

PENTAIR INC
Form 10-K
February 21, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2011

OR

· TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 000-04689

Pentair, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota

(State or other jurisdiction of

incorporation or organization)

5500 Wayzata Boulevard,

Suite 800, Golden Valley, Minnesota

(Address of principal executive offices)

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

41-0907434

(I.R.S. Employer

Identification number)

55416-1259

(Zip code)

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

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Title of each class	Name of each exchange on which registered
Common Shares, \$0.16 2/3 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 \$41.27 per share as reported on the New York Stock Exchange on July 2, 2011 (the last business day of Registrant's most recently completed second quarter): \$3,886,388,296

The number of shares outstanding of Registrant's only class of common stock on December 31, 2011 was 98,622,564.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's definitive proxy statement for its annual meeting to be held on April 25, 2012, are incorporated by reference in this Form 10-K in response to Part III, ITEM 10, 11, 12, 13 and 14.

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Pentair, Inc.

Annual Report on Form 10-K

For the Year Ended December 31, 2011

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PART I

**ITEM 1. BUSINESS
GENERAL**

Pentair, Inc. is a focused diversified industrial manufacturing company comprised of two operating segments: Water & Fluid Solutions and Technical Products. Water & Fluid Solutions is a global leader in providing innovative products and systems used worldwide in the movement, storage, treatment and enjoyment of water. Technical Products is a leader in the global enclosures and thermal management markets, designing and manufacturing standard, modified and custom enclosures that house and protect sensitive electronics and electrical components and protect the people that use them.

Pentair Strategy

Our strategy is to drive sustainable, profitable growth and Return on Invested Capital (ROIC) improvements through:

- building operational excellence through the Pentair Integrated Management System (PIMS) consisting of strategy deployment, lean enterprise and Rapid Growth Process, which is our process to drive organic growth;
- driving long-term growth in sales, operating income and cash flows, through growth and productivity initiatives along with acquisitions;
- developing new products and enhancing existing products;
- penetrating attractive growth markets, particularly international;
- expanding multi-channel distribution; and
- proactively managing our business portfolio for optimal value creation, including consideration of new business platforms.

Unless the context otherwise indicates, references herein to Pentair , the Company, and such words as we, us, and our include Pentair, Inc. and its subsidiaries. Pentair is a Minnesota corporation that was incorporated in 1966.

BUSINESS AND PRODUCTS

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 & FLUID SOLUTIONS

Pentair Water & Fluid Solutions is a leading provider of innovative water management and fluid processing products and solutions. Our comprehensive product suite addresses a broad array of fluid handling needs, with products ranging from energy-efficient pumps and point-of-use filtration to engineered pumps and fluid processing systems. Water & Fluid Solutions products have a wide range of residential, industrial, commercial, municipal and agricultural applications.

Water & Fluid Solutions comprises the three platforms shown below:

Flow

In our Flow platform, we manufacture and sell products ranging from light duty diaphragm pumps to high-flow turbine pumps and solid handling pumps while serving the global residential, municipal, commercial, industrial and agricultural end-markets. Our pumps are used in a range of applications, including use in residential and municipal wells, water treatment, wastewater solids handling, pressure boosting, engine cooling, fluid delivery, circulation and transfer, fire suppression, flood control, agricultural irrigation and crop spray. The Flow platform is a combination of the former Residential Flow and Engineered Flow global business units.

Brand names for Flow include Aurora®, Berkeley®, Fairbanks Morse , Flotec®, Hydromatic®, Hypro®, JUNG PUMPEN®, Myers®, Nijhuis , Onga and STA-RITE®.

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Treatment & Process

In our Treatment & Process platform, we manufacture and sell water and fluid treatment products and systems, including pressure tanks and vessels, control valves, activated carbon products, conventional filtration products, point-of-entry and point-of-use systems, gas recovery solutions, membrane bioreactors, wastewater reuse systems and advanced membrane filtration and separation systems into the global residential, industrial, commercial, and municipal end-markets. These products are used in a range of applications, including use in fluid filtration, ion exchange, desalination, food and beverage, food service, separation technologies for the oil and gas industry, medical and hydraulic, marine and recreational vehicles. The Treatment & Process platform is a combination of the former Residential Filtration and Filtration Solutions global business units.

Brand names for Treatment & Process include Aquamatic[®], Autotrol[®], CodeLine[®], Everpure[®], Fleck[®], Haffmans , OMNIFILTER[®], Pentair[®], SHURflo[®], Structural and X-Flow[®].

Aquatic Systems

In our Aquatic Systems platform, we manufacture and sell a complete line of energy-efficient residential and commercial pool equipment and accessories including pumps, filters, heaters and heat pumps, lights, automatic controls, automatic cleaners, maintenance equipment and pool accessories. Applications for our Aquatic Systems products include residential and commercial pool maintenance, pool repair, renovation, service and construction and aquaculture solutions. The Aquatic Systems platform is the former Pool global business unit.

Brand names for Aquatic Systems include Kreepy Krauly[®], Onga , Penta[®], Pentair Pool Products[®], Pentair Water Pool and Spa[®] and STA-RITE[®].

Customers

Water & Fluid Solutions distributes its products through wholesale distributors, retail distributors, original equipment manufacturers, home centers, home and pool builders and directly to customers and end-users. Information regarding significant customers in Water & Fluid Solutions is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Seasonality

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

Competition

Water & Fluid Solutions faces numerous domestic and international competitors, some of which have substantially greater resources directed to the markets in which we compete. Consolidation and globalization are continuing trends in the water industry. Competition in commercial and residential flow technologies markets focuses on brand names, product performance (including energy-efficient offerings), quality and price. While home center and national retailers are important for residential lines of water and wastewater pumps, they are not important for commercial pumps. For municipal pumps, competition focuses on performance to meet required specifications, service and price. Competition in fluid treatment, filtration and processing focuses on product performance and design, quality, delivery and price. For pool equipment, competition focuses on brand names, product performance (including energy-efficient offerings), quality and price. We compete by offering a wide variety of innovative and high-quality products, which are competitively priced. We believe our distribution channels and reputation for quality also contribute to our continuing market penetration.

TECHNICAL PRODUCTS

Pentair Technical Products is a leading provider of products that guard and protect some of the world's most sensitive electronics and electronic equipment, ensuring their safe, secure and reliable performance. Our

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innovative product offering includes mild steel, stainless steel, aluminum and non-metallic enclosures, cabinets, cases, subracks, backplanes and associated thermal management systems. Our products serve a range of end-markets, including use in industrial, communications (including telecommunications and data communications), networking, general electronics, energy, commercial infrastructure, security and defense and medical.

Brand names for Technical Products include Hoffman[®], McLean[®] and Schroff[®].

Customers

Technical Products distributes its products through electrical and data contractors, electrical and electronic components distributors and original equipment manufacturers. Information regarding significant customers in Technical Products is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Seasonality

Technical Products is not significantly affected by seasonal demand fluctuations.

Competition

Competition in the technical products markets can be intense, particularly in the Communications market, where product design, prototyping, global supply, price competition and customer service are significant factors. Technical Products has continued to focus on cost control and improving profitability. Recent sales increases in Technical Products are the result of growth from initiatives focused on product development, continued channel penetration, growth in targeted market segments, geographic expansion and price increases. Consolidation, globalization and outsourcing are visible trends in the technical products marketplace and typically play to the strengths of a large and globally positioned supplier. We believe Technical Products has the global manufacturing capability and broad product portfolio to support the globalization and outsourcing trends.

RECENT DEVELOPMENTS

On May 12, 2011, we acquired as part of Water & Fluid Solutions, the Clean Process Technologies (CPT) division of privately held Norit Holding B.V. for \$715.3 million (502.7 million translated at the May 12, 2011 exchange rate). CPT's results of operations have been included in our consolidated financial statements since the date of acquisition. CPT is a global leader in membrane solutions and clean process technologies in the high growth water and beverage filtration and separation segments. CPT provides sustainable purification systems and solutions for desalination, water reuse, industrial applications and beverage segments that effectively address the increasing challenges of clean water scarcity, rising energy costs and pollution. CPT's product offerings include innovative ultrafiltration and nanofiltration membrane technologies, aseptic valves, CO₂ recovery and control systems and specialty pumping equipment. Based in the Netherlands, CPT has broad sales diversity with the majority of 2011 and 2010 revenues generated in European Union and Asia-Pacific countries.

INFORMATION REGARDING ALL BUSINESS SEGMENTS**Backlog**

Our backlog of orders as of December 31 by segment was:

In thousands	2011	2010	\$ change	% change
Water & Fluid Solutions	\$ 368,008	\$ 212,929	\$ 155,079	72.8%
Technical Products	109,757	127,658	(17,901)	(14.0)%
Total	\$ 477,765	\$ 340,587	\$ 137,178	40.3%

The \$155.1 million increase in Water & Fluid Solutions backlog was primarily due to increased backlog related to the May, 2011 acquisition of CPT. The \$17.9 million decrease in Technical Products backlog reflected larger telecommunications project backlog at December 31, 2010. Due to the relatively short manufacturing cycle and

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general industry practice for the majority of our businesses, backlog, which typically represents less than 60 days of shipments, is not deemed to be a significant item. A substantial portion of our revenues result from orders received and product sold in the same month. We expect that most of our backlog at December 31, 2011 will be filled in 2012.

Research and development

We primarily conduct research and development activities in our own facilities. These efforts consist primarily of the development of new products, product applications and manufacturing processes. Research and development expenditures during 2011, 2010 and 2009 were \$78.2 million, \$67.2 million and \$57.9 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 our products are electric motors, mild steel, stainless steel, electronic components, plastics (resins, fiberglass, epoxies), copper and paint (powder and liquid). In addition to the purchase of raw materials, we purchase some finished goods 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 metals and resin, are subject to market and duty-driven price fluctuations. We manage these fluctuations through several mechanisms, including long-term agreements with price adjustment clauses for significant commodity market movements in certain circumstances. Prices for raw materials, such as metals and resins, may trend higher in the future.

Intellectual property

Patents, non-compete agreements, proprietary technologies, customer relationships, trade marks, trade names and brand 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, trade name or brand name.

Patents, patent applications and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. We do not expect the termination of patents, patent applications or license agreements to have a material adverse effect on our financial position, results of operations or cash flows.

Employees

As of December 31, 2011, we employed approximately 15,300 people worldwide. Total employees in the United States were approximately 6,900, of whom approximately 440 are represented by four different trade unions having collective bargaining agreements. Generally, labor relations have been satisfactory.

Captive insurance subsidiary

We insure certain 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. Accruals with respect to liabilities insured by third parties, such as liabilities arising from acquired businesses, pre-Penwald liabilities and those of certain foreign operations are established.

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Matters pertaining to Penwald are discussed in ITEM 3 and ITEM 8, Note 1 of the Notes to Consolidated Financial Statements Insurance Subsidiary, 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 Securities Exchange Act of 1934 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 Securities Exchange Act of 1934 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 1A. RISK FACTORS

You should carefully consider the following risk factors and warnings before making an investment decision. You are cautioned not to place undue reliance on any forward-looking statements. You 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. If any of the risks described below actually occur, our business, financial condition, results of operations or prospects could be materially adversely affected. In that case, the price of our securities could decline and you could lose all or part of your investment. You should also refer to other information set forth in this document. We assume no obligation, and disclaim any duty, to update risk factors in this report except as required by law.

General economic conditions, including difficult credit and residential construction markets, affect demand for our products.

We compete around the world in various geographic regions and product markets. Among these, the most significant are global industrial markets (for both Technical Products and Water & Fluid Solutions) and residential markets (for Water & Fluid Solutions). Important factors for our businesses include the overall strength of the economy and our customers' confidence in the economy; industrial and governmental capital spending; the strength of the residential and commercial real estate markets; unemployment rates; availability of consumer and commercial financing for our customers and end-users; and interest rates. New construction for housing and home improvement activity fell in 2007, 2008 and 2009, which reduced revenue growth in the residential business within Water & Fluid Solutions. While we saw some stabilization in 2010 and 2011, we believe that weakness in this market could negatively impact our revenues and margins in future periods. While we attempt to minimize our exposure to economic or market fluctuations by serving a balanced mix of end markets and geographic regions, we cannot assure you that a significant or sustained downturn in a specific end market or geographic region would not have a material adverse effect on us.

We are exposed to political, regulatory, economic and other risks that arise from operating a multinational business.

Sales outside of the United States, including export sales from our domestic businesses, accounted for approximately 40% of our net sales in 2011. Further, most of our businesses obtain some products, components and raw materials from foreign suppliers. Accordingly, our business is subject to the political, regulatory, economic and other risks that are inherent in operating in numerous countries. These risks include:

changes in general economic and political conditions in countries where we operate, particularly in emerging markets;

relatively more severe economic conditions in some international markets than in the United States;

the difficulty of enforcing agreements and collecting receivables through foreign legal systems;

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trade protection measures and import or export licensing requirements and restrictions;

the possibility of terrorist action affecting us or our operations;

the imposition of tariffs, exchange controls or other trade restrictions;

difficulty in staffing and managing widespread operations in non-U.S. labor markets;

changes in tax laws or rulings could have an adverse impact on our effective tax rate;

the difficulty of protecting intellectual property in foreign countries; and

changes in and required compliance with a variety of foreign laws and regulations.

As a result of our international operations and sales, we are subject to the Foreign Corrupt Practices Act, the United Kingdom Bribery Act and other laws that prohibit improper payments or offers of improper payments. Our international activities create risk under such laws because our employees, consultants, sales agents or distributors are not always subject to our direct control. Any violations or alleged violations of these laws could result in significant fines or settlements, criminal sanctions against us or our employees, reputational damage and prohibitions on the conduct of our business, including our business with the U.S. government.

Our business success depends in part on our ability to anticipate and effectively manage these and other risks. We cannot assure you that these and other factors will not have a material adverse effect on our international operations or on our business as a whole.

Our international operations are subject to foreign market and currency fluctuation risks and the European Union debt crisis could adversely affect our results.

We expect the percentage of our sales outside of the United States to continue to increase in the future. In some cases, foreign markets are susceptible to greater political, economic and social volatility than in our other markets. Furthermore, our increased foreign business operations expose us to currency fluctuations which could materially affect our financial results. The European Union currently accounts for the majority of our foreign sales and income. The current debt crisis in Europe could lead to the re-introduction of individual currencies in certain European Union countries or in the wholesale dissolution of the euro currency. The resulting impact on euro-denominated obligations and assets is impossible to predict, but it could adversely affect the value of such obligations and assets. Also, the effect of the debt crisis in Europe could have an adverse affect on the capital markets generally, specifically impacting the ability of our business and financial partners to finance their businesses on acceptable terms, if at all, the availability of materials and supplies and demand for our products.

Our inability to sustain organic growth could adversely affect our financial performance.

Over the past five years, our organic growth has been generated in part from expanding international sales, entering new distribution channels, introducing new products and price increases. To grow more rapidly than our end markets, we would have to continue to expand our geographic reach, further diversify our distribution channels, continue to introduce new products and increase sales of existing products to our customer base. Difficult economic and competitive factors may materially and adversely impact our financial performance. We have chosen to focus our growth initiatives in specific end markets and geographies. We cannot assure you that these growth initiatives will be sufficient to offset revenue declines in other markets.

We may not be able to expand through acquisitions and acquisitions we complete may adversely affect our financial performance.

We intend to continue to evaluate strategic acquisitions primarily in our current business segments, though we may consider acquisitions outside of these segments as well. Our ability to expand through acquisitions is subject to various risks, including the following:

Limitations on pursuing acquisitions due to increased leverage;

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Higher acquisition prices;

Lack of suitable acquisition candidates in targeted product or market areas; and

Increased competition for acquisitions, especially in the water industry.

We may not realize the anticipated benefits of acquisitions, any benefits may take longer to realize than we expect and acquisitions we complete may adversely affect our financial performance.

Any acquisition involves the integration of acquired operations with our existing operations and there are uncertainties inherent in such an integration. We will be required to devote significant management attention and resources to such an integration and delays or unexpected difficulties in the integration process could adversely affect our business, financial results and financial condition. Even if we are successful in integrating acquired operations, we may not achieve the full benefits of revenue synergies, cost savings and operational efficiencies that we expect or within the time we expect. Acquisitions we may undertake could have a material adverse effect on our operating results, particularly in the fiscal quarters immediately following the acquisitions, while we attempt to integrate operations of the acquired businesses into our operations. In addition, we may have not discovered during due diligence all facts and factors that could produce unintended or unexpected consequences for us, including financial liabilities, which could be material and result in us not achieving the expected benefits from the acquisition within our desired time frames, if at all.

As we continue our integration of CPT's operations with our existing operations, uncertainties remain and we may not achieve the full expected benefits of that acquisition, including revenue synergies, cost savings and operational efficiencies, or within the time we expect.

Increased leverage may harm our financial condition and results of operations.

As of December 31, 2011, we had \$1,309.1 million of total debt on a consolidated basis. Any future increase in our level of indebtedness will have several important effects on our future operations, including, without limitation:

cash requirements to support the payment of interest on our outstanding indebtedness may increase;

increases in our outstanding indebtedness and leverage may increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;

our ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes may be reduced;

our flexibility in planning for, or reacting to, changes in our business and our industry may be reduced; and

our flexibility to make acquisitions and develop technology may be limited.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other cash requirements, we may be required, among other things:

to seek additional financing in the debt or equity markets;

to refinance or restructure all or a portion of our indebtedness;

to sell selected assets or businesses; or

to reduce or delay planned capital or operating expenditures.

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Such measures might not be sufficient to enable us to service our debt and meet our other cash requirements. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms, if at all.

The availability and cost of capital could have a negative impact on our financial performance.

Our plans to vigorously compete in our chosen markets will require additional capital for future acquisitions, capital expenditures, growth of working capital and continued international and regional expansion. In the past, we have financed growth of our businesses primarily through cash from operations and debt financing. While we have availability under our primary credit agreements on what we believe to be favorable terms, future acquisitions or other uses of funds may require us to expand our debt financing resources or to issue equity securities. Our financial results may be adversely affected if new financing is not available on favorable terms or if interest costs under our debt financings are higher than the income generated by acquisitions or other internal growth. In addition, future share issuances could be dilutive to your equity investment if we sell shares into the market or issue additional stock as consideration in any acquisition. We cannot assure you that we will be able to issue equity securities or obtain future debt financing at favorable terms. Without sufficient financing, we will not be able to pursue our targeted growth strategy and our acquisition program, which may limit our revenue growth and future financial performance.

We have significant goodwill and intangible assets and future impairment of our goodwill and intangible assets could have a material negative impact on our financial results.

We test goodwill and indefinite-lived intangible assets for impairment on an annual basis, by comparing the estimated fair value of each of our reporting units to their respective carrying values on their balance sheets. At December 31, 2011 our goodwill and intangible assets were approximately \$2,866.2 million and represented approximately 62.5% of our total assets. Long-term declines in projected future cash flows could result in future goodwill and intangible asset impairments. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

In the fourth quarter of 2011, we completed our annual goodwill impairment review. As a result, we recorded a pre-tax non-cash impairment charge of \$200.5 million in the fourth quarter of 2011. This represents impairment of goodwill in our Residential Filtration reporting unit, part of Water & Fluid Solutions. The impairment charge resulted from changes in our forecasts in light of economic conditions prevailing in these markets and due to continued softness in the end-markets served by residential water treatment components.

Material cost and other inflation have adversely affected and could continue to affect our results of operations.

In the past, we have experienced material cost and other inflation in a number of our businesses. We strive for productivity improvements and implement increases in selling prices to help mitigate cost increases in raw materials (especially metals and resins), energy and other costs such as pension, health care and insurance. We continue to implement operational initiatives in order to mitigate the impacts of this inflation and continuously reduce our costs. We cannot assure you, however, that these actions will be successful in managing our costs or increasing our productivity. Continued cost inflation or failure of our initiatives to generate cost savings or improve productivity would likely negatively impact our results of operations.

Our businesses operate in highly competitive markets, so we may be forced to cut prices or to incur additional costs.

Our businesses generally face substantial competition in each of their respective markets. Competition may force us to cut prices or to incur additional costs to remain competitive. We compete on the basis of product design, quality, availability, performance, customer service and price. Present or future competitors may have greater

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financial, technical or other resources which could put us at a disadvantage in the affected business or businesses. We cannot assure you that these and other factors will not have a material adverse effect on our future results of operations.

Seasonality of sales and weather conditions may adversely affect our financial results.

We experience seasonal demand in a number of markets within Water & Fluid Solutions. End-user demand for pool equipment in our primary markets follows warm weather trends and is at seasonal highs from April to August. The magnitude of the sales increase is partially mitigated by employing some advance sale or early buy programs (generally including extended payment terms and/or additional discounts). Demand for residential and agricultural water systems is also impacted by weather patterns, particularly by heavy flooding and droughts. We cannot assure you that seasonality and weather conditions will not have a material adverse effect on our results of operations.

Intellectual property challenges may hinder product development and marketing.

Patents, non-compete agreements, proprietary technologies, customer relationships, trade marks, trade names and brand names are important to our business. Intellectual property protection, however, may not preclude competitors from developing products similar to ours or from challenging our names or products. Our pending patent applications, and our pending copyright and trademark registration applications, may not be allowed or competitors may challenge the validity or scope of our patents, copyrights or trademarks. In addition, our patents, copyrights, trademarks and other intellectual property rights may not provide us a significant competitive advantage. Over the past few years, we have noticed an increasing tendency for participants in our markets to use conflicts over and challenges to intellectual property as a means to compete. Patent and trademark challenges increase our costs to develop, engineer and market our products. We may need to spend significant resources monitoring our intellectual property rights and we may or may not be able to detect infringement by third parties

Our results of operations may be negatively impacted by litigation.

Our businesses expose us to potential litigation, such as product liability claims relating to the design, manufacture and sale of our products. While we currently maintain what we believe to be suitable product liability insurance, we cannot assure you that we will be able to maintain this insurance on acceptable terms or that this insurance will provide adequate protection against potential liabilities. In addition, we self-insure a portion of product liability claims. A series of successful claims against us for significant amounts could materially and adversely affect our product reputation, financial condition, results of operations and cash flows.

We are exposed to potential environmental and other laws, liabilities and litigation.

We are subject to federal, state, local and foreign laws and regulations governing our environmental practices, public and worker health and safety and the indoor and outdoor environment. Compliance with these environmental, health and safety regulations could require us to satisfy environmental liabilities, increase the cost of manufacturing our products or otherwise adversely affect our business, financial condition and results of operations. Any violations of these laws by us could cause us to incur unanticipated liabilities that could harm our operating results and cause our business to suffer. We are also required to comply with various environmental laws and maintain permits, some of which are subject to discretionary renewal from time to time, for many of our businesses and we could suffer if we are unable to renew existing permits or to obtain any additional permits that we may require.

We have been named as defendants, targets or potentially responsible parties (PRP) in a number of environmental clean-ups relating to our current or former business units. We have disposed of a number of businesses in recent years and in certain cases, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from certain purchasers. We may be named as a PRP at other sites in the future for existing business units, as well as both divested and acquired businesses.

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We cannot ensure you that environmental requirements will not change or become more stringent over time or that our eventual environmental clean-up costs and liabilities will not exceed the amount of our current reserves.

We are exposed to certain regulatory and financial risks related to climate change.

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators and others attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The U.S. Congress and federal and state regulatory agencies have been considering legislation and regulatory proposals that would regulate and limit greenhouse gas emissions. It is uncertain whether, when and in what form a federal mandatory carbon dioxide emissions reduction program may be adopted. Similarly, certain countries have adopted the Kyoto Protocol and this and other international initiatives under consideration could affect our international operations. These actions could increase costs associated with our operations, including costs for raw materials and transportation. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our future consolidated financial condition, results of operations or cash flows.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive office is in leased premises located in Golden Valley, Minnesota. We carry out our Water & Fluid Solutions manufacturing operations at 26 plants located throughout the United States and at 21 plants located in 12 other countries. In addition, Water & Fluid Solutions has 35 distribution facilities and 53 sales offices located in numerous countries throughout the world. We carry out our Technical Products manufacturing operations at 6 plants located throughout the United States and 10 plants located in 8 other countries. In addition, Technical Products has 9 distribution facilities and 25 sales offices located in numerous countries throughout the world.

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.

While we believe that a material impact on our consolidated financial position, results of operations or cash flows from any such future claims or potential claims 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 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 PRP in a small number of environmental clean-ups, in which our current or former business units have generally been given *de minimis* status. To date, none of these claims have resulted in clean-up 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 in the past 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, the disposition of Lincoln Industrial in 2001 and the disposition of the Tools Group in 2004, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers of these businesses and have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities. We settled some of the claims in prior years; to date our recorded accruals have been adequate.

In addition, there are ongoing environmental issues at a limited number of sites relating to operations no longer carried out at the sites. We have established what we believe to be adequate accruals for remediation costs at these sites. We do not believe that projected response costs will result in a material liability. We have also made claims against third parties for indemnification against potential liabilities for environmental remediations or other obligations. We cannot assure you that we will be successful in obtaining indemnity or reimbursement for such costs.

We may be named as a PRP at other sites in the future, for both divested and acquired businesses. When the outcome of the matter is probable and it is possible to provide reasonable estimates of our liability with respect to

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environmental sites, provisions have been made in accordance with generally accepted accounting principles in the United States. As of December 31, 2011 and 2010, our undiscounted reserves for such environmental liabilities were approximately \$1.5 million and \$1.3 million, respectively. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental clean-up costs and liabilities will not exceed the amount of our current reserves.

Product liability claims

We are subject to various product liability lawsuits and personal injury claims. A substantial number of these lawsuits and claims are insured and accrued for by Penwald, our captive insurance subsidiary. See discussion in ITEM 1 and ITEM 8, Note 1 of the Notes to Consolidated Financial Statements Insurance subsidiary. Penwald records a liability for these claims based on actuarial projections of ultimate losses. For all other claims, accruals covering the claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. In 2004, we disposed of the Tools Group and we retained responsibility for certain product claims. We have not experienced significant unfavorable trends in either the severity or frequency of product liability lawsuits or personal injury claims.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**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:

Name	Age	Current Position and Business Experience
Randall J. Hogan	56	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 Carrier Transicold President 1995 – 1997; Pratt & Whitney Industrial Turbines Vice President and General Manager 1994 – 1995; General Electric various executive positions 1988 – 1994; McKinsey & Company consultant 1981 – 1987.
Michael V. Schrock	59	President and Chief Operating Officer since September 2006; President and Chief Operating Officer of Filtration and Technical Products, October 2005 – September 2006; President and Chief Operating Officer of Enclosures, October 2001 – September 2005; 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.
John L. Stauch	47	Executive Vice President and Chief Financial Officer since February 2007; Chief Financial Officer of the Automation and Control Systems unit of Honeywell International Inc., July 2005 – February 2007; Vice President, Finance and Chief Financial Officer of the Sensing and Controls unit of Honeywell International Inc., January 2004 – July 2005; Vice President, Finance and Chief Financial Officer of the Automation & Control Products unit of Honeywell International Inc., July 2002 – January 2004; Chief Financial Officer and IT Director of PerkinElmer Optoelectronics, a unit of PerkinElmer, Inc., April 2000 – April 2002; Various executive, investor relations and managerial finance positions with Honeywell International Inc. and its predecessor AlliedSignal Inc., 1994 – 2000.
Frederick S. Koury	51	Senior Vice President, Human Resources, since August 2003; Vice President of Human Resources at Limited Brands, September 2000 – August 2003; PepsiCo, Inc., various executive positions, June 1985 – September 2000.
Angela D. Lageson	43	Senior Vice President, General Counsel and Secretary since February 2010; Assistant General Counsel, November 2002 – February 2010; Shareholder and Officer of the law firm of Henson & Efron, P.A., January 2000 – 2002; Associate Attorney in the law firm of Henson & Efron, P.A. October 1996 – January 2000 and in the law firm of Felhaber Larson Fenlon & Vogt, P.A. 1992 – 1996.
Michael G. Meyer	53	Vice President of Treasury and Tax since April 2004; Treasurer, January 2002 – March 2004; Assistant Treasurer, September 1994 – December 2001; Various executive positions with Federal-Hoffman, Inc. (former subsidiary of Pentair), August 1985 – August 1994.
Mark C. Borin	44	Corporate Controller and Chief Accounting Officer since March 2008; Partner in the audit practice of the public accounting firm KPMG LLP, June 2000 – March 2008; Various positions in the audit practice of KPMG LLP, September 1989 – June 2000.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is listed for trading on the New York Stock Exchange and trades under the symbol PNR. As of December 31, 2011, there were 3,631 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 2011 and 2010 were as follows:

	2011				2010			
	First	Second	Third	Fourth	First	Second	Third	Fourth
High	\$ 38.97	\$ 41.38	\$ 42.43	\$ 38.62	\$ 36.40	\$ 39.32	\$ 35.68	\$ 37.22
Low	\$ 34.85	\$ 36.74	\$ 29.73	\$ 30.38	\$ 29.55	\$ 30.62	\$ 29.41	\$ 31.89
Close	\$ 38.00	\$ 41.27	\$ 32.01	\$ 33.29	\$ 36.08	\$ 31.57	\$ 33.57	\$ 36.51
Dividends declared	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19

Pentair has paid 144 consecutive quarterly dividends and has increased dividends each year for 35 consecutive years.

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The following information under the caption "Stock Performance Graph" in this ITEM 5 of this Annual Report on Form 10-K is not deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934 and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following graph sets forth the cumulative total shareholder return on our common stock for the last five years, assuming the investment of \$100 on December 31, 2006 and the reinvestment of all dividends since that date to December 31, 2011. The graph also contains for comparison purposes the S&P 500 Index and the S&P MidCap 400 Index, assuming the same investment level and reinvestment of dividends.

By virtue of our market capitalization, we are a component of the S&P MidCap 400 Index. On the basis of our size and diversity of businesses, we have not found a readily identifiable peer group for purposes of the following graph. We believe the S&P MidCap 400 Index is an appropriate comparison. We have evaluated other published indices, but have determined that the results are skewed by significantly larger companies included in the indices. We believe such a comparison would not be meaningful.

Company / Index	Base Period		INDEXED RETURNS			
	December 2006	2007	Years Ending December 31:			
	2008	2009	2010	2011		
PENTAIR INC	100	112.85	78.36	109.90	127.08	118.39
S&P 500 INDEX	100	105.49	66.46	84.05	96.71	98.76
S&P MIDCAP 400 INDEX	100	107.98	68.86	94.60	119.80	117.72

Table of Contents**Purchases of Equity Securities**

The following table provides information with respect to purchases we made of our common stock during the fourth quarter of 2011:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 2 – October 29, 2011		\$ 0.00		\$ 12,501,935
October 30 – November 26, 2011	163	\$ 36.69		\$ 12,501,935
November 27 – December 31, 2011	1,398	\$ 35.80		\$ 12,501,935
Total	1,561			

- (a) The purchases in this column includes 0 shares for the period October 2 – October 29, 2011, 163 shares for the period October 30 – November 26, 2011 and 1,398 shares for the period November 27 – December 31, 2011 deemed surrendered to us by participants in our Omnibus Stock Incentive Plan and the Outside Directors Nonqualified Stock Option Plan (the Plans) to satisfy the exercise price or withholding of tax obligations related to the exercise of stock options and vesting of restricted shares.
- (b) The average price paid in this column includes shares deemed surrendered to us by participants in the Plans to satisfy the exercise price for the exercise price of stock options and withholding tax obligations due upon stock option exercises and vesting of restricted shares.
- (c) The number of shares in this column if any, represents the number of shares repurchased as part of our publicly announced plan to repurchase shares of our common stock up to a maximum dollar limit of \$25 million.
- (d) In December 2010, the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of \$25 million. As of December 31, 2011, we had repurchased 389,300 shares for \$12.5 million pursuant to this authorization, which expired in December 2011. In December 2011, the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of \$25 million. This authorization expires in December 2012.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected historical financial data from continuing operations for the five years ended December 31, 2011.

In thousands, except per-share data	Years Ended December 31,				
	2011	2010	2009	2008	2007
Statement of Operations Data:					
Net sales	\$ 3,456,686	\$ 3,030,773	\$ 2,692,468	\$ 3,351,976	\$ 3,280,903
Operating income	168,517	334,155	219,948	324,685	379,049
Net income from continuing operations attributable to Pentair, Inc.	34,222	198,454	115,512	256,363	212,118
Per Share Data:					
Basic:					
EPS from continuing operations attributable to Pentair, Inc.	\$ 0.35	\$ 2.02	\$ 1.19	\$ 2.62	\$ 2.15
Weighted average shares	98,233	98,037	97,415	97,887	98,762
Diluted:					
EPS from continuing operations attributable to Pentair, Inc.	\$ 0.34	\$ 2.00	\$ 1.17	\$ 2.59	\$ 2.12
Weighted average shares	99,753	99,294	98,522	99,068	100,205
Cash dividends declared per common share	\$ 0.80	\$ 0.76	\$ 0.72	\$ 0.68	\$ 0.60
Balance Sheet Data:					
Total assets	\$ 4,586,313	\$ 3,973,533	\$ 3,911,334	\$ 4,053,213	\$ 4,000,614
Total debt	1,309,087	707,472	805,637	954,092	1,060,586
Total shareholders equity	2,047,392	2,205,032	2,126,340	2,020,069	1,910,871

In February and April 2007, we acquired the outstanding shares of capital stock of Jung Pump and all of the capital interests of Porous Media, respectively, as part of Water & Fluid Solutions. In May 2007, we acquired as part of Technical Products, the assets of Calmark. In June 2008, we entered into a transaction with GE that was accounted for as an acquisition of an 80.1 percent ownership interest in GE's global water softener and residential water filtration business in exchange for a 19.9 percent interest in our global water softener and residential water filtration business. This transaction resulted in a pre-tax non-cash gain of \$109.6 million. In May 2011, we acquired as part of Water & Fluid Solutions, the Clean Process Technologies division of privately held Norit Holding B.V. In the fourth quarter of 2011, we recorded a pre-tax non-cash goodwill impairment charge of \$200.5 million.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains statements that we believe to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe, project, or similar words or the negative thereof or variations thereon. 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 are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Consequently, we cannot guarantee any forward-looking statements. Investors are cautioned not to place undue reliance on any forward-looking statements. The risks and uncertainties that may impact achievement of forward-looking statements include, but are not limited to:

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

changes in general economic and industry conditions in markets in which we participate, such as:

magnitude, timing and scope of the global economic recovery or any potential future downturn;

stabilization or strength of the North American housing markets;

the strength of product demand and the markets we serve;

the intensity of competition, including that from foreign competitors;

pricing pressures;

the financial condition of our customers;

market acceptance of our new product introductions and enhancements;

the introduction of new products and enhancements by competitors;

our ability to maintain and expand relationships with large customers;

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

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

increased risks associated with operating foreign businesses;

risks associated with our level of indebtedness and leverage and the potential need for additional financing in the future;

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

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

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

any impairment of goodwill and indefinite-lived intangible assets as a result of deterioration in our markets;

domestic and foreign governmental and regulatory policies;

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 to lower-cost locations and faster growth;

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our ability to generate savings from our excellence in operations initiatives consisting of lean enterprise, supply management and cash flow practices;

unanticipated developments that could occur with respect to contingencies such as litigation, intellectual property matters, product liability exposures and environmental matters;

our ability to accurately evaluate the effects of contingent liabilities such as tax, product liability, environmental and other claims; and

those we identify under **Risk Factors** in Item 1A of this report.

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

Overview

We are a focused diversified industrial manufacturing company comprised of two operating segments: Water & Fluid Solutions and Technical Products. Water & Fluid Solutions is a global leader in providing innovative products and systems used worldwide in the movement, storage, treatment and enjoyment of water. Technical Products is a leader in the global enclosures and thermal management markets, designing and manufacturing standard, modified and custom enclosures that house and protect sensitive electronics and electrical components and protect the people that use them. In 2011, Water & Fluid Solutions and Technical Products accounted for approximately 2/3 and 1/3 of total revenues, respectively.

Water & Fluid Solutions has progressively become a more important part of our business portfolio with sales increasing from approximately \$125 million in 1995 to approximately \$2.4 billion in 2011. We believe the water industry is structurally attractive as a result of a growing demand for clean water and the large global market size. Our vision is to be a leading global provider of innovative products and systems used in the movement, storage, treatment and enjoyment of water.

Technical Products operates in a large global market with significant potential for growth in industry segments such as industrial, energy, infrastructure and communications. We believe we have the largest industrial and commercial distribution network in North America for enclosures and the highest brand recognition in the industry in North America.

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

The fair value of the business acquired was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value acquired over the identifiable assets acquired and liabilities assumed is reflected as goodwill. Goodwill recorded as part of the purchase price allocation was \$451.8 million, none of which is tax deductible. Identifiable intangible assets acquired as part of the acquisition were \$197.2 million, including definite-lived intangibles, such as customer relationships, proprietary technology and trade names with a weighted average amortization period of approximately 10 years.

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In January 2011 we acquired as part of Water & Fluid Solutions, all of the outstanding shares of capital stock of Hidro Filtros do Brasil (Hidro Filtros) for cash of \$14.9 million and a note payable of \$2.1 million. The Hidro Filtros results of operations have been included in our consolidated financial statements since the date of acquisition. Hidro Filtros is a leading manufacturer of water filters and filtering elements for residential and industrial applications operating in Brazil and neighboring countries. Goodwill recorded as part of the purchase price allocation was \$10.1 million, none of which is tax deductible. Identified intangible assets acquired as part of the acquisition were \$6.3 million including definite-lived intangibles, primarily customer relationships, of \$5.5 million with an estimated life of 13 years.

Additionally, during 2011, we completed other small acquisitions with purchase prices totaling \$4.6 million, consisting of \$2.9 million in cash and \$1.7 million as a note payable, adding to Water & Fluid Solutions. Total goodwill recorded as part of the purchase price allocation was \$4.3 million, none of which is tax deductible.

In the fourth quarter of 2011, we completed our annual goodwill impairment review. As a result, we recorded a pre-tax non-cash impairment charge of \$200.5 million in the fourth quarter of 2011. This represents impairment of goodwill in our Residential Filtration reporting unit, part of Water & Fluid Solutions. The impairment charge resulted from changes in our forecasts in light of economic conditions prevailing in these markets and due to continued softness in the end-markets served by residential water treatment components.

Key Trends and Uncertainties

Our sales revenue for the full year of 2011 was approximately \$3.5 billion, increasing 14% from sales in the prior year. Water & Fluid Solutions sales increased 16% in the year to approximately \$2.4 billion, compared to the same period in 2010. Technical Products sales increased 10% to approximately \$1.1 billion as compared to the same period in 2010.

The following trends and uncertainties affected our financial performance in 2011 and will likely impact our results in the future:

Most markets we serve slowed dramatically in late 2008 and throughout 2009 as a result of the global recession. In 2010 and 2011, most markets showed signs of improvement. Because our businesses are significantly affected by general economic trends, a lack of continued improvement in our most important markets addressed below would likely have an adverse impact on our results of operation for 2012 and beyond.

We have also identified specific market opportunities that we continue to pursue that we find attractive, both within and outside the United States. We are reinforcing our businesses to more effectively address these opportunities through research and development and additional sales and marketing resources. Unless we successfully penetrate these product and geographic markets, our organic growth would likely be limited.

After four years of new home building and new pool start contraction in the United States, these end markets stabilized in 2010 and 2011. Although stabilized, these end markets have not shown significant signs of improvement and continue at historically low levels. While we expect new product introductions, expanded distribution and channel penetration to result in volume increases for 2012, continued stagnation in new housing construction and new pool starts could negatively impact our ability to grow sales in the future. Overall, we believe approximately 35% of Pentair sales are used in global residential applications for replacement, refurbishment, remodeling, repair and new construction.

Industrial markets slowed significantly in 2009. Order rates and sales improved in our industrial business in 2010 and 2011. We believe that the outlook for industrial markets is mixed. Any significant reduction in global capital spending could adversely impact our results in the future.

Through 2010 and 2011, we experienced material and other cost inflation. We strive for productivity improvements, and we implement increases in selling prices to help mitigate this inflation. We expect the

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current economic environment will result in continuing price volatility for many of our raw materials. Commodity prices have begun to moderate, but we are uncertain as to the timing and impact of these market changes.

Primarily due to lower discount rates, our unfunded pension liabilities increased by \$41 million to approximately \$242 million as of the end of 2011. We anticipate that our 2012 pension expense will increase over 2011 levels.

We have a long-term goal to consistently generate free cash flow that equals or exceeds 100 percent of our net income. We define free cash flow as cash flow from continuing operating activities less capital expenditures plus proceeds from sale of property and equipment. Free cash flow for the full year 2011 was approximately \$248 million, exceeding our goal of 100% net income conversion. We continue to expect to generate free cash flow in excess of net income from continuing operations in 2012. We are continuing to target reductions in working capital and particularly inventory, as a percentage of sales. See our discussion of *Other financial measures* under the caption

Liquidity and Capital Resources in this report for a reconciliation of our free cash flow.

In 2012, our operating objectives include the following:

Increasing our presence in fast growth regions and vertical market focus to grow in those markets in which we have competitive advantages;

Optimizing our technological capabilities to increasingly generate innovative new products;

Driving operating excellence through lean enterprise initiatives, with specific focus on sourcing and supply management, cash flow management and lean operations; and

Focusing on developing global talent in light of our increased global presence (39% of our 2011 net sales were generated outside the United States).

We may seek to meet our objectives of expanding our geographic reach internationally, expanding our presence in our various channels to market and acquiring technologies and products to broaden our businesses' capabilities to serve additional markets through acquisitions. We may also consider the divestiture of discrete business units to further focus our businesses on their most attractive markets.

RESULTS OF OPERATIONS**Net sales**

Consolidated net sales and the year-over-year changes were as follows:

<i>In thousands</i>	2011	2010	\$ change	% change	2010	2009	\$ change	% change
Net sales	\$ 3,456,686	\$ 3,030,773	\$ 425,913	14.1%	\$ 3,030,773	\$ 2,692,468	\$ 338,305	12.6%

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

<i>In thousands</i>	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
				\$ change	% change	\$ change	% change
Water & Fluid Solutions	\$ 2,369,804	\$ 2,041,281	\$ 1,847,764	\$ 328,523	16.1%	\$ 193,517	10.5%
Technical Products	1,086,882	989,492	844,704	97,390	9.8%	144,788	17.1%

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Total	\$ 3,456,686	\$ 3,030,773	\$ 2,692,468	\$ 425,913	14.1%	\$ 338,305	12.6%
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The components of the net sales change were as follows:

<i>Percentages</i>	2011 vs. 2010			2010 vs. 2009		
	Water & Fluid Solutions	Technical Products	Total	Water & Fluid Solutions	Technical Products	Total
Volume	2.4	6.2	3.7	10.6	17.0	12.6
Acquisition	11.5		7.7			
Price	1.0	1.9	1.3	(0.3)	0.7	
Currency	1.2	1.7	1.4	0.2	(0.6)	
Total	16.1	9.8	14.1	10.5	17.1	12.6

Consolidated net sales

The 14.1 percentage point increase in consolidated net sales in 2011 from 2010 was primarily the result of:

higher sales volume related to the May 2011 acquisition of CPT;

organic sales growth primarily due to higher sales in Water & Fluid Solutions of certain pump, pool and filtration products primarily serving the North American residential housing market and other global markets;

higher sales within the industrial, energy and general electronics vertical markets of Technical Products;

favorable foreign currency effects; and

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

2010 sales resulting from the Gulf Intracoastal Waterway Project which did not reoccur in 2011; and

lower sales within the communications vertical market of Technical Products.

The 12.6 percentage point increase in consolidated net sales in 2010 from 2009 was primarily driven by:

higher sales volume in Technical Products;

higher sales of certain pump, pool and filtration products primarily related to the stabilization in the North American residential housing markets and other global markets following the global recession in 2009; and

increased sales resulting from the Gulf Intracoastal Waterway Project.

Water & Fluid Solutions

The 16.1 percentage point increase in Water & Fluid Solutions sales in 2011 from 2010 was primarily the result of:

higher sales volume as a result of the May 2011 acquisition of CPT;

organic sales growth primarily due to higher sales of certain pump, pool and filtration products primarily serving the North American residential housing market and other global markets;

continued sales growth in Latin America, India and emerging markets in the Asia Pacific region;

favorable foreign currency effects; and

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selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

2010 sales resulting from the Gulf Intracoastal Waterway Project which did not reoccur in 2011.

The 10.5 percentage point increase in Water & Fluid Solutions net sales in 2010 from 2009 was primarily driven by:

organic sales growth of approximately 10.3 percent in 2010 (excluding foreign currency exchange) primarily due to higher sales of certain pump, pool and filtration products primarily related to the stabilization in the North American residential housing markets and other global markets following the global recession in 2009 primarily related to:

increased sales resulting from the Gulf Intracoastal Waterway Project;

continued sales growth in India, China and in other emerging markets in the Asia-Pacific region as well as Latin America; and

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

price concessions in the form of growth rebates.

Technical Products

The 9.8 percentage point increase in Technical Products sales in 2011 from 2010 was primarily the result of:

an increase in sales in industrial, energy and general electronics vertical markets;

favorable foreign currency effects; and

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

lower sales within the communications vertical market.

The 17.1 percentage point increase in Technical Products net sales in 2010 from 2009 was primarily driven by:

organic sales growth of approximately 17.7 percent in 2010 (excluding foreign currency exchange) primarily related to:

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an increase in sales in industrial, general electronics, communications, energy and infrastructure vertical markets; and

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

unfavorable foreign currency effects in 2010 primarily related to the euro.

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<i>In thousands</i>	2011	% of sales	2010	% of sales	2009	% of sales
Gross Profit	\$ 1,073,722	31.1%	\$ 930,640	30.7%	\$ 785,135	29.2%

Percentage point change

0.4 pts

1.5 pts

The 0.4 percentage point increase in gross profit as a percentage of sales in 2011 from 2010 was primarily the result of:

higher sales volumes in Water & Fluid Solutions and Technical Products and higher fixed cost absorption resulting from that volume;

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

selective increases in selling prices in Water & Fluid Solutions and Technical Products to mitigate inflationary cost increases.

These increases were partially offset by:

inflationary increases related to raw materials and labor costs; and

higher cost of goods sold in 2011 as a result of a fair market value inventory step-up and customer backlog recorded as a part of the CPT purchase accounting.

The 1.5 percentage point increase in gross profit as a percentage of sales in 2010 from 2009 was primarily the result of:

higher sales volumes in Water & Fluid Solutions and Technical Products and higher fixed cost absorption resulting from that volume;

cost savings from restructuring actions and other personnel reductions taken in response to the economic downturn and resulting volume decline in 2009; and

savings generated from our PIMS initiatives including lean and supply management practices across both Water & Fluid Solutions and Technical Products.

These increases were partially offset by:

inflationary increases related to certain raw materials and labor and related costs.

Selling, general and administrative (SG&A)

<i>In thousands</i>	2011	% of sales	2010	% of sales	2009	% of sales
*SG&A	\$ 827,047	23.9%	\$ 529,329	17.5%	\$ 507,303	18.8%

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Percentage point change

6.4 pts

(1.3) pts

* Includes goodwill impairment charge

The 6.4 percentage point increase in SG&A expense as a percentage of sales in 2011 from 2010 was primarily the result of:

goodwill impairment charge of \$200.5 million in Water & Fluid Solutions relating to our Residential Filtration reporting unit;

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integration costs and intangible asset amortization costs related to the May 2011 acquisition of CPT;

incremental restructuring actions taken in 2011;

insurance proceeds related to the Horizon litigation and other legal settlements received in 2010 which did not reoccur at the same levels in 2011;

continued investments in future growth with emphasis on international markets, including personnel and business infrastructure investments; and

certain increases for labor and related costs.

These increases were partially offset by:

higher sales volumes in both Water & Fluid Solutions and Technical Products, which resulted in increased leverage on the fixed operating expenses.

The 1.3 percentage point decrease in SG&A expense as a percentage of sales in 2010 from 2009 was primarily due to:

higher sales volume in both Water & Fluid Solutions and Technical Products, which resulted in increased leverage on the fixed operating expenses;

reduced costs related to restructuring actions taken throughout 2009 to consolidate facilities and streamline general and administrative costs;

impairment charge of \$11.3 million in 2009 for selected trade names resulting from volume declines; and

insurance proceeds related to the Horizon litigation and other legal settlements received in 2010.

These decreases were partially offset by:

continued investments in future growth with emphasis on growth in international markets, including personnel and business infrastructure investments; and

certain increases for labor and related costs as well as reinstatement of certain employee benefits.

Research and development (R&D)

<i>In thousands</i>	2011	% of sales	2010	% of sales	2009	% of sales
R&D	\$ 78,158	2.3%	\$ 67,156	2.2%	\$ 57,884	2.2%

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Percentage point change

0.1 pts

- pts

The 0.1 percentage point increase in R&D expense as a percentage of sales in 2011 from 2010 was primarily the result of:

higher costs associated with the May 2011 acquisition of CPT; and

continued investments in the development of new products to generate growth.

These increases were partially offset by:

higher sales volumes in both Water & Fluid Solutions and Technical Products, which resulted in increased leverage on the R&D expense spending.

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R&D expense as a percentage of sales in 2010 was flat compared to 2009 primarily as a result of:

continued investments in the development of new products to generate growth in line with higher sales volume.

Operating income**Water & Fluid Solutions**

<i>In thousands</i>	2011	% of sales	2010	% of sales	2009	% of sales
Operating income	\$ 58,311	2.5%	\$ 231,588	11.3%	\$ 163,745	8.9%

Percentage point change

(8.8) pts

2.4 pts

The 8.8 percentage point decrease in Water & Fluid Solutions operating income as a percentage of net sales in 2011 from 2010 was primarily the result of:

goodwill impairment charge of \$200.5 million in Water & Fluid Solutions relating to our Residential Filtration reporting unit;

lower margin associated with the May 2011 acquisition of CPT, including the fair market value inventory step-up and customer backlog, intangible asset amortization and integration costs;

cost increases for certain raw materials and labor;

incremental restructuring actions taken in 2011;

insurance proceeds related to the Horizon litigation and other legal settlements received in 2010 which did not reoccur at the same levels in 2011; and

continued investments in future growth with emphasis on international markets, including personnel and business infrastructure investments. *These decreases were partially offset by:*

higher sales volume in Water & Fluid Solutions, which resulted in increased leverage of the fixed cost base;

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

selective increases in selling prices to mitigate inflationary cost increases.

The 2.4 percentage point increase in Water & Fluid Solutions operating income as a percentage of net sales in 2010 as compared to 2009 was primarily the result of:

higher sales volume in Water & Fluid Solutions, which resulted in increased leverage of the fixed cost base;

cost savings from restructuring actions and other personnel reductions taken throughout 2009 to consolidate and streamline operations;

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

impairment change of \$11.3 million in 2009 for selected trade names resulting from volume declines; and

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insurance proceeds related to the Horizon litigation and other legal settlements received in 2010.
These increases were offset by:

cost increases for certain raw materials and labor as well as reinstatement of certain employee benefits; and

continued investment in future growth with emphasis on growth in international markets.

Operating income**Technical Products**

<i>In thousands</i>	2011	% of sales	2010	% of sales	2009	% of sales
Operating income	\$ 185,240	17.0%	\$ 151,533	15.3%	\$ 100,355	11.9%

Percentage point change

1.7 pts

3.4 pts

The 1.7 percentage point increase in Technical Products operating income as a percentage of sales in 2011 from 2010 was primarily the result of:

higher sales volume, which resulted in increased leverage of the fixed cost base;

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

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

cost increases for certain raw materials, such as carbon steel, as well as labor; and

continued investment in future growth with emphasis on international markets, including personnel and business infrastructure investments.
The 3.4 percentage point increase in Technical Products operating income as a percentage of sales in 2010 from 2009 was primarily the result of:

higher gross margins due to higher sales volumes in Technical Products;

cost savings from restructuring actions and other personnel reductions taken in response to the economic downturn and resulting volume decline in 2009;

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

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

cost increases for certain raw materials and labor as well as reinstatement of certain employee benefits; and

continued investment in future growth with emphasis on growth in international markets, including personnel and business infrastructure investments.

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<i>In thousands</i>	2011	2010	\$ change	% change	2010	2009	\$ change	% change
Net interest expense	\$ 58,835	\$ 36,116	\$ 22,719	62.9 %	\$ 36,116	\$ 41,118	\$ (5,002)	(12.2)%

The 62.9 percentage point increase in interest expense in 2011 from 2010 was primarily the result of:

the impact of higher debt levels following the May 2011 acquisition of CPT.

The 12.2 percentage point decrease in interest expense in 2010 from 2009 was primarily the result of:

the favorable impact of lower debt levels in 2010 as compared to 2009 in addition to the redemption on April 15, 2009 of our 7.85% Senior Notes due 2009 (the "Notes").

Loss on early extinguishment of debt

In March 2009, we announced the redemption of all of our remaining outstanding \$133.9 million aggregate principal of our 7.85% Senior Notes due 2009. These notes were redeemed on April 15, 2009 at a redemption price of \$1,035.88 per \$1,000 of principal outstanding plus accrued interest thereon. As a result of this transaction, we recognized a loss of \$4.8 million on early extinguishment of debt in the second quarter of 2009. The loss included the write off of \$0.1 million in unamortized deferred financing fees in addition to recognition of \$0.3 million in previously unrecognized swap gains and cash paid of \$5.0 million related to the redemption and other costs associated with the purchase.

Provision for income taxes

<i>In thousands</i>	2011	2010	2009
Income from continuing operations before income taxes and noncontrolling interest	\$ 111,580	\$ 300,147	\$ 172,647
Provision for income taxes	73,059	97,200	56,428
Effective tax rate	65.5%	32.4%	32.7%

The 33.1 percentage point increase in the tax rate in 2011 from 2010 was primarily the result of:

the unfavorable tax impact of the \$200.5 million goodwill impairment charge in Water & Fluid Solutions relating to our Residential Filtration reporting unit. Excluding this item our tax rate would have been 29.6% in 2011.

The increases were partially offset by:

certain discrete items in 2011 that did not occur in 2010;

the mix of global earnings, and;

favorable benefits related to the May 2011 acquisition of CPT.

The 0.3 percentage point decrease in the effective tax rate in 2010 from 2009 was primarily the result of:

the mix of global earnings.

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LIQUIDITY AND CAPITAL RESOURCES

We generally fund cash requirements for working capital, capital expenditures, equity investments, acquisitions, debt repayments, dividend payments and share repurchases from cash generated from operations, availability under existing committed revolving credit facilities and in certain instances, public and private debt and equity offerings. We have grown our businesses in significant part in the past through acquisitions financed by credit provided under our revolving credit facilities and from time to time, by private or public debt issuance. Our primary revolving credit facilities have generally been adequate for these purposes, although we have negotiated additional credit facilities as needed to allow us to complete acquisitions.

We are focusing on increasing our cash flow and repaying existing debt, while continuing to fund our research and development, marketing and capital investment initiatives. Our intent is to maintain investment grade ratings and a solid liquidity position.

We experience seasonal cash flows primarily due to seasonal demand in a number of markets within Water & Fluid Solutions. We generally borrow in the first quarter of our fiscal year for operational purposes, which usage reverses in the second quarter as the seasonality of our businesses peaks. End-user demand for pool and certain pumping equipment follows warm weather trends and is at seasonal highs from April to August. The magnitude of the sales spike is partially mitigated by employing some advance sale early buy programs (generally including extended payment terms and/or additional discounts). Demand for residential and agricultural water systems is also impacted by weather patterns, particularly by heavy flooding and droughts.

Operating activities

Cash provided by operating activities was \$320.2 million in 2011 or \$49.8 million higher than in 2010. The increase in cash provided by operating activities was due primarily to an increase in net income before non-cash items, partially offset by increased working capital necessary to support revenue growth.

Cash provided by operating activities was \$270.4 million in 2010 or \$12.0 million higher than in 2009. The increase in cash provided by operating activities was due primarily to a reduction in working capital, partially offset by an accelerated pension contribution of \$25 million and lower income from continuing operations.

Investing activities

Capital expenditures in 2011, 2010 and 2009 were \$73.3 million, \$59.5 million and \$54.1 million, respectively. We anticipate capital expenditures for fiscal 2012 to be approximately \$75 to \$85 million, primarily for capacity expansions in our low cost country manufacturing facilities, new product development and general maintenance capital.

In January 2011, we acquired as part of Water & Fluid Solutions, all of the outstanding shares of capital stock of Hidro Filtros for cash of \$14.9 million and a note payable of \$2.1 million.