives;
- increased volume in our expanding markets of Europe, Asia, and India; and
- favorable foreign currency effects.

These benefits were offset by:

- increased selling and R&D expense;
- higher insurance costs in 2003; and
- price and volume declines related to our reverse osmosis product line and costs associated with downsizing the Chardon, Ohio operation and moving most of this product line to our factory in India.

The 0.9 percentage point decline in Water segment operating income as a percent of net sales in 2002 from 2001 was primarily due to:

- unfavorable product mix as a result of higher sales of lower margin residential retail pumps;
- higher costs at certain pump and water treatment businesses; and

- price declines, primarily related to large international water treatment projects for reverse osmosis housings.

Enclosures

The following table and discussion provides a comparison of our Enclosures segment operating income as reported, and those results excluding goodwill amortization and restructuring charges.

<i>In thousands</i>	2003	% of sales	2002	% of sales	2001	% of sales
Operating income as reported	\$51,094	8.8%	\$29,942	5.4%	\$ 1,857	0.3%
Add back goodwill amortization	—	n/a	—	n/a	8,273	1.2%
Add back restructuring charge	—	n/a	—	n/a	39,382	5.7%
Operating income excluding goodwill amortization and restructuring charge	\$51,094	8.8%	\$29,942	5.4%	\$49,512	7.2%
Percentage point change		3.4 pts		(1.8) pts		

The 3.4 percentage point increase in Enclosures segment operating income as a percent of net sales in 2003 from 2002 was primarily due to:

- efficiencies resulting from our continued implementation of PIMS and stronger sourcing practices;
- volume-related efficiencies and improved product mix; and
- shifting more production to lower-cost labor markets.

These increases were partially offset by:

- expenses related to downsizing.

The 1.8 percentage point decline in Enclosures segment operating income as a percent of net sales in 2002 from 2001 was primarily due to:

- lower sales volume due to continuing significant industry-wide sales declines, resulting in unabsorbed overhead despite reductions in overall cost structure.

The decline was partially offset by:

- savings realized as part of our restructuring program, net of one-time nonrecurring costs.

Tools

The following table and discussion provides a comparison of our Tools segment operating income as reported, and those results excluding goodwill amortization.

<i>In thousands</i>	2003	% of sales	2002	% of sales	2001	% of sales
Operating income as reported	\$81,774	7.6%	\$97,598	8.9%	\$63,232	6.3%
Add back goodwill amortization	—	n/a	—	n/a	9,274	0.9%
Operating income excluding goodwill amortization	\$81,774	7.6%	\$97,598	8.9%	\$72,506	7.2%
Percentage point change		(1.3) pts		1.7 pts		

The 1.3 percentage point decrease in Tools segment operating income as a percent of net sales in 2003 from 2002 was primarily due to:

- a decline in average selling prices due to increased promotional pricing;
- lower sales volumes;

- higher ocean transportation costs and higher raw material prices;
- anticipated settlement and defense costs for a class action suit launched against the compressor industry for alleged mislabeling; and
- expenses related to capacity downsizing.

These decreases were partially offset by:

- cost savings as a result of our supply management and PIMS initiatives;
- lower distribution and outbound freight costs.

The 1.7 percentage point increase in Tools segment operating income as a percent of net sales in 2002 from 2001 was primarily due to:

- higher sales volume, partially offset by price declines due to promotional discounting;
- cost savings as a result of our supply management and PIMS initiatives; and
- the fourth quarter 2002 acquisition of Oldham Saw.

Net interest expense

<i>In thousands</i>	2003	% of sales	2002	% of sales	2001	% of sales
Net interest expense	\$40,936	1.5%	\$43,545	1.7%	\$61,488	2.4%
Percentage point change		(0.2) pts		(0.7) pts		

The 0.2 percentage point decrease in interest expense in 2003 from 2002 was primarily the result of:

- lower interest rates partially offset by interest expense related to the financing of our 2003 acquisitions and a \$1.6 million charge for accrued interest on the judgment in the Horizon litigation discussion in Item 3.

The 0.7 percentage point decrease in interest expense in 2002 from 2001 was primarily the result of:

- lower average borrowings driven by our strong cash flow performance in both 2002 and 2001, and lower interest rates on our variable rate debt.

Provision for income taxes

The following table and discussion provides a comparison of our provision for income taxes for continuing operations as reported, and those results excluding goodwill amortization.

<i>In thousands</i>	2003	2002	2001
Income from continuing operations before income taxes	\$218,618	\$192,447	\$ 93,288
Add back goodwill amortization	—	—	36,107
Income from continuing operations before income taxes, excluding goodwill amortization	\$218,618	\$192,447	\$129,395
Provision for income taxes as reported	\$ 74,330	\$ 62,545	\$ 35,772
Effective tax rate as reported	34.0%	32.5%	38.3%
Tax effect of goodwill amortization	—	—	4,064
Provision for income taxes excluding goodwill amortization	\$ 74,330	\$ 62,545	\$ 39,836
Effective tax rate excluding goodwill amortization	34.0%	32.5%	30.8%

The 1.5 percentage point increase in the tax rate in 2003 from 2002 was primarily the result of:

- the increase and mix of our 2003 domestic and foreign earnings coupled with our tax savings programs that are relatively fixed in nature.

The 1.7 percentage point increase in the tax rate in 2002 from 2001 was primarily the result of:

- increased percentage of earnings taxed in countries with higher marginal rates.

Before any effects of our planned acquisition of WICOR, we expect our effective tax rate on continuing operations to be approximately 34 percent in 2004. Our ultimate effective tax rate will depend on the timing of the planned WICOR acquisition and WICOR's actual tax attributes.

Discontinued operations/divestitures

In December 2000, we adopted a plan to sell our Equipment segment businesses, Service Equipment (Century Mfg. Co./Lincoln Automotive Company) and Lincoln Industrial, Inc. (Lincoln Industrial). In October 2001, we completed the sale of the Service Equipment businesses to Clore Automotive, LLC for total consideration of \$18.2 million. In December 2001, we completed the sale of Lincoln Industrial to affiliates of The Jordan Company LLC (Jordan), other investors, and members of management of Lincoln Industrial for total consideration of \$78.4 million, including a preferred stock interest. The selling price of Lincoln Industrial was subject to a final purchase price adjustment that was finalized in January 2003, in which we paid Jordan \$2.4 million. In the fourth quarter of 2003, we reported an additional loss from discontinued operations of \$2.9 million, or \$0.06 per diluted share, primarily due to a reduction in estimated proceeds related to exiting two remaining facilities.

LIQUIDITY AND CAPITAL RESOURCES

Cash requirements for working capital, capital expenditures, equity investments, acquisitions, debt repayments, and dividend payments are generally funded from cash generated from operations, availability under existing committed revolving credit facilities, and in certain instances, equity and debt transactions.

The following table presents selected working capital measurements calculated from our monthly operating results based on a 13-month moving average and indicates our emphasis on working capital management:

<i>Days</i>	December 31 2003	December 31 2002	December 31 2001
Days of sales in accounts receivable	56	59	65
Days inventory on hand	63	63	75
Days in accounts payable	51	53	59
Cash conversion cycle	68	69	81

Operating activities

Operating activities provided cash flow of \$262.9 million in 2003, compared with \$270.8 million in 2002 and \$232.3 million in 2001. The \$7.9 million decrease in 2003 from 2002 was primarily due to smaller benefits from working capital improvements offset by an increase in net income. The \$38.5 million increase in 2002 from 2001 was primarily due an increase in net income and better working capital management.

Investing activities

Capital expenditures in 2003, 2002, and 2001 were \$43.6 million or 1.6 percent of sales, \$56.7 million (including \$23.0 million for the acquisition of a previously leased facility) or 2.2 percent of sales, and \$53.7 million or 2.1 percent of sales, respectively. We anticipate capital expenditures in 2004 to be approximately \$50.0 million primarily in the areas of new product development and general maintenance capital.

On December 31, 2003, we acquired all of the common stock of Everpure, Inc. (Everpure), from United States Filter Corporation, a unit of Veolia Environnement, for \$217.3 million in cash, including cash acquired of \$5.5 million.

During 2003, we also completed four product line acquisitions in our Water segment for total consideration of \$21.4 million in cash: Hydrotemp Manufacturing Co., Inc., Letro Products, Inc. and certain assets of TwinPumps, Inc. and K&M Plastics, Inc.

In the first quarter of 2003, we received \$1.9 million in purchase price adjustments relative to our fourth quarter 2002 acquisition of Plymouth Products. The adjustments primarily related to final determination of closing date net assets.

In January 2003, we paid \$2.4 million for a final adjustment to the selling price related to the disposition of Lincoln Industrial. This had no effect on earnings for the twelve months ended December 31, 2003 as the amount was offset by previously established reserves.

In the fourth quarter of 2002, we acquired Plymouth Products and Oldham Saw for \$174.7 million total consideration, including debt assumed of \$2.7 million and cash acquired of \$1.7 million.

We have invested approximately \$30.5 million to acquire a 49 percent interest in the joint venture operations of a long time Asian supplier for bench top power tools, of which \$5.6 million was paid in 2003, \$4.5 million was paid in 2002 and \$20.4 million was paid in 2001. In February 2004, we signed a letter of intent to purchase the remaining 51 percent ownership interest in this supplier.

We periodically review our array of businesses in comparison to our overall strategic and performance objectives. As part of this review, we may routinely acquire or divest certain businesses.

Financing activities

Net cash provided by financing activities approximated \$33.8 million in 2003 compared with net cash used by financing activities of \$38.6 million in 2002 and \$222.9 million in 2001. Financing activities in 2003 were comprised of a \$200 million private placement of senior notes with 10-year maturities and a new committed \$500 million revolving credit facility (the "Credit Facility") which matures in three years. The \$500 million Credit Facility replaced two existing revolving credit facilities totaling \$652 million of credit availability. Interest rates and fees on the Credit Facility vary based on our credit ratings. The \$200 million private placement included \$100 million of variable rate senior notes with an interest rate equal to the three-month LIBOR rate plus 1.15 percent and \$100 million of fixed rate senior notes with an average interest rate of 4.98 percent. We used the \$200 million proceeds received in the second half of 2003 from the private placement to pay down debt under the Credit Facility.

Financing activities included draw downs and repayments on the revolver to fund our operations in the normal course of business. We used the revolver to fund our acquisitions of Everpure for \$217.3 million in 2003 and Plymouth Products and Oldham Saw for \$174.7 million in 2002.

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. The Credit Facility is used as back-up liquidity to support 100% of commercial paper outstanding. As of December 31, 2003, we have \$64.8 million of commercial paper outstanding that matures within 30 days. All of the commercial paper is classified as long-term as we intend and have the ability to refinance such obligations on a long-term basis.

Credit available under our Credit Facility, as limited by our most restrictive financial covenant, was approximately \$228 million and is based on a ratio of total debt to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). In addition, our debt agreements contain certain financial covenants that restrict the amount we may pay for dividends and require us to maintain certain financial ratios and a minimum net worth. We were in compliance with all covenants as of December 31, 2003.

In addition to the Credit Facility, we have \$55 million of uncommitted credit facilities, under which we had \$10 million outstanding as of December 31, 2003.

At December 31, 2003, our capital structure consisted of \$806.5 million in total indebtedness and \$1,261.5 million in shareholders' equity. The ratio of debt-to-capital was 39.0 percent, compared with 39.9 percent at December 31, 2002. Our targeted debt-to-total capital ratio range is approximately 40 percent. We will exceed this target from time to time as needed for operational purposes and/or acquisitions.

The following summarizes our significant contractual obligations that impact our liquidity:

<i>In thousands</i>	Payments Due by Period						Total
	2004	2005	2006	2007	2008	More than 5 Years	
Long-term debt obligations	\$ 72,465	\$ 396	\$240,092	\$37,822	\$ —	\$450,000	\$800,775
Capital lease obligations	—	—	—	—	—	—	—
Operating lease obligations, net of sublease rentals	25,977	21,362	15,975	10,233	7,914	18,737	100,198
Purchase obligations	—	—	—	—	—	—	—
Other long-term liabilities	4,466	4,639	4,802	4,034	2,392	924	21,257
Total contractual cash obligations, net	\$102,908	\$26,397	\$260,869	\$52,089	\$10,306	\$469,661	\$922,230

A purchase obligation is defined as an agreement to purchase goods or services that is enforceable and legally binding on us that specifies all significant terms. The purchase obligation amounts do not represent our total anticipated future purchases, but represent those purchases for which we are contractually obligated. As of December 31, 2003, we did not have any purchase obligations requiring cash outflows of \$1 million or greater per year.

Dividends paid in 2003 were \$40.5 million, compared with \$36.4 million in 2002, and \$34.3 million in 2001. The year-over-year increases reflect an increase in our annual per-share dividend of \$0.82 in 2003, compared with \$0.74 in 2002, and \$0.70 in 2001. We have paid dividends for the past 28 years and anticipate paying future dividends.

On February 4, 2004, we announced that we had entered into an agreement to acquire WICOR Inc. ("WICOR"), a unit of Wisconsin Energy Corporation, Milwaukee, Wisconsin. We expect to fund the WICOR acquisition through our currently available and newly committed lines of credit. We have obtained a commitment, subject to customary conditions, in the aggregate amount of \$850 million (the "Bridge Facility"), for the payment of the purchase price. The Bridge Facility is available for a period up to the earlier of (i) September 1, 2004, (ii) the closing of the acquisition without the use of the Bridge Facility or (iii) the sale of the Pentair Tools Group.

The term loan to be made under the Bridge Facility (the "Loan"), pursuant to a formal loan agreement to be negotiated, is contemplated to be available in a single disbursement upon closing of the WICOR acquisition and is for the purpose of payment of the purchase price and related fees and expenses. The closing of the Loan must occur before September 1, 2004. Any balance due under the Loan is repayable in full, with accrued interest, no later than December 31, 2004. We will need to fund the repayment of the Bridge Facility by December 31, 2004 through a disposition of our Tools Group or through equity issuance.

As a result of our announcement of an agreement to acquire WICOR, see Note 18, Moody's Investor Services has confirmed our long-term bank rating of Baa3 and changed the outlook to negative from stable. At the same time, Standard and Poor's Rating Services has placed our BBB corporate credit and other ratings on CreditWatch with negative implications. The change in rating outlook to negative from stable reflects the increased financial and integration risks associated with the planned acquisition of WICOR. In addition, the timing and nature of any outcome resulting from the exploration of strategic alternatives for the Tools segment remains uncertain and

subject to execution risk. In a related action, Moody's Investor Services placed the Baa3 senior unsecured rating on our \$250 million notes and the Baa3 rating on senior notes under our \$225 million shelf registration under review for possible downgrade, due to the structural subordination thereof. Existing lenders under our Credit Facility and private placement notes benefit from guarantees from our domestic subsidiaries, while the \$250 million senior note holders do not benefit from such guarantees. We are putting in place a similar guarantee for the benefit of the \$250 million senior note holders to avoid the downgrade due to the structural subordination.

We are seeking to obtain an amendment to the Credit Facility to allow an increase to the ratio of total debt to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) for the period of the Bridge Facility, which we believe will be granted by the banks participating in our Credit Facility. In addition, during the period the Bridge Facility is outstanding, additional limitations will be placed on share repurchases, dividends, acquisitions and sales of assets.

In 2004, interest expense will be primarily driven by the timing of the closing of the WICOR acquisition and any strategic alternative we pursue for our Tools segment.

We expect to continue to have cash requirements to support working capital needs and capital expenditures, to pay interest and service debt and to pay dividends to shareholders. 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.

Long-term debt and lines of credit are explained in detail in ITEM 8, Note 9 of the Notes to Consolidated Financial Statements. Operating leases are explained in detail in ITEM 8, Note 16 of the Notes to Consolidated Financial Statements.

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. Free cash flow is a non-GAAP financial measure that we use to assess our cash flow performance and have a long-term goal to consistently generate free cash flow that equals or exceeds 100 percent conversion of net income. We believe our ability to convert net income into free cash flow gives us opportunities to invest in new growth initiatives to create shareholder value. We believe free cash flow is an important measure of operating performance because it provides us and our investors a measurement of cash generated from operations that is available to fund acquisitions and repay debt. In addition, free cash flow is used as criteria to measure and pay compensation-based incentives. The following table is a reconciliation of free cash flow with cash flows from operating activities:

<i>In thousands</i>	Twelve Months Ended December 31		
	2003	2002	2001
Cash flow provided by operating activities	\$262,939	\$270,794	\$232,334
Capital Expenditures	(43,622)	(33,744)	(53,668)
Free Cash Flow	\$219,317	\$237,050	\$178,666

Before any effects of our planned acquisition of WICOR, we expect 2004 free cash flow to exceed \$200 million.

Off-balance sheet arrangements

At December 31, 2003, we had no off-balance sheet financing arrangements.

COMMITMENTS AND CONTINGENCIES

Environmental

We have been named as defendants, targets, or potentially responsible parties (PRPs) in a small number of environmental cleanups, in which our current or former business units have generally been given *de minimis*

status. To date, none of these claims have resulted in cleanup costs, fines, penalties, or damages in an amount material to our financial position or results of operations. We have disposed of a number of businesses over the past ten years and in certain cases, such as the disposition of the Cross Pointe Paper Corporation uncoated paper business in 1995, the disposition of the Federal Cartridge Company ammunition business in 1997, and the disposition of Lincoln Industrial in 2001, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers both of the paper business and the ammunition business and have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities. We have recently settled one such claim in 2003 and our recorded accrual was adequate.

In addition, there are pending environmental issues concerning a limited number of sites, including one site acquired in the acquisition of Essef Corporation in 1999 that relates to operations no longer carried out at that site. We have established what we believe to be adequate accruals for remediation costs at this and other sites. We do not believe that projected response costs will result in a material liability.

We may be named as a PRP at other sites in the future, for both divested and acquired businesses. When it has been possible to provide reasonable estimates of our liability with respect to environmental sites, provisions have been made in accordance with generally accepted accounting principles in the United States. As of December 31, 2003, our reserve for such environmental liabilities was approximately \$11.2 million, measured on an undiscounted basis. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental cleanup costs and liabilities will not exceed the amount of our current reserves.

Stand-by letters of credit

In the ordinary course of business, predominantly in our pumps business, we are required to commit to bonds that require payments to our customers for any non-performance. The outstanding face value of the bonds fluctuates with the value of our projects in process and in our backlog. In addition, we issue financial stand-by letters of credit to secure our performance to third parties under self-insurance programs and certain legal matters. As of December 31, 2003 and 2002, the outstanding value of these instruments totaled \$35.0 million and \$19.8 million, respectively.

NEW ACCOUNTING STANDARDS

See ITEM 8, Note 1 of the Notes to Consolidated Financial Statements for information pertaining to recently adopted accounting standards or accounting standards to be adopted in the future.

CRITICAL ACCOUNTING POLICIES

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are more fully described in Item 8, Note 1 to our consolidated financial statements. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, and information available from other outside sources, as appropriate. We consider an accounting estimate to be critical if:

- it requires us to make assumptions about matters that were uncertain at the time we were making the estimate; and
- changes in the estimate or different estimates that we could have selected would have had a material impact on our financial condition or results of operations.

Our critical accounting estimates include the following:

Impairment of Goodwill

The fair value of each of our reporting units was estimated by an independent third party using a combination of the discounted cash flow, market comparable, and market capitalization approaches. The test for impairment requires us to make several estimates about projected future cash flows and appropriate discount rates. If these estimates change, we may incur charges for impairment of goodwill. During the fourth quarter of 2003, we completed our annual impairment test of goodwill and determined there was no impairment.

Impairment of Long-lived Assets Including Cost and Equity Method Investments

We review the recoverability of long-lived assets to be held and used, such as property, plant and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. The measurement of impairment requires us to estimate future cash flows and the fair value of long-lived assets.

At the end of 2003, we have \$57.4 million invested in certain privately held companies accounted for under the equity and cost methods. We write down or write off an investment and recognize a loss when events or circumstances indicate there is impairment in the investment that is other-than-temporary. This requires significant judgment, including assessment of the investees' financial condition, and in certain cases the possibility of subsequent rounds of financing, as well as the investees' historical results of operations, and projected results and cash flows. If the actual outcomes for the investees are significantly different from projections, we may incur future charges for the impairment of these investments.

Pension

We sponsor domestic and foreign defined-benefit pension and other post-retirement plans. The amounts recognized in our consolidated financial statements related to our defined-benefit pension and other post-retirement plans are determined from actuarial valuations. Inherent in these valuations are assumptions including expected return on plan assets, discount rates, rate of increase in future compensation levels, and health care cost trend rates. These assumptions are updated annually and are disclosed in Item 8, Note 12 to the Consolidated Financial Statements. Changes to these assumptions will affect pension expense.

Discount rate

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of year based on our December 31 measurement date. The discount rate was determined by matching our expected benefit payments to payments from a stream of AA or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions. As a relatively young company, with a longer duration of liabilities than older companies with more mature workforces, this produced a discount rate of 6.25 percent. There are no known or anticipated changes in our discount rate assumption that will impact our pension expense in 2004. A 25 basis point decrease (increase) in our discount rate, holding constant our expected long-term return on plan assets and other assumptions, would increase (decrease) pension expense by approximately \$1.4 million per year. We elected to utilize a 25 basis point hypothetical change as the assumption difference to demonstrate the sensitivity of our pension expense to a change in the discount rate.

Expected rate of return

The expected rate of return on plan assets is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical ten year compounded return of 9.5 percent, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer term market indices. In 2003, the pension plan assets yielded a positive return of 24.8 percent, compared to negative returns of 10.5 percent and 4.1 percent in 2002 and 2001, respectively. Our expected rate of return in 2003 equaled 8.5 percent, which remained unchanged from 2002 and 2001. In 2003, the significant difference between our expected return on plan assets of \$24.7 million compared to our actual return on plan assets of \$55.5 million was primarily due to the economic recovery and the resurgence of the financial markets. There are no known or anticipated changes in our return assumption that will impact our pension expense in 2004. A one percent decrease (increase) in the expected return on plan assets assumption, holding constant our discount rate and other assumptions, would increase (decrease) pension expense by approximately \$3.1 million per year. We elected to use a one percent hypothetical change as the assumption difference facilitates extrapolation of changes in the expected rate of return assumption.

We base our determination of pension expense or income on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets. Since the market-related value of assets recognizes gains or losses over a five-year-period, the future value of assets will be impacted as previously deferred gains or losses are recorded.

Pension-related adjustments to equity

In 2002, our discount rate was lowered from 7.25 percent to 6.25 percent and we realized a negative 10.5 percent return on plan assets which caused the accumulated benefit obligation to exceed the fair market value of plan assets as of December 31, 2002. This unfunded accumulated benefit obligation, plus the existing prepaid asset, was the primary cause of a \$29.2 million net-of-tax charge to shareholders' equity for 2002. The recovery of the financial markets in 2003 and positive return on plan assets of 24.8 percent eliminated \$20.9 million of the charge to shareholders' equity. The charge did not impact earnings.

Net periodic benefit cost

Total net periodic pension benefits cost was \$15.7 million in 2003, \$12.6 million in 2002, and \$10.6 million in 2001. Total net periodic pension benefits cost is expected to be approximately \$17.0 million in 2004. The increasing trend in net periodic pension cost from 2001 forward is largely driven by the downturn in the financial markets in 2002 and 2001 and the decrease in the discount rate in 2002. The net periodic pension benefit cost for 2004 has been estimated assuming a discount rate of 6.25 percent and an expected return on plan assets of 8.5 percent.

Unrecognized pension losses

As of December 31, 2003 measurement date, our pension plans have \$75.7 million of cumulative unrecognized losses of which approximately \$20 million relates to the use of the market related value method and is not immediately subject to amortization. The remaining unrecognized loss, to the extent it exceeds 10% of the projected benefit obligation, will be amortized into expense each year on a straight-line basis over the remaining expected future-working lifetime of active participants (currently approximately 12 years). The amount included in pension expense for loss amortization in 2003 was \$0.5 million.

Contributions

Pension contributions in 2003 total \$19.1 million, including \$15.1 million of contributions to domestic defined benefit pension plans. In 2002, pension contributions totaled \$18.9 million, including \$15.3 million of contributions to domestic defined benefit plans. The contributions in 2003 and 2002 exceeded the minimum funding requirement. Our 2004 pension contributions are expected to be in the range of \$10 million to \$15 million.

Asset allocation

Our actual overall asset allocation for the plans as compared to our investment policy goals is as follows:

Asset Class	Actual⁽¹⁾	Investment Policy		
		Target	Minimum	Maximum
Large Capitalization U.S. Stocks	21%	25%	20%	30%
Small/Mid Capitalization, U.S. Stocks	22%	20%	15%	25%
Pentair Stock	8%	5%	3%	7%
International (Non-U.S.) Stocks	12%	15%	10%	20%
Private Equity	1%	5%	0%	10%
Fixed Income (Bonds)	17%	20%	15%	25%
Other Investments	12%	10%	5%	15%
Cash	7%	0%	0%	0%

⁽¹⁾ Actual asset allocation as of December 31, 2003.

We regularly review our asset allocation and periodically rebalance our investments to our targeted allocation when considered appropriate. Our cash balance is higher than normal due to a \$15.1 million contribution made to our domestic defined benefit plans as of December 31, 2003. From time to time, we may be outside our targeted ranges by amounts we deem acceptable.

Equity securities include Pentair common stock in the amount of \$21.6 million (8 percent of total plan assets) and \$16.3 million (7 percent of total plan assets) at December 31, 2003, and 2002, respectively.

See ITEM 8, Note 12 of the Notes to Consolidated Financial Statements for further information regarding pension plans.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. We are exposed to various market risks, including changes in interest rates and foreign currency rates. We use derivative financial instruments to manage and reduce the impact of some of these risks. We do not hold or issue derivative financial instruments for speculative or trading purposes.

Interest rate risk

We are exposed to changes in interest rates primarily as a result of our borrowing activities used to fund operations. Interest rate swaps are used to manage a portion of our interest rate risk. The table below presents principal cash flows and related interest rates by year of maturity for variable rate and fixed rate debt obligations. Variable interest rates disclosed represent the weighted-average rate of the portfolio at each period end. Notional amounts and related interest rate of interest rate swaps are presented by year of maturity. For the swaps, variable rates are the average forward rates for the term of each contract.

<i>Dollars in thousands</i>	Expected year of maturity						Total	Fair value
	2004	2005	2006	2007	2008	Thereafter		
Long-term debt, including current portion								
Variable rate	\$ 20,000	\$ —	\$ 239,006	\$ —	\$ —	\$ 100,000	\$ 359,006	\$ 359,006
Average interest rate	1.96%	—	2.16%	—	—	2.26%	2.17%	
Fixed rate	52,465	396	1,086	37,822	—	350,000	441,769	483,233
Average interest rate	6.39%	1.83%	1.83%	6.61%	—	7.03%	6.90%	
Portion subject to interest rate swaps								
Variable to fixed	20,000	20,000	—	—	—	—	40,000	(1,865)
Average rate to be received	1.23%	2.55%	—	—	—	—	1.61%	
Average rate to be paid	6.31%	6.31%	—	—	—	—	6.31%	
Fixed to variable	—	—	—	—	—	100,000	100,000	(987)
Average rate to be received	—	—	—	—	—	7.85%	7.85%	
Average rate to be paid	—	—	—	—	—	8.01%	8.01%	

Foreign currency risk

We are exposed to foreign exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries, including subsidiary debt. We have entered into foreign currency forward exchange agreements with a major financial institution to hedge firm foreign currency commitments. In 2003, the following forward exchange agreements matured: receive \$50.0 million U.S. dollars, pay \$69.4 million Canadian dollars, receive \$69.4 million Canadian dollars, and pay \$45.3 million Euros. As of December 31, 2003, the following table presents principal cash flows and fair values of our open currency forward exchange agreements:

<i>In thousands</i>	Expected year of maturity						Total	Fair value
	2004	2005	2006	2007	2008	Thereafter		
Forward exchange agreements ⁽¹⁾								
Pay Euros	\$(13,844)	\$ —	\$ —	\$ —	\$ —	\$ —	\$(13,844)	
Pay Singapore dollars	(20)	—	—	—	—	—	(20)	
Pay Swiss Francs	(1,202)	—	—	—	—	—	(1,202)	
Pay British Pounds	(4,286)	—	—	—	—	—	(4,286)	
Receive USD	25,744	—	—	—	—	—	25,744	
Total exchange loss								\$ (327)

⁽¹⁾ Foreign exchange information is presented in local currency by maturity, however, the fair value is presented in U.S. dollars.

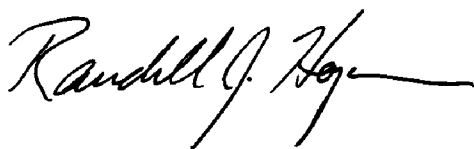
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

We are responsible for the integrity and objectivity of the financial information presented in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include certain amounts based on our best estimates and judgment.

We are also responsible for establishing and maintaining our accounting systems and related internal controls, which are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded. These systems and controls are reviewed by the internal auditors. In addition, our code of conduct states that our affairs are to be conducted under the highest ethical standards.

The independent auditors provide an independent review of the financial statements and the fairness of the information presented therein. The Audit and Finance Committee of the Board of Directors, composed solely of outside directors, meets regularly with us, our internal auditors, and our independent auditors to review audit activities, internal controls, and other accounting, reporting, and financial matters. Both the independent auditors and internal auditors have unrestricted access to the Audit and Finance Committee.



Randall J. Hogan
Chairman and Chief Executive Officer



David D. Harrison
Executive Vice President and Chief Financial Officer

Golden Valley, Minnesota
March 4, 2004

INDEPENDENT AUDITORS' REPORT

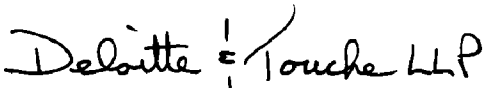
Board of Directors and Shareholders of Pentair, Inc.

We have audited the accompanying consolidated balance sheets of Pentair, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pentair, Inc. and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

The image shows a handwritten signature in black ink. The signature reads "Deloitte Touche LLP". The word "Deloitte" is written in a cursive style, followed by a vertical line and an equals sign, then "Touche" in a similar cursive style, and finally "LLP" in a more blocky, uppercase cursive style.

Minneapolis, Minnesota
March 4, 2004

Pentair, Inc. and Subsidiaries
Consolidated Statements of Income

<i>In thousands, except per-share data</i>	Years ended December 31		
	2003	2002	2001
Net sales	\$2,724,365	\$2,580,783	\$2,574,080
Cost of goods sold	2,045,327	1,965,076	1,967,945
Gross profit	679,038	615,707	606,135
Selling, general and administrative	375,586	342,806	377,098
Research and development	43,898	36,909	31,171
Restructuring charge	—	—	40,105
Operating income	259,554	235,992	157,761
Interest income	654	793	960
Interest expense	41,590	44,338	62,448
Other expense, write-off of investment	—	—	2,985
Income from continuing operations before income taxes	218,618	192,447	93,288
Provision for income taxes	74,330	62,545	35,772
Income from continuing operations	144,288	129,902	57,516
Loss from discontinued operations, net of tax	(2,936)	—	(24,647)
Net income	\$ 141,352	\$ 129,902	\$ 32,869
Earnings per common share			
Basic			
Continuing operations	\$ 2.95	\$ 2.64	\$ 1.17
Discontinued operations	(0.06)	—	(0.50)
Basic earnings per common share	\$ 2.89	\$ 2.64	\$ 0.67
Diluted			
Continuing operations	\$ 2.90	\$ 2.61	\$ 1.17
Discontinued operations	(0.06)	—	(0.50)
Diluted earnings per common share	\$ 2.84	\$ 2.61	\$ 0.67
Weighted average common shares outstanding			
Basic	48,938	49,235	49,047
Diluted	49,810	49,744	49,297

See accompanying notes to consolidated financial statements.

Pentair, Inc. and Subsidiaries
Consolidated Balance Sheets

<i>In thousands, except share and per-share data</i>	December 31	
	2003	2002
Assets		
Current assets		
Cash and cash equivalents	\$ 47,989	\$ 39,648
Accounts and notes receivable, net of allowance of \$15,359 and \$16,676, respectively	420,403	403,793
Inventories	285,577	293,202
Deferred tax assets	50,989	55,234
Prepaid expenses and other current assets	24,493	18,931
Total current assets	829,451	810,808
Property, plant and equipment, net	343,550	351,316
Other assets		
Goodwill	1,373,549	1,218,341
Intangibles, net	108,118	19,194
Other	126,009	114,791
Total other assets	1,607,676	1,352,326
Total assets	\$2,780,677	\$2,514,450
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	\$ —	\$ 686
Current maturities of long-term debt	73,631	60,488
Accounts payable	170,077	171,709
Employee compensation and benefits	84,587	84,965
Accrued product claims and warranties	37,148	36,855
Income taxes	13,198	12,071
Other current liabilities	118,810	109,426
Total current liabilities	497,451	476,200
Long-term debt	732,862	673,911
Pension and other retirement compensation	101,704	124,301
Post-retirement medical and other benefits	42,134	42,815
Deferred tax liabilities	78,532	31,728
Other noncurrent liabilities	66,516	59,771
Total liabilities	1,519,199	1,408,726
Commitments and contingencies		
Shareholders' equity		
Common shares par value \$0.16 ² / ₃ ; 49,502,542 and 49,222,450 shares issued and outstanding, respectively	8,250	8,204
Additional paid-in capital	492,619	482,695
Retained earnings	760,966	660,108
Unearned restricted stock compensation	(6,189)	(5,138)
Accumulated other comprehensive income (loss)	5,832	(40,145)
Total shareholders' equity	1,261,478	1,105,724
Total liabilities and shareholders' equity	\$2,780,677	\$2,514,450

See accompanying notes to consolidated financial statements.

Pentair, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

<i>In thousands</i>	Years ended December 31		
	2003	2002	2001
Operating activities			
Net income	\$ 141,352	\$ 129,902	\$ 32,869
Depreciation	61,129	58,833	62,674
Other amortization	4,514	5,869	5,568
Goodwill amortization	—	—	36,107
Deferred income taxes	33,134	29,677	(4,916)
Restructuring charge	—	—	41,060
Stock compensation	306	—	—
Other expense, write-off of investment	—	—	2,985
Loss from discontinued operations	2,936	—	24,647
Changes in assets and liabilities, net of effects of business acquisitions and dispositions			
Accounts and notes receivable	9,400	25,535	70,057
Inventories	25,782	29,717	87,840
Prepaid expenses and other current assets	(2,779)	8,147	383
Accounts payable	(15,530)	(18,356)	(68,488)
Employee compensation and benefits	(6,423)	6,289	(12,919)
Accrued product claims and warranties	(1,012)	(1,704)	(4,468)
Income taxes	2,349	5,863	9,942
Other current liabilities	3,135	(18,384)	(51,025)
Pension and post-retirement benefits	5,621	(4,787)	16,816
Other assets and liabilities	(179)	10,667	(6,950)
Net cash provided by continuing operations	263,735	267,268	242,182
Net cash provided by (used for) discontinued operations	(796)	3,526	(9,848)
Net cash provided by operating activities	262,939	270,794	232,334
Investing activities			
Capital expenditures	(43,622)	(33,744)	(53,668)
Acquisition of previously leased facility	—	(22,952)	—
Proceeds (payments) from sale of businesses	(2,400)	1,744	70,100
Acquisitions, net of cash acquired	(229,094)	(170,270)	(1,937)
Equity investments	(5,294)	(9,383)	(25,438)
Other	48	(7)	(186)
Net cash used for investing activities	(280,362)	(234,612)	(11,129)
Financing activities			
Net short-term borrowings (repayments)	(873)	665	(108,336)
Proceeds from long-term debt	780,857	462,599	2,811
Repayment of long-term debt	(709,886)	(468,161)	(84,525)
Proceeds from exercise of stock options	5,795	2,730	2,913
Repurchases of common stock	(1,589)	—	(1,458)
Dividends paid	(40,494)	(36,420)	(34,327)
Net cash provided by (used for) financing activities	33,810	(38,587)	(222,922)
Effect of exchange rate changes on cash	(8,046)	2,209	6,617
Change in cash and cash equivalents	8,341	(196)	4,900
Cash and cash equivalents, beginning of period	39,648	39,844	34,944
Cash and cash equivalents, end of period	\$ 47,989	\$ 39,648	\$ 39,844

See accompanying notes to consolidated financial statements.

Pentair, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

<i>In thousands, except share and per-share data</i>	Common shares		Additional paid-in capital	Retained earnings	Unearned restricted stock compensation	Accumulated other comprehensive income (loss)	Total	Comprehensive income
	Number	Amount						
Balance — December 31, 2000	48,711,955	\$8,119	\$468,425	\$568,084	\$(7,285)	\$(26,752)	\$1,010,591	
Net income				32,869			32,869	\$ 32,869
Cumulative effect of accounting change (SFAS 133)						6,739	6,739	6,739
Change in cumulative translation adjustment						(9,468)	(9,468)	(9,468)
Adjustment in minimum pension liability, net of \$399 tax benefit						(625)	(625)	(625)
Changes in market value of derivative financial instruments						1,188	1,188	1,188
Comprehensive income								<u>\$ 30,703</u>
Tax benefit of stock options			601				601	
Cash dividends — \$0.70 per common share				(34,327)			(34,327)	
Share repurchases	(50,000)	(8)	(1,450)				(1,458)	
Exercise of stock options, net of 174,407 shares tendered for payment	128,254	21	2,892				2,913	
Issuance of restricted shares, net of cancellations	320,650	61	7,662		(7,723)		—	
Amortization of restricted shares					5,568		5,568	
Stock compensation			411				411	
Balance — December 31, 2001	49,110,859	8,193	478,541	566,626	(9,440)	(28,918)	1,015,002	
Net income				129,902			129,902	\$129,902
Change in cumulative translation adjustment						25,659	25,659	25,659
Adjustment in minimum pension liability, net of \$18,670 tax benefit						(29,201)	(29,201)	(29,201)
Changes in market value of derivative financial instruments						(7,685)	(7,685)	(7,685)
Comprehensive income								<u>\$118,675</u>
Tax benefit of stock options			1,014				1,014	
Cash dividends — \$0.74 per common share				(36,420)			(36,420)	
Exercise of stock options, net of 45,547 shares tendered for payment	96,026	9	2,721				2,730	
Issuance of restricted shares, net of cancellations	28,233	4	980		(984)		—	
Amortization of restricted shares					5,286		5,286	
Shares surrendered by employees to pay taxes	(12,668)	(2)	(561)				(563)	
Balance — December 31, 2002	49,222,450	8,204	482,695	660,108	(5,138)	(40,145)	1,105,724	
Net income				141,352			141,352	\$141,352
Change in cumulative translation adjustment						27,220	27,220	27,220
Adjustment in minimum pension liability, net of \$13,339 tax expense						20,864	20,864	20,864
Changes in market value of derivative financial instruments						(2,107)	(2,107)	(2,107)
Comprehensive income								<u>\$187,329</u>
Tax benefit of stock options			1,696				1,696	
Cash dividends — \$0.82 per common share				(40,494)			(40,494)	
Share repurchases	(40,000)	(7)	(1,582)				(1,589)	
Exercise of stock options, net of 104,189 shares tendered for payment	224,150	37	5,758				5,795	
Issuance of restricted shares, net of cancellations	127,366	21	4,727		(4,748)		—	
Amortization of restricted shares					3,697		3,697	
Shares surrendered by employees to pay taxes	(31,424)	(5)	(1,094)				(1,099)	
Stock compensation			419				419	
Balance — December 31, 2003	49,502,542	\$8,250	\$492,619	\$760,966	\$(6,189)	\$ 5,832	\$1,261,478	

See accompanying notes to consolidated financial statements.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Fiscal year

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

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Pentair and all subsidiaries, both U.S. and non-U.S., that we control. Intercompany accounts and transactions have been eliminated. Investments in companies of which we own 20 percent to 50 percent of the voting stock and have the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting and, as a result, our share of the earnings or losses of such equity affiliates is included in the statement of income. The cost method of accounting is used for investments in which Pentair has less than a 20 percent ownership interest and we do not have the ability to exercise significant influence. These investments are carried at cost and are adjusted only for other-than-temporary declines in fair value.

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation.

Use of estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that could differ from those estimates. The critical accounting policies that require our most significant estimates and judgments include:

- the assessment of recoverability of long-lived assets, including goodwill, and cost and equity method investments; and
- accounting for pension benefits, because of the importance in making the estimates necessary to apply these policies.

Revenue recognition

We recognize revenue when it is realized or realizable and has been earned. Revenue is recognized when persuasive evidence of an arrangement exists; shipment or delivery has occurred (depending on the terms of the sale); the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Generally, there is no post-shipment obligation on product sold other than warranty obligations in the normal, ordinary course of business. In the event significant post-shipment obligations were to exist, revenue recognition would be deferred until substantially all obligations were satisfied.

Sales returns

The right of return may exist explicitly or implicitly with our customers. Revenue from a transaction is recognized only if our price is fixed and determinable at the date of sale; the customer has paid or is obligated to pay; the customer's obligation would not be changed in the event of theft or physical destruction or damage of the product, the customer has economic substance apart from our Company; we do not have significant obligations for future performance to directly bring about resale of the product by the customer; and the amount of returns can reasonably be estimated.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

In general, our return policy allows for customer returns only upon our authorization. Goods returned must be product we continue to market and must be in salable condition. Returns of custom or modified goods are normally not allowed.

At the time of sale, we reduce revenue for the estimated effect of returns. Estimated sales returns include consideration of historical sales levels, the timing and magnitude of historical sales return levels as a percent of sales, type of product, type of customer, and a projection of this experience into the future.

Pricing and sales incentives

We record estimated reductions to revenue for customer programs and incentive offerings including pricing arrangements, promotions, and other volume-based incentives at the later of the date revenue is recognized or the incentive is offered. Sales incentives given to our customers is recorded as a reduction of revenue unless we (1) receive an identifiable benefit for the goods or services in exchange for the consideration and (2) we can reasonably estimate the fair value of the benefit received. The following represents a description of our pricing arrangements, promotions, and other volume-based incentives:

Pricing arrangements

Pricing is established up front with our customers and we record sales at the agreed upon net selling price. However, one of our businesses allows customers to apply for a refund of a percentage of the original purchase price if they can demonstrate sales to a qualifying OEM customer. At the time of sale, we estimate the anticipated refund to be paid based on historical experience and reduce sales for the probable cost of the discount. The cost of these refunds is recorded as a reduction in gross sales.

Promotions

Our primary promotional activity is what we refer to as cooperative advertising. Under this cooperative advertising program, we agree to pay the customer a fixed percentage of sales as an allowance to be used to advertise and promote our products. The customer is not required to provide evidence of the advertisement or promotion. We recognize the cost of this cooperative advertising at the time of sale. The cost of this program is recorded as a reduction in gross sales.

Volume-based incentives

These incentives involve rebates that are negotiated up front with the customer and are redeemable only if the customer achieves a specified cumulative level of sales. Under these incentive programs, at the time of sale, we reforecast the anticipated rebate to be paid based on forecasted sales levels. These forecasts are updated at least monthly, for each customer and sales are reduced for the anticipated cost of the rebate. If the forecasted sales for a customer changes, the accrual for rebates is adjusted to reflect the new amount of rebates expected to be earned by the customer.

There has been no material accounting revisions for revenue-recognition related estimates.

Shipping and handling costs

Amounts billed to customers for shipping and handling is recorded in *net sales* in the accompanying consolidated statements of income. Shipping and handling costs incurred by Pentair for the delivery of goods to customers are included in *cost of goods sold* in the accompanying consolidated statements of income.

Cash equivalents

We consider highly liquid investments with original maturities of three months or less to be cash equivalents.

Trade receivables and concentration of credit risk

We record an allowance for doubtful accounts, reducing our receivables balance to an amount we estimate is collectible from our customers.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

We perform periodic credit evaluations of our customer's financial condition and generally do not require collateral. In addition, we encounter a certain amount of credit risk as a result of a concentration of receivables among a few significant customers. Approximately 23 percent and 25 percent of our receivables were due from three large home improvement retailers as of December 31, 2003 and 2002, respectively.

Inventories

Inventories are stated at the lower of cost or market. Inventories of United States subsidiaries are generally determined by the last-in, first-out (LIFO) method. Inventories of foreign-based subsidiaries are determined by the first-in, first-out (FIFO) and moving average methods.

Property, plant, and equipment

Property, plant, and equipment is stated at historical cost. We compute depreciation by the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Land improvements	5 to 20
Buildings and leasehold improvements	5 to 50
Machinery and equipment	3 to 15

Significant improvements that add to productive capacity or extend the lives of properties are capitalized. Costs for repairs and maintenance are charged to expense as incurred. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any related gains or losses are included in income.

We review the recoverability of long-lived assets to be held and used, such as property, plant and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. The measurement of impairment requires us to estimate future cash flows and the fair value of long-lived assets.

Goodwill and identifiable intangible assets

Goodwill represents the excess of the cost of acquired businesses over of the fair value of identifiable tangible net assets and identifiable intangible assets purchased.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Under the provisions of this statement, effective January 1, 2002, goodwill is no longer amortized but tested for impairment on an annual basis. During the fourth quarter of 2003, we completed our annual impairment test of goodwill and determined no impairment charge was necessary. The fair value of each of our reporting units was estimated by an independent third party using a combination of the discounted cash flow, market comparable, and market capitalization approaches.

The primary identifiable intangible assets of Pentair include trademarks and trade names acquired in business combinations, patents, non-compete agreements, proprietary technology and customer relationships. Under the provisions of SFAS No. 142, identifiable intangibles with finite lives are amortized and those identifiable intangibles with indefinite lives are not amortized. Identifiable intangible assets that are subject to amortization are

Pentair, Inc. and subsidiaries

Notes to consolidated financial statements — (continued)

evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Identifiable intangible assets not subject to amortization are tested for impairment annually, or more frequently if events warrant. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. During the fourth quarter of 2003, we completed our annual impairment test for those identifiable assets not subject to amortization and determined there was no impairment charge.

The following table illustrates the pro forma impact of the adoption of SFAS No. 142 on our income from continuing operations as well as basic and diluted earnings per share:

<i>In thousands, except per-share data</i>	2003	2002	2001
Income from continuing operations	\$144,288	\$129,902	\$57,516
Add back goodwill amortization	—	—	36,107
Less income taxes	—	—	(4,064)
Adjusted income from continuing operations	\$144,288	\$129,902	\$89,559
Reported earnings per share — basic (continuing operations)	\$ 2.95	\$ 2.64	\$ 1.17
Goodwill amortization, net of taxes	—	—	0.65
Adjusted earnings per share — basic (continuing operations)	\$ 2.95	\$ 2.64	\$ 1.82
Reported earnings per share — diluted (continuing operations)	\$ 2.90	\$ 2.61	\$ 1.17
Goodwill amortization, net of taxes	—	—	0.65
Adjusted earnings per share — diluted (continuing operations)	\$ 2.90	\$ 2.61	\$ 1.82

Weighted average common shares outstanding

Basic	48,938	49,235	49,047
Diluted	49,810	49,744	49,297

Our accounting policy prior to the adoption of SFAS No. 142 was to amortize goodwill on a straight-line basis over the estimated future periods to be benefited, principally between 25 and 40 years.

Cost and equity method investments

We have investments that are accounted for at historical cost or, if we have significant influence over the investee, using the equity method. Pentair's proportionate share of income or losses from investments accounted for under the equity method is recorded in the consolidated statements of income. We write down or write off an investment and recognize a loss when events or circumstances indicate there is impairment in the investment that is other-than-temporary. This requires significant judgment, including assessment of the investees' financial condition, and in certain cases the possibility of subsequent rounds of financing, as well as the investees' historical results of operations, and projected results and cash flows. If the actual outcomes for the investees are significantly different from projections, we may incur future charges for the impairment of these investments.

Income taxes

Pentair uses the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in our tax provision in the period of change.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

Environmental

We recognize environmental cleanup liabilities on an undiscounted basis when a loss is probable and can be reasonably estimated. Such liabilities generally are not subject to insurance coverage. The cost of each environmental cleanup is estimated by engineering, financial, and legal specialists based on current law. Such estimates are based primarily upon the estimated cost of investigation and remediation required and the likelihood that, where applicable, other potentially responsible parties (PRPs) will be able to fulfill their commitments at the sites where Pentair may be jointly and severally liable. For closed or closing plants owned by Pentair and properties being sold, an estimated liability is typically recognized at the time the closure decision is made or sale is recorded and is based on an environmental assessment of the plant property. The process of estimating environmental cleanup liabilities is complex and dependent primarily on the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, the uncertainty as to what remedy and technology will be required, and the outcome of discussions with regulatory agencies and other PRPs at multi-party sites. In future periods, new laws or regulations, advances in cleanup technologies, and additional information about the ultimate cleanup remedy that is used could significantly change our estimates.

Insurance subsidiary

We insure general and product liability, property, workers' compensation, and automobile liability risks through our wholly owned captive insurance subsidiary. Reserves for policy claims are established based on actuarial projections of ultimate losses. As of the end of 2003 and 2002, reserves for policy claims were \$32.4 million (\$10.0 million included in *accrued product claims and warranties* and \$22.4 million included in *other noncurrent liabilities*) and \$27.0 million (\$10.0 million included in *accrued product claims and warranties* and \$17.0 million included in *other noncurrent liabilities*).

Stock-based compensation

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, we apply the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, to our stock options and other stock-based compensation plans.

In accordance with APB Opinion No. 25, cost for stock based compensation is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. The exercise price for stock options granted to employees equals the fair market value of Pentair's common stock at the date of grant, thereby resulting in no recognition of compensation expense by Pentair. Restricted stock awards are recorded as compensation cost over the requisite vesting periods based on the market value on the date of grant. Unearned compensation cost on restricted stock awards is shown as a reduction to shareholders' equity.

Pentair, Inc. and subsidiaries

Notes to consolidated financial statements — (continued)

The following table illustrates the effect on income from continuing operations and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation. The estimated fair value of each Pentair option is calculated using the Black-Scholes option-pricing model.

<i>In thousands, except per-share data</i>	2003	2002	2001
Income from continuing operations — as reported	\$144,288	\$129,902	\$57,516
Less estimated stock-based employee compensation determined under fair value based method, net of tax	(5,601)	(3,412)	(3,900)
Income from continuing operations — pro forma	\$138,687	\$126,490	\$53,616
Earnings per common share — continuing operations			
Basic — as reported	\$ 2.95	\$ 2.64	\$ 1.17
Less estimated stock-based employee compensation determined under fair value based method, net of tax	(0.11)	(0.07)	(0.08)
Basic — pro forma	\$ 2.84	\$ 2.57	\$ 1.09
Diluted — as reported	\$ 2.90	\$ 2.61	\$ 1.17
Less estimated stock-based employee compensation determined under fair value based method, net of tax	(0.11)	(0.07)	(0.08)
Diluted — pro forma	\$ 2.79	\$ 2.54	\$ 1.09
Weighted average common shares outstanding			
Basic	48,938	49,235	49,047
Diluted	49,810	49,744	49,297

The weighted-average fair value of options granted in 2003, 2002, and 2001 was \$11.49, \$10.37, and \$7.17 per option, respectively. We estimated the fair values using the Black-Scholes option-pricing model, modified for dividends and using the following assumptions:

<i>Percentages</i>	2003	2002	2001
Risk-free interest rate	2.86%	3.75%	4.00%
Dividend yield	2.10%	2.10%	1.90%
Expected stock price volatility	40.00%	38.00%	42.00%
Expected lives	5.0 yrs.	5.5 yrs.	5.0 yrs.

Earnings per common share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding, including the dilutive effects of stock options and restricted stock. Unless otherwise noted, references are to diluted earnings per share.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

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

<i>In thousands, except per-share data</i>	2003	2002	2001
Earnings per common share — basic			
Continuing operations	\$144,288	\$129,902	\$ 57,516
Discontinued operations	(2,936)	—	(24,647)
Net income	\$141,352	\$129,902	\$ 32,869
Continuing operations	\$ 2.95	\$ 2.64	\$ 1.17
Discontinued operations	(0.06)	—	(0.50)
Basic earnings per common share	\$ 2.89	\$ 2.64	\$ 0.67
Earnings per common share — diluted			
Continuing operations	\$144,288	\$129,902	\$ 57,516
Discontinued operations	(2,936)	—	(24,647)
Net income	\$141,352	\$129,902	\$ 32,869
Continuing operations	\$ 2.90	\$ 2.61	\$ 1.17
Discontinued operations	(0.06)	—	(0.50)
Diluted earnings per common share	\$ 2.84	\$ 2.61	\$ 0.67
Weighted average common shares outstanding — basic	48,938	49,235	49,047
Dilutive impact of stock options and restricted stock	872	509	250
Weighted average common shares outstanding — diluted	49,810	49,744	49,297
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	623	749	1,327

Derivative financial instruments

Effective January 1, 2001, we adopted the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. These standards require us to recognize all derivatives, including those embedded in other contracts, as either assets or liabilities at fair value in our balance sheet. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the hedged item are recognized in earnings. If the derivative is designated and is effective as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the consolidated statements of income when the hedged item affects earnings. SFAS No. 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that is not designated as or does not qualify as a hedge, changes in fair value are reported in earnings immediately.

Foreign currency translation

The financial statements of subsidiaries located outside of the United States are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. The resultant translation adjustments are included in accumulated other comprehensive income, a separate component of stockholders' equity. Income and expense items are translated at average monthly rates of exchange.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

Cumulative effect of accounting change

The adoption of SFAS No. 133 on January 1, 2001, resulted in an increase to other assets and other noncurrent liabilities of \$7.5 million and \$0.8 million, respectively, and a cumulative transition adjustment of \$6.7 million in OCI. The transition adjustment relates to our hedging activities through December 31, 2000. Prior to the adoption of SFAS No. 133, financial instruments designated as hedges were not recorded in the financial statements, but cash flows from such contracts were recorded as adjustments to earnings as the hedged items affected earnings.

We use derivative financial instruments for the purpose of hedging interest rate and currency exposures, which exist as part of ongoing business operations. All hedging instruments are designated and effective as hedges, in accordance with the provisions of SFAS No. 133, as amended. We do not hold or issue derivative financial instruments for trading or speculative purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. Our policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

Other newly adopted accounting standards

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This new standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this standard on January 1, 2003 did not have a material impact on our consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This new standard nullifies EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires that a liability for a cost associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144, be recognized when the liability is incurred, rather than the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with earlier application encouraged. The adoption of this standard on January 1, 2003 did not have a material impact on our consolidated financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. Interpretation No. 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time an entity issues a guarantee, the issuing entity must recognize an initial liability for the fair value of the obligations it assumes under that guarantee. However, the provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties, guarantees accounted for as derivatives, or other guarantees of an entity's own future performance. We have adopted the disclosure requirements of the interpretation as of December 31, 2002. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and measurement provisions were not material to our consolidated financial position or results of operations.

In December 2003, the FASB revised SFAS No. 132, *Employers' Disclosures about Pensions and Other Post-retirement Benefits*. The revised standard requires new disclosures in addition to those required by the original standard about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

and other defined benefit post-retirement plans. As revised, SFAS No. 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by this standard are effective for interim periods beginning after December 15, 2003. However, disclosure of the estimated future benefit payments is effective for fiscal years ending after June 15, 2004. See Item 8, Note 12 for disclosures regarding our defined benefit pension plans and other post-retirement benefits.

New accounting standards to be adopted in the future

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities (VIE), an Interpretation of ARB No. 51*, which requires all VIEs to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE.

In December 2003, the FASB revised FIN 46, delaying the effective dates for certain entities created before February 1, 2003, and making other amendments to clarify application of the guidance. For potential variable interest entities other than any Special Purpose Entities (SPEs), the revised FIN 46 (FIN 46R) is now required to be applied no later than the end of the first fiscal year or interim reporting period ending after March 15, 2004. The original guidance under FIN 46 is still applicable, however, for all SPEs created prior to February 1, 2003 at the end of the first interim or annual reporting period ending after December 15, 2003. FIN 46 may be applied prospectively with a cumulative-effect adjustment as of the date it is first applied, or by restating previously issued financial statements with a cumulative-effect adjustment as of the beginning of the first year restated. FIN 46R also requires certain disclosures of an entity's relationship with variable interest entities. We will adopt FIN 46R for non-SPE entities in our first quarter ending April 3, 2004. We have not yet determined the effect of adopting the provisions of FIN 46R. However, we do not believe it will have a material effect on our consolidated financial position or results of operations.

On January 12, 2004, the FASB issued FASB Staff Position (FSP) No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. The FSP permits a sponsor of a post-retirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. We do not believe the FSP will have a material effect on our financial statements because we do not expect to receive significant subsidies under the Act.

2. Acquisitions

On December 31, 2003, we acquired all of the common stock of Everpure, Inc. (Everpure), from United States Filter Corporation, a unit of Veolia Environnement, for \$217.3 million in cash, including cash acquired of \$5.5 million. We believe Everpure will enhance our future growth in the commercial filtration segment. It is anticipated Everpure's strong trade name, industry leading technology, rapid product development capabilities, and broad footprint in North America, Europe, and Asia, will leverage the strengths of our Water segment and accelerate the long-term growth and profitability of Pentair.

The initial allocation of purchase price for the Everpure acquisition was based on preliminary estimates and may be revised as better information becomes available in 2004. The closing date balance sheet is expected to be delivered by March 31, 2004.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The initial purchase price of Everpure has been allocated based on management's estimates and independent appraisals as follows:

<i>In thousands</i>	Estimated Fair Value
Current assets	\$ 22,358
Property, plant, and equipment	4,993
Intangible assets	91,100
Goodwill	105,328
Other noncurrent assets	147
Total assets acquired	\$223,926
Current liabilities	\$ (6,505)
Deferred taxes	(170)
Total liabilities assumed	(6,675)
Net assets acquired	\$217,251

A preliminary valuation of the acquired intangible assets was performed by a third party valuation specialist to assist us in determining the fair value of each identifiable intangible. Standard valuation procedures were utilized in determining the fair value of the acquired intangibles. The following table summarizes the identified intangible asset categories and their weighted average amortization period:

<i>In thousands</i>	Amortization Period	Fair Value
Finite-life intangible assets		
Patents	10 Years	\$ 9,100
Non-compete agreements	4 Years	2,300
Proprietary technology	15 Years	12,900
Customer relationships	20 Years	25,000
Weighted average amortization period	16 Years	\$ 49,300
Indefinite-life intangible assets		
Trade marks and trade names	n/a	\$ 41,800
Goodwill	n/a	105,328*
		\$147,128

* Approximately \$104 million of goodwill is tax deductible.

During 2003, we also completed four product line acquisitions in our Water segment for total consideration of approximately \$21.4 million in cash.

- HydroTemp Manufacturing Co., Inc. (HydroTemp) designs and manufactures heat pumps for swimming pool applications.
- Letro Products, Inc. (Letro Products) designs and manufactures swimming pool accessories including cleaners.
- Certain assets of TwinPumps, Inc. (TwinPumps) are used in the design and manufacture of vortex and chopper pumps for municipal wastewater applications.

Pentair, Inc. and subsidiaries

Notes to consolidated financial statements — (continued)

- Certain assets of K&M Plastics, Inc., (K&M Plastics) are used in the design and manufacture of blow-molded brine tanks and pressure vessels for residential and commercial water conditioning and filtration applications.

We acquired HydroTemp and Letro Products in March 2003 to complement our existing pool and spa equipment business of our Water segment. We acquired certain assets of TwinPumps in July 2003. We will combine the assets of TwinPumps with our existing pump business of our Water segment to pursue replacement parts, replacement pumps, and new projects in the municipal wastewater business. We acquired certain assets of K&M Plastics, in July 2003, with the intent of establishing pressure vessel manufacturing capacity in China to better serve the fast growing Asian water market. The aggregated annual revenue of the acquired businesses is approximately \$22.0 million.

The allocation of the purchase price of these four product line acquisitions resulted in goodwill of \$17.3 million, all of which is tax deductible. We continue to evaluate the initial purchase accounting allocations for these acquisitions and will adjust the allocations as additional information relative to the fair market values of the assets and liabilities of the businesses become known.

In the first quarter of 2003, we received \$1.9 million in purchase price adjustments relative to our fourth quarter 2002 acquisition of Plymouth Products, Inc. (Plymouth Products) which was credited to reduce goodwill initially recorded at closing. The adjustments primarily related to final determination of closing date net assets.

On September 30, 2002, we acquired all of the common stock of Plymouth Products and affiliated entities from USF Consumer & Commercial WaterGroup, a unit of Vivendi Environnement (now Veolia Environnement), for total consideration of \$121.7 million, including debt assumed of \$1.2 million. Plymouth Products is a manufacturer of water filtration products used in residential, commercial, and industrial applications. Identifiable intangible assets acquired as part of the acquisition were \$8.0 million. Goodwill recorded as part of the initial purchase price allocation was \$79.7 million as of December 31, 2003. The purchase price allocation was finalized in the fourth quarter of 2003.

On October 1, 2002, we acquired all of the common stock of privately-held Oldham Saw Co., Inc. and affiliated entities (Oldham Saw) for total consideration of \$53.0 million cash, including debt assumed of \$1.5 million and cash acquired of \$1.7 million. Oldham Saw designs, manufactures, and markets router bits, circular saw blades, and related accessories for the do-it-yourself (DIY) and professional power tool markets. Identifiable intangible assets acquired as part of the acquisition were \$9.6 million. Goodwill recorded as part of the initial purchase price allocation was \$29.9 million. Pursuant to an earn-out provision, the purchase price could increase depending on Oldham Saw achieving certain net sales and EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) targets in 2003 and 2004. In 2003, there were no contingent payments made. In 2004, the maximum total contingent payments based on these targets could be \$1 million.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The following pro forma consolidated condensed financial results of operations for the years ended December 31, 2003, and 2002 are presented as if the acquisitions had been acquired at the beginning of each period presented.

<i>In thousands, except per-share data</i>	Years ended December 31	
	2003	2002
Net sales	\$2,795,720	\$2,765,190
Income from continuing operations	150,234	138,977
Loss on disposal of discontinued operations, net of tax	(2,936)	—
Net income	147,298	138,977
Earnings per common share		
<i>Basic</i>		
Continuing operations	\$ 3.07	\$ 2.82
Discontinued operations	(0.06)	—
Basic earnings per common share	\$ 3.01	\$ 2.82
<i>Diluted</i>		
Continuing operations	\$ 3.02	\$ 2.79
Discontinued operations	(0.06)	—
Diluted earnings per common share	\$ 2.96	\$ 2.79
Weighted average common shares outstanding		
Basic	48,938	49,235
Diluted	49,810	49,744

These pro forma consolidated condensed 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 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 on January 1 of each year presented, or of future results of the consolidated entities.

3. Discontinued Operations/Divestitures

In December 2000, we adopted a plan to sell our Equipment segment businesses, Service Equipment (Century Mfg. Co./Lincoln Automotive Company) and Lincoln Industrial, Inc. (Lincoln Industrial). In October 2001, we completed the sale of the Service Equipment businesses to Clore Automotive, LLC for total consideration of \$18.2 million. In December 2001, we completed the sale of Lincoln Industrial to affiliates of The Jordan Company LLC (Jordan), other investors, and members of management of Lincoln Industrial for total consideration of \$78.4 million, including a preferred stock interest. The selling price of Lincoln Industrial was subject to a final purchase price adjustment that was finalized in January 2003, in which we paid Jordan \$2.4 million which was charged to a previously established reserve.

Our financial statements have been restated to reflect the Equipment segment as a discontinued operation for all periods presented. Operating results of the discontinued Equipment segment are summarized below. The amounts exclude general corporate overhead previously allocated to the Equipment segment. The amounts include an allocation of interest based on a ratio of the net assets of the discontinued operations to the total net assets of Pentair.

Pentair, Inc. and subsidiaries

Notes to consolidated financial statements — (continued)

In the fourth quarter of 2003, we reported an additional loss from discontinued operations of \$2.9 million primarily due to a reduction in estimated proceeds related to exiting two remaining facilities. One facility is owned and the other facility is under an operating lease.

<i>In thousands</i>	2003	2002	2001
Net sales	\$ —	\$ —	\$189,782
Pre-tax loss on disposal of discontinued businesses	(4,517)	—	(36,298)
Tax benefit	1,581	—	11,651
Loss from discontinued operations, net of tax	\$(2,936)	\$ —	\$(24,647)

Net (liabilities) assets of the discontinued Equipment segment consisted of the following:

<i>In thousands</i>	2003	2002
Current assets	\$ —	\$ 190
Property, plant, and equipment, net	2,088	2,312
Current liabilities	(685)	(703)
Long-term liabilities	(3,393)	—
Net (liabilities) assets of discontinued operations	\$(1,990)	\$ 1,799

The net liabilities or assets of discontinued operations are included in the respective categories of other current assets, other current liabilities and other long-term liabilities in the consolidated balance sheets for 2003 and 2002.

At December 31, 2003, accruals totaling \$4.1 million represent the estimated future cash outflows associated with the exit from the leased facility. The owned facility is recorded at its estimated net realizable value.

4. Restructuring Charge

In the fourth quarter of 2001, we initiated a restructuring program designed to consolidate manufacturing operations and eliminate non-critical support facilities in our Enclosures segment. We also wrote off internal-use software development costs at corporate for the abandonment of a company-wide human resource system. Consequently, we recorded a restructuring charge of \$42.8 million, of which \$1 million is included in *cost of goods sold* on the consolidated statement of income for the write-down of inventory on certain custom enclosures product that were discontinued as a result of plant closures. In the fourth quarter of 2001, we also recorded a final change in estimate related to our 2000 restructuring charge that reduced the restructuring charge by \$1.7 million primarily due to favorable negotiation of contract termination costs. As of the end of 2001, the restructuring program initiated in 2000 was complete.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The major components of the 2001 restructuring charges and remaining restructuring liability follows:

<i>In thousands</i>	Employee termination Benefits	Non-cash asset disposals	Impaired goodwill	Exit costs	Total
December 31, 2000 liability	\$ 7,888	\$ —	\$ —	\$ 8,307	\$ 16,195
Change in estimate (fourth quarter)	991	—	—	(2,688)	(1,697)
2001 restructuring charge (fourth quarter)	16,696	11,050	7,362	7,649	42,757
Utilization of 2000 and 2001 restructuring charges	(11,343)	(11,050)	(7,362)	(6,388)	(36,143)
December 31, 2001 liability	14,232	—	—	6,880	21,112
Change in estimate (fourth quarter)	(1,942)	(477)	—	2,419	—
Utilization of 2001 restructuring charge	(8,721)	477	—	(9,299)	(17,543)
December 31, 2002 liability	3,569	—	—	—	3,569
Utilization of 2001 restructuring charge	(292)	—	—	—	(292)
December 31, 2003 liability	\$ 3,277	\$ —	\$ —	\$ —	\$ 3,277

Included in *other current liabilities* on the consolidated balance sheets is the remaining portion of the restructuring charge liability of \$3.3 million, primarily related to severance obligations not yet paid to certain terminated individuals and other charges as we are awaiting the results of pending and threatened claims by former employees of the affected facilities. Therefore, we are uncertain when this remaining liability will be paid. Payments in 2003 are comprised of the payout of severance obligations and legal expenses. Funding of future payments will be paid from cash generated from operating activities.

Workforce reductions related to the 2001 restructuring charge are for approximately 870 employees, terminated primarily in 2001 and 2002. Employee termination benefits consist primarily of severance and outplacement counseling fees. Employee termination benefits for the 2001 restructuring charge includes a \$0.4 million non-cash charge for the intrinsic value of stock options modified as part of a severance agreement.

Non-cash asset disposals for the 2001 restructuring charges were for the write-down of equipment, leasehold improvements, and inventory as a direct result of our decisions to exit certain facilities and the abandonment of internal use software under development. Exit costs are primarily related to contract and lease termination costs.

The following table summarizes the components of the 2001 restructuring charges by segment, net of changes in estimates:

<i>In thousands</i>	Enclosures	Other	Total
Employee termination benefits	\$14,754	\$ 991	\$15,745
Non-cash asset disposals	7,198	3,375	10,573
Impaired goodwill	7,362	—	7,362
Exit costs	10,068	(2,688)	7,380
2001 restructuring charge	\$39,382	\$ 1,678	\$41,060

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

5. Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2003 by segment is as follows:

<i>In thousands</i>	Water	Enclosures	Tools	Consolidated
Balance December 31, 2002	\$663,940	\$179,303	\$375,098	\$1,218,341
Acquired	122,586	—	—	122,586
Foreign currency translation	11,975	14,307	676	26,958
Net purchase adjustments	5,072	—	592	5,664
Balance December 31, 2003	\$803,573	\$193,610	\$376,366	\$1,373,549

The detail of acquired intangible assets consisted of the following:

<i>In thousands</i>	2003			2002		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Finite-life intangible assets						
Patents	\$16,647	\$(1,096)	\$ 15,551	\$ 7,318	\$ (270)	\$ 7,048
Non-compete agreements	6,199	(3,111)	3,088	3,899	(2,567)	1,332
Proprietary technology	12,900	—	12,900	—	—	—
Customer relationships	25,250	(116)	25,134	—	—	—
Other	3,573	(1,167)	2,406	3,953	(898)	3,055
Total finite-life intangible assets	\$64,569	\$(5,490)	\$ 59,079	\$15,170	\$(3,735)	\$11,435
Indefinite-life intangible assets						
Trademarks	\$49,039	\$ —	\$ 49,039	\$ 7,759	\$ —	\$ 7,759
Total intangibles, net			<u>\$108,118</u>			<u>\$19,194</u>

Amortization expense in 2003 was \$1.8 million. The estimated future amortization expense for identifiable intangible assets during the next five years is as follows:

<i>In thousands</i>	2004	2005	2006	2007	2008
Estimated amortization expense	\$5,554	\$5,263	\$4,833	\$4,618	\$4,042

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

6. Supplemental Balance Sheet Information

<i>In thousands</i>	2003	2002
Inventories		
Raw materials and supplies	\$ 73,187	\$ 83,670
Work-in-process	34,251	39,840
Finished goods	178,139	169,692
Total inventories	\$285,577	\$293,202
Property, plant and equipment		
Land and land improvements	\$ 18,300	\$ 16,973
Buildings and leasehold improvements	196,829	161,515
Machinery and equipment	589,218	567,999
Construction in progress	19,674	37,178
Total property, plant and equipment	824,021	783,665
Less accumulated depreciation and amortization	480,471	432,349
Property, plant and equipment, net	\$343,550	\$351,316
Other assets		
Equity method investments	\$ 28,967	\$ 25,369
Cost method investments	28,400	28,400
Other	68,642	61,022
Total other assets	\$126,009	\$114,791

Certain inventories are valued at LIFO. If all inventories were valued at FIFO as of the end of 2003 and 2002, inventories would have been \$287.2 million and \$296.7 million, respectively.

Equity method investments

We have invested approximately \$30.5 million to acquire a 49 percent interest in the joint venture operations of a long time Asian supplier for bench top power tools, of which \$5.6 million was paid in 2003, \$4.5 million was paid in 2002 and \$20.4 million was paid in 2001. In February 2004, we signed a letter of intent to purchase the remaining 51 percent ownership interest in this supplier. Our portion of the losses for these joint ventures is included in *cost of goods sold*; however, it is not material.

Cost method investments

As part of the sale of Lincoln Industrial in 2001, we received 37,500 shares of 5% Series C Junior Convertible Redeemable Preferred Stock convertible into a 15 percent equity interest in the new organization—LN Holdings Corporation. The preferred stock is recorded at \$18.4 million, which represents the estimated fair value of that investment at the time of sale.

In July 2002, we invested an additional \$5.0 million for a total investment of \$10.0 million in the preferred stock of a privately held developer and manufacturer of laser leveling and measuring devices.

7. Supplemental Cash Flow Information

The following table summarizes supplemental cash flow information:

<i>In thousands</i>	2003	2002	2001
Interest payments	\$40,251	\$41,935	\$69,411
Income tax payments	46,598	20,412	3,224

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

Supplemental disclosure of non-cash investing and financing activities

As part of the sale of Lincoln Industrial in 2001, we received 37,500 shares of 5% Series C Junior Convertible Redeemable Preferred Stock convertible into a 15 percent equity interest in the new organization – LN Holdings Corporation. The preferred stock is recorded at \$18.4 million, which represents the estimated fair value of that investment at the time of sale.

8. Accumulated Other Comprehensive Income (Loss)

Components of accumulated other comprehensive income (loss) consist of the following:

<i>In thousands</i>	2003	2002	2001
Minimum pension liability adjustments, net of tax	\$(11,395)	\$(32,259)	\$ (3,058)
Foreign currency translation adjustments	19,092	(8,128)	(33,787)
Market value of derivative financial instruments	(1,865)	242	7,927
Accumulated other comprehensive income (loss)	\$ 5,832	\$(40,145)	\$(28,918)

In 2003, the minimum pension liability adjustment decreased by \$20.9 million largely due to improved pension asset performance. In 2002, the decrease in the discount rate and poor pension plan asset performance caused the \$29.2 million increase in the minimum pension liability adjustment. The net foreign currency translation gain in 2003 and 2002 of \$27.2 million and \$25.2 million, respectively, was primarily the result of the continued weakening of the U.S. dollar against the Euro and Canadian dollar currencies. Changes in the market value of derivative financial instruments was impacted primarily by the maturities of derivatives and changing interest rates. Fluctuations in the value of hedging instruments are generally offset by changes in the cash flows of the underlying exposures being hedged.

9. Debt

Long-term debt and the average interest rate on debt outstanding as of December 31 is summarized as follows:

<i>In thousands</i>	Average interest rate December 31, 2003	Maturity (Year)	2003	2002
Commercial paper, maturing within 30 days	1.95%		\$ 64,806	\$ —
Revolving credit facilities	2.22%	2004 - 2006	184,200	330,400
Private placement — fixed rate	5.83%	2004 - 2013	183,910	132,628
Private placement — floating rate	2.26%	2013	100,000	—
Senior notes	7.85%	2009	250,000	250,000
Other	1.83%	2004 - 2009	17,859	12,345
Total contractual debt obligations			800,775	725,373
Interest rate swap monetization deferred income			6,705	7,872
Fair value of interest rate swap			(987)	1,154
Total long-term debt, including current portion per balance sheet			806,493	734,399
Less current maturities			(73,631)	(60,488)
Long-term debt			\$732,862	\$673,911

On July 25, 2003, we completed new financing arrangements totaling \$700 million, comprised of a \$200 million private placement of senior notes with 10-year maturities (of which \$150 million was funded during the third quarter and \$50 million was funded during the fourth quarter of 2003) and a new committed \$500 million

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

revolving credit facility (the “Credit Facility”) which matures in three years. The \$500 million Credit Facility replaced two existing revolving credit facilities totaling \$652 million of credit availability. Interest rates and fees on the Credit Facility vary based on our credit ratings. The \$200 million private placement included \$100 million of variable rate senior notes with an interest rate equal to the three-month LIBOR rate plus 1.15 percent and \$100 million of fixed rate senior notes with an average interest rate of 4.98 percent. We used the \$200 million proceeds received in the second half of 2003 from the private placement to pay down debt under the Credit Facility.

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. The Credit Facility is used as back-up liquidity to support 100% of commercial paper outstanding. As of December 31, 2003, we have \$64.8 million of commercial paper outstanding that matures within 30 days. All of the commercial paper is classified as long-term as we intend and have the ability to refinance such obligations on a long-term basis.

Credit available under our Credit Facility, as limited by our most restrictive financial covenant, was approximately \$228 million and is based on a ratio of total debt to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). In addition, our debt agreements contain certain financial covenants that restrict the amount we may pay for dividends and require us to maintain certain financial ratios and a minimum net worth. We were in compliance with all covenants as of December 31, 2003.

In addition to the Credit Facility, we have \$55 million of uncommitted credit facilities, under which we had \$10 million outstanding as of December 31, 2003.

Our current credit ratings are as follows:

<u>Rating Agency</u>	<u>Long-Term Debt Rating</u>
Standard & Poor’s	BBB
Moody’s	Baa3

As a result of our announcement of an agreement to acquire WICOR (see Note 18), Moody’s Investor Services has confirmed the our long-term bank rating of Baa3 and changed our outlook to negative from stable. At the same time, Standard and Poor’s Rating Services has place our BBB corporate credit and other ratings on CreditWatch with negative implications. The change in rating outlook to negative from stable reflects the increased financial and integration risks associated with the planned acquisition of WICOR. In addition, the timing and nature of any outcome resulting from the exploration of strategic alternatives for the Tools segment remains uncertain and subject to execution risk. In a related action, Moody’s Investor Services placed the Baa3 senior unsecured rating on our \$250 million notes and the Baa3 rating on our senior notes under our \$225 million shelf registration under review for possible downgrade, due to structural subordination thereof. Existing lenders under our Credit Facility and private placement notes benefit from guarantees from our domestic subsidiaries, while the \$250 million senior note holders do not benefit from such guarantees. We are pursuing putting in place a similar guarantee for the benefit of the \$250 million senior note holders to avoid the downgrade due to the structural subordination.

We expect to fund the WICOR acquisition through our currently available and newly committed lines of credit. We have obtained a commitment, subject to customary conditions, in the aggregate amount of \$850 million (the “Bridge Facility”) for the payment of the purchase price. The Bridge Facility is available for a period up to the earlier of (i) September 1, 2004, (ii) the closing of the acquisition without the use of the Bridge Facility or (iii) the sale of the Pentair Tools Group.

The term loan to be made under the Bridge Facility (the “Loan”), pursuant to a formal loan agreement to be negotiated, is contemplated to be available in a single disbursement upon closing of the WICOR acquisition and

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

is for the purpose of payment of the purchase price and related fees and expenses. The closing of the Loan must occur before September 1, 2004. Any balance due under the Loan is repayable in full, with accrued interest, no later than December 31, 2004. We will need to fund the repayment of the Bridge Facility by December 31, 2004 through a disposition of our Tools Group or through equity issuance.

We are seeking to obtain an amendment to the Credit Facility to allow an increase to the ratio of total debt to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) for the period of the Bridge Facility, which we believe will be granted by the banks participating in our Credit Facility. In addition, during the period the Bridge Facility is outstanding, additional limitations will be placed on share repurchases, dividends, acquisitions and sales of assets.

In 2004, interest expense will be primarily driven by the timing of the closing of the WICOR acquisition and any strategic alternative we pursue for our Tools segment.

Long-term debt outstanding at December 31, 2003 matures as follows (excluding anticipated effects of the new facility or term loan):

<i>In thousands</i>	2004	2005	2006	2007	2008	Thereafter	Total
Contractual debt obligation maturities	\$72,465	\$ 396	\$240,092	\$37,822	\$ —	\$450,000	\$800,775
Other maturities	1,166	1,166	1,166	1,166	1,166	(112)	5,718
Total maturities	\$73,631	\$1,562	\$241,258	\$38,988	\$1,166	\$449,888	\$806,493

10. Derivative and Financial Instruments

Cash-flow hedges

We have entered into interest rate swap agreements with a major financial institution 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. As of the end of 2003, we had variable to fixed rate swap agreements outstanding with an aggregate notional amount of \$40 million that expire in various amounts through June 2005. The swap agreements have a fixed interest rate of 6.31 percent. The fair value of this swap was a liability of \$1.9 million at December 31, 2003.

The variable to fixed interest rate are designated as and are effective as cash-flow hedges. The fair values of these swaps are recorded on the balance sheet, with changes in fair values included in 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. We estimate \$1.4 million of net derivative losses will be reclassified into earnings in 2004. No hedging relationships were de-designated during 2003.

Fair value hedge

In March 2002, we entered into an interest rate swap agreement to effectively convert interest rate expense on \$100 million of Senior notes for the term of the notes (maturing October 2009) from a 7.85 percent fixed annual rate to a floating annual rate equal to the six-month LIBOR rate plus 2.49 percent. This swap agreement was designated and accounted for as a fair value hedge. In September 2002, we terminated this swap agreement and received \$8.2 million. This amount, net of accumulated amortization, is recorded as a premium to the carrying amount of the notes in the consolidated balance sheets and is being amortized as a reduction of interest expense over the remaining term of the Senior notes. The \$8.2 million was illustrated in the 2002 consolidated statement of cash flows as an increase in *other assets and liabilities*.

Pentair, Inc. and subsidiaries

Notes to consolidated financial statements — (continued)

Concurrent with the termination of the interest rate swap, we entered into a new interest rate swap agreement to effectively convert \$100 million of Senior notes for the term of the notes (maturing October 2009) from a 7.85 percent fixed annual rate to a floating annual rate equal to the six-month LIBOR rate plus 3.69 percent. The fair value of the swap was a liability of \$1.0 million at December 31, 2003. This swap agreement has been designated and accounted for as a fair value hedge. Since this swap qualifies for the short-cut method under SFAS No. 133, changes in the fair value of the swap (included in *other long-term liabilities* in the consolidated balance sheets) are offset by changes in the fair value of the designated debt being hedged. Consequently, there is no impact on net income or shareholders' equity.

Fair value of financial instruments

The recorded amounts and estimated fair values of financial instruments, including derivative financial instruments, were as follows:

<i>In thousands</i>	2003		2002	
	Recorded amount	Fair value	Recorded amount	Fair value
Long-term debt, including current portion				
Variable rate	\$359,006	\$359,006	\$330,400	\$330,400
Fixed rate	441,769	483,233	394,973	441,464
Total	\$800,775	\$842,239	\$725,373	\$771,864
Derivative financial instruments				
Variable to fixed interest rate swap liability	\$ (1,865)	\$ (1,865)	\$ (3,809)	\$ (3,809)
Fixed to variable interest rate swap asset	(987)	(987)	1,154	1,154
Forward exchange agreements	—	—	4,051	4,051
Market value of derivative financial instruments	\$ (2,852)	\$ (2,852)	\$ 1,396	\$ 1,396

The following methods were used to estimate the fair values of each class of financial instrument:

- short-term financial instruments (cash and cash equivalents, accounts and notes receivable, accounts and notes payable, and short-term borrowings) — recorded amount approximates fair value because of the short maturity period;
- long-term debt, including current maturities — fair value is based on market quotes available for issuance of debt with similar terms;
- interest rate swap agreements — fair value is based on market or dealer quotes; and
- forward exchange agreements — fair value is not material due to the short term nature of these agreements

11. Income Taxes

Income from continuing operations before income taxes consisted of the following:

<i>In thousands</i>	2003	2002	2001
United States	\$184,981	\$180,371	\$103,446
International	33,637	12,076	(10,158)
Income from continuing operations before taxes	\$218,618	\$192,447	\$ 93,288

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The provision for income taxes from continuing operations consisted of the following:

<i>In thousands</i>	2003	2002	2001
Currently payable			
Federal	\$31,537	\$33,841	\$19,790
State	5,049	5,679	3,131
International	2,594	(3,571)	6,849
Total current taxes	39,180	35,949	29,770
Deferred			
Federal	24,163	18,246	13,573
International	10,987	8,350	(7,571)
Total deferred taxes	35,150	26,596	6,002
Total provision for income taxes	\$74,330	\$62,545	\$35,772

Reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations follows:

<i>Percentages</i>	2003	2002	2001
U.S. statutory income tax rate	35.0	35.0	35.0
State income taxes, net of federal tax benefit	2.3	2.9	3.7
Tax effect of international operations	(1.4)	(2.8)	(7.6)
Non-deductible goodwill	—	—	9.4
ESOP dividend benefit	(0.3)	(0.4)	(0.9)
Non-deductible restructuring charge items	—	—	3.3
Tax credits	(1.4)	(1.6)	(3.4)
All other, net	(0.2)	(0.6)	(1.2)
Effective tax rate on continuing operations	34.0	32.5	38.3

Deferred taxes arise because of different treatment between financial statement accounting and tax accounting, known as “temporary differences.” We record the tax effect of these temporary differences as “deferred tax assets” (generally items that can be used as a tax deduction or credit in future periods) and “deferred tax liabilities” (generally items that we received a tax deduction for, but not yet been recorded in the consolidated statements of income).

United States income taxes have not been provided on undistributed earnings of international subsidiaries. It is our intention to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so. Accordingly, we believe that any U.S. tax on repatriated earnings would be substantially offset by U.S. foreign tax credits.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The tax effects of the major items recorded as deferred tax assets and liabilities are as follows:

<i>In thousands</i>	2003 Deferred tax		2002 Deferred tax	
	Assets	Liabilities	Assets	Liabilities
Accounts receivable allowances	\$ 6,654	\$ —	\$ 9,448	\$ —
Inventory reserves	6,314	—	7,070	—
Accelerated depreciation/amortization	—	30,274	—	26,988
Accrued product claims and warranties	30,107	—	29,288	—
Employee benefit accruals	47,141	—	62,329	—
Goodwill	—	70,199	—	61,546
Other, net	—	17,286	3,905	—
Total deferred taxes	\$ 90,216	\$117,759	\$112,040	\$88,534
Net deferred tax (liability) asset	<u>\$(27,543)</u>		<u>\$ 23,506</u>	

The determination of annual income tax expense takes into consideration amounts, which may be needed to cover exposures for open tax years. The Internal Revenue Service (IRS) has examined our U.S. federal income tax returns through 1997 with no material adjustments and is currently auditing 1998 to 2001. We do not expect any material impact on earnings to result from the resolution of matters related to open tax years; however, actual settlements may differ from amounts accrued.

At December 31, 2003, approximately \$11.0 million non-U.S. tax losses were available for carryforward. Valuation allowances in the amount of \$1.5 million have been set up on these tax losses. No valuation allowance existed at December 31, 2002. We believe that sufficient taxable income will be generated in the respective countries to allow us to fully recover the remainder of the tax losses.

We made net cash payments for income taxes in fiscal 2003, 2002, and 2001 of \$46.6 million, \$20.4 million, and \$3.2 million, respectively.

12. Benefit Plans

Pension and post-retirement benefits

We sponsor domestic and foreign defined-benefit pension and other post-retirement plans. Pension benefits are based principally on an employee's years of service and/or compensation levels near retirement. In addition, we also provide certain post-retirement health care and life insurance benefits. Generally, the post-retirement health care and life insurance plans require contributions from retirees. We use a December 31 measurement date.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

Obligations and Funded Status

The following tables present reconciliations of the benefit obligation of the plans, the plan assets of the pension plans, and the funded status of the plans:

<i>In thousands</i>	Pension benefits		Post-retirement	
	2003	2002	2003	2002
Change in benefit obligation				
Benefit obligation beginning of year	\$ 389,431	\$ 328,859	\$ 37,760	\$ 34,829
Service cost	15,262	13,165	558	521
Interest cost	23,890	22,980	2,273	2,425
Plan amendments	—	409	—	—
Liability transfer	(588)	—	—	—
Actuarial (gain) loss	2,878	39,346	(1,097)	2,700
Translation loss	7,663	4,914	—	—
Benefits paid	(18,920)	(20,242)	(2,591)	(2,715)
Benefit obligation end of year	\$ 419,616	\$ 389,431	\$ 36,903	\$ 37,760
Change in plan assets				
Fair value of plan assets beginning of year	\$ 239,104	\$ 268,438	\$ —	\$ —
Actual return on plan assets	55,477	(28,603)	—	—
Company contributions	19,113	18,898	2,591	2,715
Translation loss	625	613	—	—
Benefits paid	(18,920)	(20,242)	(2,591)	(2,715)
Fair value of plan assets end of year	\$ 295,399	\$ 239,104	\$ —	\$ —
Funded status				
Plan assets less than benefit obligation	\$(124,217)	\$(150,327)	\$(36,903)	\$(37,760)
Unrecognized cost:				
Net transition obligation	139	143	—	—
Net actuarial (gain) loss	75,668	103,245	(3,680)	(2,582)
Prior service cost (benefit)	2,014	2,663	(1,551)	(2,473)
Net amount recognized	\$ (46,396)	\$ (44,276)	\$(42,134)	\$(42,815)

Of the \$124.2 million underfunding at December 31, 2003, \$78.6 million relates to foreign pension plans and our supplemental executive retirement plan which are not commonly funded.

Amounts recognized in the consolidated balance sheets of:

<i>In thousands</i>	Pension benefits		Post-retirement	
	2003	2002	2003	2002
Prepaid benefit cost	\$ 17,334	\$ 10,124	\$ —	\$ —
Accrued benefit liability	(83,776)	(109,946)	(42,134)	(42,815)
Intangible asset	1,365	2,662	—	—
Accumulated other comprehensive income — pre-tax	18,681	52,884	—	—
Net amount recognized	\$ (46,396)	\$ (44,276)	\$(42,134)	\$(42,815)

The accumulated benefit obligation for all defined benefit plans was \$363,374 and \$339,053 at December 31, 2003, and 2002, respectively.

Pentair, Inc. and subsidiaries

Notes to consolidated financial statements — (continued)

Information for pension plans with an accumulated benefit obligation or projected benefit obligation in excess of plan assets are as follows:

<i>In thousands</i>	2003	2002
Pension plans with an accumulated benefit obligation in excess of plan assets:		
Fair value of plan assets	\$ 41,545	\$237,699
Accumulated benefit obligation	118,699	337,820
Pension plans with a projected benefit obligation in excess of plan assets:		
Fair value of plan assets	\$288,855	\$237,699
Projected benefit obligation	414,123	388,198

Components of net periodic benefit cost are as follows:

<i>In thousands</i>	Pension benefits			Post-retirement		
	2003	2002	2001	2003	2002	2001
Service cost	\$ 15,262	\$ 13,165	\$ 13,467	\$ 558	\$ 521	\$ 494
Interest cost	23,890	22,980	23,802	2,273	2,425	2,596
Expected return on plan assets	(24,748)	(24,342)	(26,897)	—	—	—
Amortization of transition (asset) obligation	20	18	25	—	—	—
Amortization of prior year service cost (benefit)	650	659	867	(922)	(869)	(906)
Recognized net actuarial (gain) loss	672	156	(1,196)	—	(129)	(374)
Special termination benefits	—	—	482	—	—	—
Net periodic benefit cost	\$ 15,746	\$ 12,636	\$ 10,550	\$ 1,909	\$ 1,948	\$ 1,810
Continuing operations	\$ 15,746	\$ 12,636	\$ 10,162	\$ 1,909	\$ 1,948	\$ 1,606
Discontinued operations	—	—	388	—	—	204
Net periodic benefit cost	\$ 15,746	\$ 12,636	\$ 10,550	\$ 1,909	\$ 1,948	\$ 1,810

Additional Information

<i>In thousands</i>	Pension benefits	
	2003	2002
Decrease (increase) in minimum liability included in other comprehensive income, net of tax	\$ 20,864	\$(29,201)

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

<i>Percentages</i>	Pension benefits			Post-retirement		
	2003	2002	2001	2003	2002	2001
Discount rate	6.25	6.25	7.25	6.25	6.25	7.25
Rate of compensation increase	5.00	5.00	5.00			

Weighted-average assumptions used to determine net periodic benefit cost for years ending December 31 are as follows:

<i>Percentages</i>	Pension benefits			Post-retirement		
	2003	2002	2001	2003	2002	2001
Discount rate	6.25	7.25	7.75	6.25	7.25	7.75
Expected long-term return on plan assets	8.50	8.50	8.50			
Rate of compensation increase	5.00	5.00	5.00			

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

Discount rate

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of year based on our December 31 measurement date. The discount rate was determined by matching our expected benefit payments to payments from a stream of AA or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions. As a relatively young company, with a longer duration of liabilities than older companies with more mature workforces, this produced a discount rate of 6.25 percent. There are no known or anticipated changes in our discount rate assumption that will impact our pension expense in 2004.

Expected rate of return

The expected rate of return on plan assets is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical ten year compounded return of 9.5 percent, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer term market indices. In 2003, the pension plan assets yielded a positive return of 24.8 percent, compared to negative returns of 10.5 percent and 4.1 percent in 2002 and 2001, respectively. Our expected rate of return in 2003 equaled 8.5 percent, which remained unchanged from 2002 and 2001. In 2003, the significant difference between our expected return on plan assets of \$24.7 million compared to our actual return on plan assets of \$55.5 million was primarily due to the economic recovery and the resurgence of the financial markets. There are no known or anticipated changes in our return assumption that will impact our pension expense in 2004.

We base our determination of pension expense or income on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets. Since the market-related value of assets recognizes gains or losses over a five-year-period, the future value of assets will be impacted as previously deferred gains or losses are recorded.

Pension-related adjustments to equity

In 2002, our discount rate was lowered from 7.25 percent to 6.25 percent and we realized a negative 10.5 percent return on plan assets which caused the accumulated benefit obligation to exceed the fair market value of plan assets as of December 31, 2002. This unfunded accumulated benefit obligation, plus the existing prepaid asset, was the primary cause of a \$29.2 million net-of-tax charge to shareholders' equity for 2002. The recovery of the financial markets in 2003 and positive return on plan assets of 24.8 percent eliminated \$20.9 million of the charge to shareholders' equity. The charge did not impact earnings.

Net periodic benefit cost

Total net periodic pension benefits cost was \$15.7 million in 2003, \$12.6 million in 2002, and \$10.6 million in 2001. Total net periodic pension benefits cost is expected to be approximately \$17.0 million in 2004. The increasing trend in net periodic pension cost from 2001 forward is largely driven by increasing service and interest costs, the downturn in the financial markets in 2002 and 2001, and the decrease in the discount rate in 2002. The net periodic pension benefit cost for 2004 has been estimated assuming a discount rate of 6.25 percent and an expected return on plan assets of 8.5 percent.

Unrecognized pension losses

As of the December 31, 2003 measurement date, our pension plans have \$75.7 million of cumulative unrecognized losses of which approximately \$20 million relates to the use of the market related value method and is not immediately subject to amortization. The remaining unrecognized loss, to the extent it exceeds 10% of the projected benefit obligation, will be amortized into expense each year on a straight-line basis over the remaining expected future-working lifetime of active participants (currently approximately 12 years). The amount included a pension expense for loss amortization in 2003 was \$0.5 million.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The assumed health care cost trend rates at December 31 are as follows:

	2003	2002
Health care cost trend rate assumed for next year	9.14%	9.14%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2024	2023

The assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

<i>In thousands</i>	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on total of service and interest cost	48	42
Effect on postretirement benefit obligation	714	617

Plan Assets

Objective

The primary objective of our pension plans is to meet commitments to our employees at a reasonable cost to the company. This is primarily accomplished through growth of capital and safety of the funds invested. The plans will therefore be actively invested to achieve real growth of capital over inflation through appreciation of securities held and through the accumulation and reinvestment of dividend and interest income.

Asset allocation

Our actual overall asset allocation for the plans as compared to our investment policy goals is as follows:

Asset Class	Actual ⁽¹⁾	Investment Policy		
		Target	Minimum	Maximum
Large Capitalization U.S. Stocks	21%	25%	20%	30%
Small/Mid Capitalization, U.S. Stocks	22%	20%	15%	25%
Pentair Stock	8%	5%	3%	7%
International (Non-U.S.) Stocks	12%	15%	10%	20%
Private Equity	1%	5%	0%	10%
Fixed Income (Bonds)	17%	20%	15%	25%
Other Investments	12%	10%	5%	15%
Cash	7%	0%	0%	0%

⁽¹⁾ Actual asset allocation as of December 31, 2003.

We regularly review our asset allocation and periodically rebalance our investments to our targeted allocation when considered appropriate. Our cash balance is higher than normal due to a \$15.1 million contribution made to our domestic defined benefit plans as of December 31, 2003. From time to time, we may be outside our targeted ranges by amounts we deem acceptable.

Equity securities include Pentair common stock in the amount of \$21.6 million (8 percent of total plan assets) and \$16.3 million (7 percent of total plan assets) at December 31, 2003, and 2002, respectively.

Cash Flows

Contributions

Pension contributions in 2003 total \$19.1 million, including \$15.1 million of contributions to domestic defined benefit pension plans. In 2002, pension contributions totaled \$18.9 million, including \$15.3 million of

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

contributions to domestic defined benefit plans. The contributions in 2003 and 2002 exceeded the minimum funding requirement. Our 2004 pension contributions are expected to be in the range of \$10 million to \$15 million.

Savings plan

We have a 401(k) plan (the plan) with an employee stock ownership (ESOP) bonus component, which covers certain union and nearly all-nonunion U.S. employees who meet certain age requirements. Under the plan, eligible U.S. employees may voluntarily contribute a percentage of their eligible compensation. Matching contributions are made in cash to employees who meet certain eligibility and service requirements. Our matching contribution is based on our financial performance and ranges from 30 percent to 90 percent of eligible employee contributions, limited to 4 percent of compensation contributed by employees.

In addition to the matching contribution, all employees who meet certain service requirements receive a discretionary ESOP contribution equal to 1.5 percent of annual eligible compensation.

Our combined expense for the 401(k) and ESOP were approximately \$9.8 million, \$9.0 million, and \$9.8 million in 2003, 2002, and 2001, respectively.

13. Shareholders' Equity

Authorized shares

We may issue up to 250 million shares of common stock. Our Board of Directors may designate up to 15 million of those shares as preferred stock.

Common share purchase rights

We have a ten-year Rights Agreement dated July 31, 1995. Under this agreement, each outstanding share of our common stock has one common share purchase right attached to it and entitles the holder to purchase one share of our common stock, currently at a price of \$80 per share, subject to adjustment. However, these rights are not exercisable unless certain change-in-control events transpire, such as a person acquiring or obtaining the right to acquire beneficial ownership of 15 percent or more of our outstanding common stock.

The rights are redeemable by us for \$0.01 per right until ten business days after certain defined change-in-control events transpire, or at any time prior to the expiration of the rights.

Share repurchases

In 2003, the Board of Directors authorized the development of a program and process to annually purchase up to 500,000 shares of our common stock in open market or negotiated transactions to partially offset dilution due to normal grants of restricted shares and options to employees. In 2003, we repurchased 40,000 shares of our common stock. In 2002 and 2001, respectively, we repurchased no shares and 50,000 shares of our common stock under similar plans.

14. Stock Plans

Omnibus stock incentive plan

In April 2003, the Omnibus Stock Incentive Plan as Amended and Restated (the Plan) was approved. The Plan authorizes the issuance of additional shares of our common stock and extends through February 2006. The Plan allows for the granting of:

- nonqualified stock options;
- incentive stock options;
- restricted stock;
- rights to restricted stock;
- incentive compensation units (ICUs);
- stock appreciation rights;
- performance shares; and
- performance units.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The Plan is administered by our Compensation Committee (the Committee), which is made up of independent members of our Board of Directors. Employees eligible to receive awards under the Plan are managerial, administrative, or other key employees who are in a position to make a material contribution to the continued profitable growth and long-term success of Pentair. The Committee has the authority to select the recipients of awards, determine the type and size of awards, establish certain terms and conditions of award grants, and take certain other actions as permitted under the Plan. The Plan provides that no more than 20 percent of the total shares available for issuance under the Plan may be used to make awards other than stock options and limits the Committee's authority to reprice awards or to cancel and reissue awards at lower prices.

Incentive stock options

Under the Plan we may grant stock options to any eligible employee with an exercise price equal to the market value of the shares on the dates the options were granted. Options generally vest over a three-year period commencing on the first anniversary of the grant date and expire ten years after the grant date.

Restricted stock, rights to restricted stock and ICUs

Under the Plan, eligible employees are awarded restricted shares or rights to restricted shares (awards) of our common stock and ICUs. Restrictions on awards and ICUs generally expire from two to five years after issuance, subject to continuous employment and certain other conditions. Restricted stock awards are recorded at market value on the date of the grant as unearned compensation. Unearned compensation is shown as a reduction of shareholders' equity in our consolidated financial statements and is being amortized to expense over the restriction period. The value of ICUs is based on a matrix, which takes into account growth in operating income and return on invested capital. Annual expense for the value of restricted stock and ICUs was \$4.6 million in 2003, \$7.9 million in 2002, and \$5.8 million in 2001.

Outside directors nonqualified stock option plan

Nonqualified stock options are granted to outside directors under the Outside Directors Nonqualified Stock Option Plan (the Directors Plan) with an exercise price equal to 100 percent of the market value of the shares on the dates the options were granted. Options generally vest over a three-year period commencing on the first anniversary of the grant date and expire ten years after the grant date. The Directors Plan extends to January 2008.

Stock options

The following table summarizes stock option activity under all plans:

	2003		2002		2001	
	Shares	Exercise price ⁽¹⁾	Shares	Exercise price ⁽¹⁾	Shares	Exercise price ⁽¹⁾
Options Outstanding						
Balance January 1	2,743,238	\$33.39	2,262,488	\$31.65	1,826,356	\$35.07
Granted	876,940	35.68	766,324	37.42	840,025	23.36
Exercised	(328,339)	30.91	(141,573)	31.11	(302,661)	30.38
Canceled	(147,359)	35.42	(144,001)	29.82	(101,232)	28.35
Balance December 31	3,144,480	\$34.19	2,743,238	\$33.39	2,262,488	\$31.65
Options exercisable December 31	1,721,202	\$33.98	1,487,552	\$33.94	1,231,183	\$34.60
Shares available for grant December 31	1,537,302		2,400,645		2,819,434	

⁽¹⁾ Weighted average

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

The following table summarizes information concerning stock options outstanding as of the end of 2003 under all plans:

Range of exercise prices	Options outstanding			Options exercisable	
	Shares	Remaining life ⁽¹⁾ (in years)	Exercise price ⁽¹⁾	Shares	Exercise price ⁽¹⁾
\$ 20.01 – \$ 25.00	574,290	5.9	\$22.75	384,281	\$22.75
25.01 – 30.00	8,985	2.5	28.92	8,876	28.92
30.01 – 35.00	932,162	7.3	34.85	273,374	34.77
35.01 – 40.00	1,474,878	6.2	37.38	978,168	37.49
40.01 – 45.00	112,649	8.2	41.37	42,987	41.75
45.01 – 50.00	41,516	5.7	45.86	33,516	45.56
	3,144,480	6.5	\$34.19	1,721,202	\$33.98

⁽¹⁾ Weighted average

15. Business Segments

We classify our continuing operations into the following business segments:

- **Water** — manufactures and markets essential products and systems used in the movement, treatment, storage and enjoyment of water. Water segment products include water and wastewater pumps; filtration and purification components and systems; storage tanks and pressure vessels; and pool and spa equipment and accessories.
- **Enclosures** — designs, manufactures, and markets standard, modified and custom enclosures that protect sensitive controls and components. Markets served include industrial machinery, data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense, and general electronics. Products include metallic and composite enclosures, cabinets, cases, subracks, backplanes, and associated thermal management systems.
- **Tools** — designs, manufactures and markets power tool products positioned at the mid to upper-end of the market and targets non-professional DIY, upscale hobbyists, and professional end users. Tools segment products include woodworking machinery, portable power tools, power tool accessories, metal and stoneworking tools, pneumatic tools, compressors, generators, and pressure washers.
- **Other** — is primarily composed of unallocated corporate expenses, our captive insurance subsidiary, intermediate finance companies, divested operations and intercompany eliminations.

The accounting policies of our operating segments are the same as those described in the summary of significant accounting policies. We evaluate performance based on the operating income of the segment and use a variety of ratios to measure performance. These results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

Financial information by reportable business segment is included in the following summary:

<i>In thousands</i>	2003	2002	2001	2003	2002	2001
	Net sales to external customers			Operating income (loss)		
Water	\$1,060,303	\$ 932,420	\$ 882,615	\$143,962	\$126,559	\$109,792
Enclosures	582,684	556,032	689,820	51,094	29,942	1,857
Tools	1,081,378	1,092,331	1,001,645	81,774	97,598	63,232
Other	—	—	—	(17,276)	(18,107)	(17,120)
Consolidated	\$2,724,365	\$2,580,783	\$2,574,080	\$259,554	\$235,992	\$157,761
	Identifiable assets ⁽¹⁾			Depreciation		
Water	\$1,321,128	\$1,056,335	\$ 930,759	\$ 20,517	\$ 19,478	\$ 19,472
Enclosures	462,837	467,862	481,311	19,721	19,026	23,008
Tools	851,338	870,883	794,908	20,320	20,256	20,033
Other ⁽¹⁾	145,374	119,370	165,220	571	73	161
Consolidated	\$2,780,677	\$2,514,450	\$2,372,198	\$ 61,129	\$ 58,833	\$ 62,674
	Amortization			Capital expenditures ⁽²⁾		
Water	\$ 1,543	\$ 650	\$ 18,560	\$ 17,831	\$ 15,037	\$ 16,705
Enclosures	—	—	8,273	7,014	9,153	22,311
Tools	440	149	9,274	14,618	32,350	14,290
Other	2,531	5,070	5,568	4,159	156	362
Consolidated	\$ 4,514	\$ 5,869	\$ 41,675	\$ 43,622	\$ 56,696	\$ 53,668

⁽¹⁾ All cash and cash equivalents are included in Other.

⁽²⁾ Tools segment capital expenditures in 2002 includes \$23.0 million for the acquisition of a previously leased facility.

Operating income

Enclosures segment operating income includes:

- restructuring charge expense of \$39.4 million in 2001.

Other segment operating loss includes:

- restructuring charge expense of \$1.7 million in 2001.

The following table presents certain geographic information:

<i>In thousands</i>	2003	2002	2001	2003	2002	2001
	Net sales to external customers			Long-lived assets		
United States	\$2,319,301	\$2,242,250	\$2,200,156	\$274,936	\$291,308	\$270,498
Germany	130,914	103,318	121,455	42,442	36,960	32,523
Canada	77,519	67,539	63,011	1,101	902	719
France	60,287	46,110	51,586	1,842	1,763	5,271
China	18,926	15,642	829	4,889	2,227	1,499
Japan	11,600	11,079	13,216	4,474	4,206	4,039
India	7,201	3,960	2,747	5,530	4,114	3,992
All other	98,617	90,885	121,080	8,336	9,836	10,959
Consolidated	\$2,724,365	\$2,580,783	\$2,574,080	\$343,550	\$351,316	\$329,500

Pentair, Inc. and subsidiaries

Notes to consolidated financial statements — (continued)

Net sales are based on the location in which the sale originated. Long-lived assets represent property, plant, and equipment, net of related depreciation.

We sell our products through various distribution channels including home centers and retail chains. In our Water segment, two customers accounted for about 17 percent of segment sales in 2003 and 2002 and 18 percent of segment sales in 2001. In our Enclosure segment, no single customer accounted for more than 10 percent of segment sales in 2003, 2002, or 2001. Three customers accounted for about 56 percent of our Tools segment net sales in 2003 and 62 percent and 58 percent, respectively, in 2002 and 2001. In 2003, sales to The Home Depot, a major customer of our Tools segment, accounted for approximately 14 percent of total consolidated net sales. Sales to The Home Depot accounted for approximately 13 percent of total consolidated net sales in 2002 and 2001. If these customers were lost, it would have a material adverse effect on our business.

16. Commitments and Contingencies

Operating lease commitments

Net rental expense under operating leases follows:

<i>In thousands</i>	2003	2002	2001
Gross rental expense	\$33,788	\$35,162	\$ 32,343
Sublease rental income	(698)	(1,456)	(239)
Net rental expense	\$33,090	\$33,706	\$ 32,104

Future minimum lease commitments under non-cancelable operating leases, principally related to facilities, vehicles, and machinery and equipment, is as follows:

<i>In thousands</i>	2004	2005	2006	2007	2008	Thereafter	Total
Minimum lease payments	\$26,665	\$22,066	\$16,679	\$10,956	\$ 8,637	\$19,400	\$104,403
Minimum sublease rentals	(688)	(704)	(704)	(723)	(723)	(663)	(4,205)
Net future minimum lease commitments	\$25,977	\$21,362	\$15,975	\$10,233	\$ 7,914	\$18,737	\$100,198

Environmental

We have been named as defendants, targets, or potentially responsible parties (PRPs) in a small number of environmental cleanups, in which our current or former business units have generally been given *de minimis* status. To date, none of these claims have resulted in cleanup costs, fines, penalties, or damages in an amount material to our financial position or results of operations. We have disposed of a number of businesses over the past ten years and in certain cases, such as the disposition of the Cross Pointe Paper Corporation uncoated paper business in 1995, the disposition of the Federal Cartridge Company ammunition business in 1997, and the disposition of Lincoln Industrial in 2001, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers both of the paper business and the ammunition business and have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities. We have recently settled one such claim in 2003 and our recorded accrual was adequate.

In addition, there are pending environmental issues concerning a limited number of sites, including one site acquired in the acquisition of Essef Corporation in 1999 that relates to operations no longer carried out at that site. We have established what we believe to be adequate accruals for remediation costs at this and other sites. We do not believe that projected response costs will result in a material liability.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

We may be named as a PRP at other sites in the future, for both divested and acquired businesses. When it has been possible to provide reasonable estimates of our liability with respect to environmental sites, provisions have been made in accordance with generally accepted accounting principles in the United States. As of December 31, 2003, our reserve for such environmental liabilities was approximately \$11.2 million, measured on an undiscounted basis. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental cleanup costs and liabilities will not exceed the amount of our current reserves.

Litigation

We are occasionally a party to litigation arising in the normal course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities based on the expected eventual disposition of these matters. We believe the effect on our consolidated results of operations and financial position, if any, for the disposition of all currently pending matters will not be material.

Warranties and guarantees

From time to time in connection with the disposition of businesses or product lines, Pentair may agree to indemnify purchasers for various potential liabilities relating to the sold business, such as pre-closing tax, product liability, warranty, environmental, or other obligations. The subject matter, amounts, and duration of any such indemnification obligations vary for each type of liability indemnified and may vary widely from transaction to transaction. Pentair currently has outstanding indemnification obligations for environmental matters relating to certain sold businesses that have four- to five-year indemnification periods, and one that lasts indefinitely. Other currently outstanding indemnity obligations have a one-year duration. The maximum potential payment for these obligations is unlimited.

We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued.

We provide service and warranty policies on our products. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant. In addition, we incur discretionary costs to service our products in connection with product performance issues.

The changes in the carrying amount of service and product warranties for the year ended December 31, 2003 and 2002 are as follows:

<i>In thousands</i>	2003	2002
Balance at beginning of the year	\$ 26,855	\$ 27,590
Service and product warranty provision	43,191	38,481
Payments	(44,379)	(39,886)
Acquired	733	161
Translation	748	509
Balance at end of the year	\$ 27,148	\$ 26,855

Stand-by letters of credit

In the ordinary course of business, predominantly in our pump business, we are required to commit to bonds that require payments to our customers for any non-performance. The outstanding face value of the bonds fluctuates

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

with the value of our projects in process and in our backlog. In, addition, we issue financial stand-by letters of credit to secure our performance to third parties under self-insurance programs and certain legal matters. As of December 31, 2003 and 2002, the outstanding value of these instruments totaled \$35.0 million and \$19.8 million, respectively.

17. Selected Quarterly Financial Data (Unaudited)

<i>In thousands, except per-share data</i>	2003				
	First	Second	Third	Fourth	Year
Net sales	\$637,516	\$718,989	\$685,014	\$682,846	\$2,724,365
Gross profit	155,291	183,488	167,007	173,252	679,038
Operating income	52,188	76,332	67,745	63,289	259,554
Income from continuing operations	27,849	43,887	38,375	34,177	144,288
Loss from discontinued operations, net of tax	—	—	—	(2,936)	(2,936)
Net income	27,849	43,887	38,375	31,241	141,352
Earnings per common share ⁽¹⁾					
<i>Basic</i>					
Continuing operations	\$ 0.56	\$ 0.89	\$ 0.78	\$ 0.70	\$ 2.95
Discontinued operations	—	—	—	(0.06)	(0.06)
Basic earnings per common share	\$ 0.56	\$ 0.89	\$ 0.78	\$ 0.64	\$ 2.89
<i>Diluted</i>					
Continuing operations	\$ 0.56	\$ 0.88	\$ 0.77	\$ 0.69	\$ 2.90
Discontinued operations	—	—	—	(0.06)	(0.06)
Diluted earnings per common share	\$ 0.56	\$ 0.88	\$ 0.77	\$ 0.63	\$ 2.84

<i>In thousands, except per-share data</i>	2002				
	First	Second	Third	Fourth	Year
Net sales	\$603,063	\$708,116	\$629,301	\$640,303	\$2,580,783
Gross profit	137,011	175,980	148,969	153,747	615,707
Operating income	45,727	74,592	61,822	53,851	235,992
Income from continuing operations	21,438	42,976	37,403	28,085	129,902
Loss from discontinued operations, net of tax	—	—	—	—	—
Net income	21,438	42,976	37,403	28,085	129,902
Earnings per common share ⁽¹⁾					
<i>Basic</i>					
Continuing operations	\$ 0.44	\$ 0.87	\$ 0.76	\$ 0.57	\$ 2.64
Discontinued operations	—	—	—	—	—
Basic earnings per common share	\$ 0.44	\$ 0.87	\$ 0.76	\$ 0.57	\$ 2.64
<i>Diluted</i>					
Continuing operations	\$ 0.43	\$ 0.86	\$ 0.75	\$ 0.57	\$ 2.61
Discontinued operations	—	—	—	—	—
Diluted earnings per common share	\$ 0.43	\$ 0.86	\$ 0.75	\$ 0.57	\$ 2.61

⁽¹⁾ Amounts may not total to annual earnings because each quarter and year are calculated separately based on basic and diluted weighted-average common shares outstanding during that period.

Pentair, Inc. and subsidiaries
Notes to consolidated financial statements — (continued)

18. Subsequent Events

On February 3, 2004, we entered into an agreement to acquire WICOR Inc. (“WICOR”), a unit of Wisconsin Energy Corporation, Milwaukee, Wisconsin. WICOR, which manufactures water system, filtration and pool equipment products under the Sta-Rite, SHURflo and Hypro brands, generated sales of approximately \$746 million in 2003. The \$850 million cash transaction, which we plan to complete in the second or third quarter of 2004, is subject to satisfaction of customary conditions and regulatory approvals. As part of the transaction, we will assume approximately \$24 million of WICOR debt.

We expect to fund the WICOR acquisition through our currently available and newly committed lines of credit. We have obtained a commitment, subject to customary conditions, in the aggregate amount of \$850 million (the “Bridge Facility”) for the payment of the purchase price. The Bridge Facility is available for a period up to the earlier of (i) September 1, 2004, (ii) the closing of the acquisition without the use of the Bridge Facility or (iii) the sale of the Pentair Tools Group.

The term loan to be made under the Bridge Facility (the “Loan”), pursuant to a formal loan agreement to be negotiated, is contemplated to be available in a single disbursement upon closing of the WICOR acquisition and is for the purpose of payment of the purchase price and related fees and expenses. The closing of the Loan must occur before September 1, 2004. Any balance due under the Loan is repayable in full, with accrued interest, no later than December 31, 2004. We will need to fund the repayment of the Bridge Facility by December 31, 2004 through a disposition of our Tools Group through equity issuance.

We also announced that we have engaged Goldman Sachs to explore strategic alternatives for our Tools segment, comprising the Porter-Cable, Delta, DeVilbiss Air Power Company, Oldham Saw and Flex businesses with \$1,081.4 million in net sales in 2003.

We are seeking to obtain an amendment to the Credit Facility for our most restrictive financial covenant to increase our required ratio of total debt to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) as a result of the Bridge Facility, which we believe will be granted by the banks participating in our Credit Facility. In addition, during the period the Bridge Facility is outstanding, additional limitations will be placed on share repurchases, dividends, acquisitions and sales of assets.

In February 2004, we signed a letter of intent to purchase the remaining 51 percent ownership interest in the joint venture operations of a long time Asian supplier for bench top power tools.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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 year ended December 31, 2003, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934. 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 year ended December 31, 2003 in timely alerting them to material information relating to Pentair, Inc. (including its consolidated subsidiaries) required to be included in reports we file with the Securities and Exchange Commission.

(b) Changes in Internal Control over Financial Reporting

There was no significant change in our internal control over financial reporting that occurred during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND OFFICERS OF THE REGISTRANT

Information required under this item with respect to directors is contained in our Proxy Statement for our 2004 annual meeting of shareholders under the captions “Corporate Governance Matters”, “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference.

Information required under this item with respect to executive officers is contained in Part I of this Form 10-K under the caption “Executive Officers of the Registrant.”

Our Board of Directors has adopted Pentair’s Code of Business Conduct and Ethics and designated it as the code of ethics for the Company’s Chief Executive Officer and senior financial officers in accordance with SEC rules. The Code of Business Conduct and Ethics also applies to all employees and directors in accordance with New York Stock Exchange Listing Standards. We have posted a copy of Pentair’s Code of Business Conduct and Ethics on our website at www.pentair.com/corp.html. Pentair’s Code of Business Conduct and Ethics is also available in print to any shareholder who requests it in writing from our Secretary. We intend to satisfy the disclosure requirements under Item 10 of Form 8-K regarding amendments to, or waivers from, Pentair’s Code of Business Conduct and Ethics by posting such information on our website at www.pentair.com/corp.html.

Our Board of Directors has also adopted Corporate Governance Principles and written charters for our Audit and Finance Committee, Compensation Committee, Governance Committee and International Committee. We have posted copies of those documents on our website at www.pentair.com/corp.html. Copies of these documents are also available in print to any shareholder who requests them in writing from our Secretary.

We are not including the information contained on our website as part of, or incorporating it by reference into, this report.

ITEM 11. EXECUTIVE COMPENSATION

Information required under this item is contained in our Proxy Statement for our 2004 annual meeting of shareholders under the captions “Election of Directors” and “Executive Compensation” and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required under this item is contained in our Proxy Statement for our 2004 annual meeting of shareholders under the captions “Security Ownership of Management and Beneficial Ownership” and “Securities Authorized for Issuance under Equity Compensation Plans” and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

No matters require disclosure here.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required under this item is contained in our Proxy Statement for our 2004 annual meeting of shareholders under the captions “Independent Auditor Fees” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) **List of documents filed as part of this report:**

(1) **Financial Statements**

Consolidated Statements of Income for the Years Ended December 31, 2003, 2002, and 2001

Consolidated Balance Sheets as of December 31, 2003 and December 31, 2002

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002, and 2001

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2003, 2002, and 2001

Notes to Consolidated Financial Statements

(2) **Financial Statement Schedules**

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) **Exhibits**

The exhibits of this Annual Report on Form 10-K included herein are set forth on the attached Exhibit Index beginning on page 79.

(b) **Reports on Form 8-K**

Pentair filed a Form 8-K dated October 16, 2003 reporting under Item 9 and Item 12 the earnings results for the third quarter and first nine months of 2003.

Pentair filed a Form 8-K dated November 24, 2003 reporting under Item 5 the appointment of David A. Jones and Glynis Bryan to the Board of Directors of the Company and the resignation of William H. Hernandez from the Board of Directors of the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 March 4, 2004.

PENTAIR, INC.

By /s/ David D. Harrison

David D. Harrison
Executive Vice President and Chief
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on March 4, 2004

<u>Signature</u>	<u>Title</u>
<u>/s/ Randall J. Hogan</u> Randall J. Hogan	Chairman and Chief Executive Officer
<u>/s/ David D. Harrison</u> David D. Harrison	Executive Vice President and Chief Financial Officer
<u>*</u> Glynis A. Bryan	Director
<u>*</u> Barbara B. Grogan	Director
<u>*</u> Charles A. Haggerty	Director
<u>*</u> David A. Jones	Director
<u>*</u> Stuart Maitland	Director
<u>*</u> Augusto Meozzi	Director
<u>*</u> William T. Monahan	Director
<u>*</u> Karen E. Welke	Director
<u>*By /s/ Louis L. Ainsworth</u> Louis L. Ainsworth Attorney-in-fact	

Schedule II — Valuation and Qualifying Accounts

Pentair, Inc. and subsidiaries

<i>In thousands</i>	Balance beginning of period	Additions charged to costs and expenses	Deductions — describe	Other changes add (deduct) describe	Balance end of period
Allowances for doubtful accounts					
Year ended December 31, 2003	\$16,676	\$3,315	\$6,236 ⁽¹⁾	\$1,604 ⁽²⁾	\$15,359
Year ended December 31, 2002	\$14,142	\$6,209	\$4,942 ⁽¹⁾	\$1,267 ⁽²⁾	\$16,676
Year ended December 31, 2001	\$18,636	\$1,884	\$6,601 ⁽¹⁾	\$ 223 ⁽²⁾	\$14,142

⁽¹⁾ Uncollectible accounts written off, net of recoveries.

⁽²⁾ Result of acquisitions and foreign currency effects.

Exhibit Index

<u>Exhibit Number</u>	<u>Exhibit</u>
2.1	Stock Purchase Agreement among Pentair, Inc., WICOR, Inc., and Wisconsin Energy Corporation dated February 3, 2004 (Incorporated by reference to Exhibit 99.2 contained in Pentair's Current Report on Form 8-K dated February 3, 2004).
3.1	Second Restated Articles of Incorporation as amended through May 1, 2002 (Incorporated by reference to Exhibit 3.1 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002).
3.2	Third Amended and Superceding By-Laws as amended effective through May 1, 2002 (Incorporated by reference to Exhibit 3.2 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002).
4.1	Rights Agreement as of July 21, 1995 between Norwest Bank N.A. and Pentair, Inc. (Incorporated by reference to Exhibit 4.1 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995).
4.2	Form of Indenture, dated June 1, 1999, between Pentair, Inc. and U.S. Bank National Association, as Trustee Agent (Incorporated by reference to Exhibit 4.2 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 2000).
4.3	Note Purchase Agreement dated as of July 25, 2003 for \$50,000,000 4.93% Senior Notes, Series A, due July 25, 2013, \$100,000,000 Floating Rate Senior Notes, Series B, due July 25, 2013, and \$50,000,000 5.03% Senior Notes, Series C, due October 15, 2013 (Incorporated by reference to Exhibit 10.22 contained in Pentair's Current Report on Form 8-K dated July 25, 2003).
10.1	Pentair's Supplemental Employee Retirement Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.1 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).*
10.2	Pentair's 1999 Supplemental Executive Retirement Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.2 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).*
10.3	Pentair's Restoration Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.3 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).*
10.4	Pentair, Inc. Omnibus Stock Incentive Plan as Amended and Restated, effective January 1, 2003 (Incorporated by reference to Appendix 2 contained in Pentair's Proxy Statement for its 2003 annual meeting of shareholders).*
10.5	Fourth Amended and Restated Compensation Plan for Non-Employee Directors (Incorporated by reference to Exhibit 10.12 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1996).*
10.6	Amendment effective August 23, 2000 to Pentair's Fourth Amended and Restated Compensation Plan for Non-Employee Directors (Incorporated by reference to Exhibit 10.5 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).*
10.7	Amended and Restated Pentair, Inc. Outside Directors Nonqualified Stock Option Plan as amended through February 27, 2002 (Incorporated by reference to Exhibit 10.7 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 2001).*

- 10.8** Pentair, Inc. Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.17 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1995).*
- 10.9** Trust Agreement for Pentair, Inc. Non-Qualified Deferred Compensation Plan between Pentair, Inc. and State Street Bank and Trust Company (Incorporated by reference to Exhibit 10.18 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1995).*
- 10.10** Amendment effective August 23, 2000 to Pentair's Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.8 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).*
- 10.11** Pentair, Inc. Executive Officer Performance Plan as Amended and Restated, effective January 1, 2003 (Incorporated by reference to Appendix 1 contained in Pentair's Proxy Statement for its 2003 annual meeting of shareholders).*
- 10.12** Pentair's Management Incentive Plan as amended and restated January 1, 2002 (Incorporated by reference to Exhibit 10.16 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 2001).*
- 10.13** Amendment effective January 1, 2003 to Pentair's Management Incentive Plan (Incorporated by reference to Exhibit 10.15 contained in Pentair's annual Report on Form 10-K for the year ended December 31, 2003).*
- 10.14** Employee Stock Purchase and Bonus Plan as amended and restated effective January 1, 1992 (Incorporated by reference to Exhibit 10.16 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1991).*
- 10.15** Pentair's Flexible Perquisite Program as amended effective January 1, 1989 (Incorporated by reference to Exhibit 10.20 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1989).*
- 10.16** Form of Key Executive Employment and Severance Agreement effective August 23, 2000 for Randall J. Hogan (Incorporated by reference to Exhibit 10.11 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).*
- 10.17** Form of Key Executive Employment and Severance Agreement effective August 23, 2000 for Louis Ainsworth, Richard J. Cathcart, Michael V. Schrock, Karen A. Durant, David D. Harrison, Charles M. Brown, Frederick S. Koury and others (Incorporated by reference to Exhibit 10.13 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).*
- 10.18** Term Loan Agreement dated as of August 8, 2002, by and between Pentair and Credit Lyonnais New York Branch (Incorporated by reference to Exhibit 10.26 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended September 28, 2002).
- 10.19** Employment Agreement dated October 17, 2001, between Pentair, Inc. and Richard J. Cathcart. (Incorporated by reference to Exhibit 10.31 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2001).*
- 10.20** Facility Commitment Letter for \$850 million Senior Term Loan Facility among Bank of America, N.A., Banc of America Securities LLC, U.S. Bank National Association and Pentair Inc. (Incorporated by reference to Exhibit 99.3 contained in Pentair's Current Report on Form 8-K dated February 3, 2004).

- 10.21** Amended and Restated Credit Agreement dated as of July 25, 2003 among Pentair, Inc., various subsidiaries of Pentair, Inc., and various financial institutions listed therein, and Bank of America, N.A., as Administrative Agent (Incorporated by reference to Exhibit 10.21 contained in Pentair's Current Report on Form 8-K dated July 25, 2003).
- 21** List of Pentair subsidiaries.
- 23** Consent of Independent Auditors — Deloitte & Touche LLP
- 24** Power of Attorney
- 31.1** Certification required by Rule 13a-14(a).
- 31.2** Certification required by Rule 13a-14(a).
- 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.
- *** A management contract or compensatory contract.

the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million (1990-2000) (ONS 2001).

There is a growing awareness of the need to address the needs of older people in the UK. The Department of Health (2000) has published a strategy for older people, which sets out a vision for the future of health care for older people. The strategy is based on the following principles:

- Older people should be able to live independently and actively in their own homes for as long as possible.
- Older people should be able to access the services and support they need to live well.
- Older people should be able to participate in decisions about their care and services.

The strategy also sets out a number of key objectives, including:

- To improve the health and well-being of older people.
- To ensure that older people have access to the services and support they need to live well.
- To ensure that older people are able to participate in decisions about their care and services.

The strategy is a key document in the development of health care for older people in the UK. It provides a framework for the development of policies and services for older people.

The strategy is based on the following principles:

- Older people should be able to live independently and actively in their own homes for as long as possible.
- Older people should be able to access the services and support they need to live well.
- Older people should be able to participate in decisions about their care and services.

The strategy also sets out a number of key objectives, including:

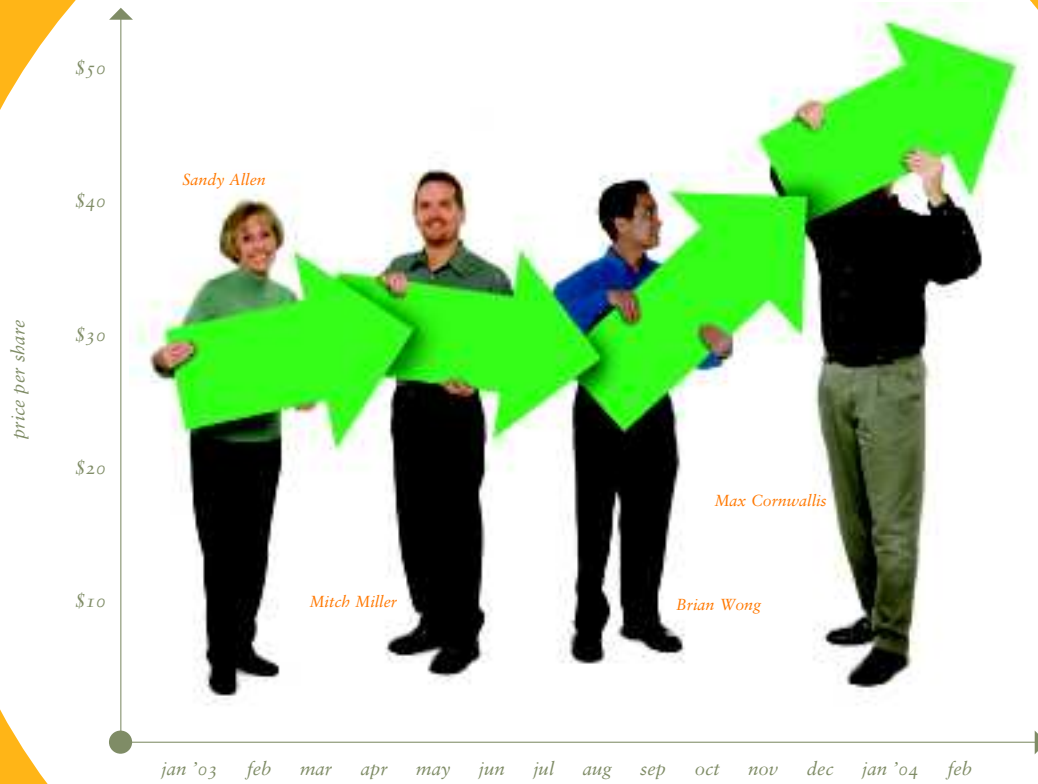
- To improve the health and well-being of older people.
- To ensure that older people have access to the services and support they need to live well.
- To ensure that older people are able to participate in decisions about their care and services.

The strategy is a key document in the development of health care for older people in the UK. It provides a framework for the development of policies and services for older people.

The strategy is based on the following principles:

- Older people should be able to live independently and actively in their own homes for as long as possible.
- Older people should be able to access the services and support they need to live well.
- Older people should be able to participate in decisions about their care and services.

SHARE PRICE



Pentair

5500 Wayzata Boulevard
Suite 800
Golden Valley
Minnesota 55416
763.545.1730 tel

www.pentair.com