

PENTAIR INC  
Form 10-Q  
April 26, 2011

**Table of Contents**

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Quarterly Period Ended April 2, 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

41-0907434

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification number)

5500 Wayzata Blvd, Suite 800, Golden Valley,  
Minnesota

55416

(Address of principal executive offices)

(Zip code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

On April 2, 2011, 98,419,314 shares of Registrant's common stock were outstanding.

**Pentair, Inc. and Subsidiaries**

|  | <b>Page(s)</b> |
|--|----------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |                |
| <b><u>ITEM 1. Financial Statements (unaudited)</u></b>   |                |
| <u>Condensed Consolidated Statements of Income for the three months ended April 2, 2011 and April 3, 2010</u>                          | 3              |
| <u>Condensed Consolidated Balance Sheets as of April 2, 2011, December 31, 2010 and April 3, 2010</u>                                  | 4              |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended April 2, 2011 and April 3, 2010</u>                      | 5              |
| <u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended April 2, 2011 and April 3, 2010</u> | 6              |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 7 - 14         |
| <b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>                            | 15 - 23        |
| <b><u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u></b>   | 23             |
| <b><u>ITEM 4. Controls and Procedures</u></b>  | 23             |
| <b><u>PART II OTHER INFORMATION</u></b>  |                |
| <b><u>ITEM 1. Legal Proceedings</u></b>  | 25             |
| <b><u>ITEM 1A. Risk Factors</u></b>  | 25             |
| <b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>  | 29             |
| <b><u>ITEM 6. Exhibits</u></b>   | 30             |
| <b><u>Signatures</u></b>   | 31             |
| <u>EX-31.1</u>   |                |
| <u>EX-31.2</u>   |                |
| <u>EX-32.1</u>   |                |
| <u>EX-32.2</u>   |                |
| <u>EX-101 INSTANCE DOCUMENT</u>  |                |
| <u>EX-101 SCHEMA DOCUMENT</u>  |                |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u>  |                |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u>   |                |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>   |                |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u>   |                |

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

|   | <b>Three months ended</b> |                          |
|---|---------------------------|--------------------------|
|   | <b>April 2,<br/>2011</b>  | <b>April 3,<br/>2010</b> |
| <i>In thousands, except per-share data</i>  |                           |                          |
| Net sales   | \$ 790,273                | \$ 707,013               |
| Cost of goods sold  | 541,214                   | 493,311                  |
| Gross profit  | 249,059                   | 213,702                  |
| Selling, general and administrative   | 144,760                   | 132,890                  |
| Research and development  | 18,122                    | 17,211                   |
| Operating income  | 86,177                    | 63,601                   |
| Other (income) expense:   |                           |                          |
| Equity income of unconsolidated subsidiaries                                      | (235)                     | (84)                     |
| Net interest expense  | 9,325                     | 9,527                    |
| Income from continuing operations before income taxes and noncontrolling interest | 77,087                    | 54,158                   |
| Provision for income taxes  | 25,053                    | 18,129                   |
| Income from continuing operations   | 52,034                    | 36,029                   |
| Gain on disposal of discontinued operations, net of tax                           |                           | 524                      |
| Net income before noncontrolling interest   | 52,034                    | 36,553                   |
| Noncontrolling interest   | 1,493                     | 1,232                    |
| Net income attributable to Pentair, Inc.  | \$ 50,541                 | \$ 35,321                |
| Net income from continuing operations attributable to Pentair, Inc.               | \$ 50,541                 | \$ 34,797                |
| <b>Earnings per common share attributable to Pentair, Inc.</b>                    |                           |                          |
| <b><i>Basic</i></b>   |                           |                          |
| Continuing operations   | \$ 0.52                   | \$ 0.35                  |
| Discontinued operations   |                           | 0.01                     |
| Basic earnings per common share   | \$ 0.52                   | \$ 0.36                  |
| <b><i>Diluted</i></b>   |                           |                          |
| Continuing operations   | \$ 0.51                   | \$ 0.35                  |
| Discontinued operations   |                           | 0.01                     |

|   |         |         |
|---|---------|---------|
| Diluted earnings per common share   | \$ 0.51 | \$ 0.36 |
| <b>Weighted average common shares outstanding</b>                             |         |         |
| Basic   | 98,098  | 98,030  |
| Diluted   | 99,670  | 99,568  |
| <b>Cash dividends declared per common share</b>                               | \$ 0.20 | \$ 0.19 |
| <i>See accompanying notes to condensed consolidated financial statements.</i> |         |         |

3

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**Table of Contents**

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

| <i>In thousands, except share and per-share data</i> | <b>April 2,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> | <b>April 3,<br/>2010</b> |
|--|--------------------------|----------------------------------|--------------------------|
| <b>Assets</b>  |                          |                                  |                          |
| <b>Current assets</b>                                |                          |                                  |                          |
| Cash and cash equivalents                            | \$ 57,134                | \$ 46,056                        | \$ 46,783                |
| Accounts and notes receivable, net                   | 625,856                  | 516,905                          | 550,830                  |
| Inventories  | 411,767                  | 405,356                          | 363,667                  |
| Deferred tax assets                                  | 56,370                   | 56,349                           | 49,665                   |
| Prepaid expenses and other current assets            | 57,950                   | 44,631                           | 43,580                   |
| Total current assets                                 | 1,209,077                | 1,069,297                        | 1,054,525                |
| <b>Property, plant and equipment, net</b>            | <b>338,610</b>           | <b>329,435</b>                   | <b>330,201</b>           |
| <b>Other assets</b>                                  |                          |                                  |                          |
| Goodwill   | 2,097,428                | 2,066,044                        | 2,067,836                |
| Intangibles, net                                     | 461,244                  | 453,570                          | 472,398                  |
| Other  | 56,328                   | 55,187                           | 56,224                   |
| Total other assets                                   | 2,615,000                | 2,574,801                        | 2,596,458                |
| <b>Total assets</b>                                  | <b>\$4,162,687</b>       | <b>\$ 3,973,533</b>              | <b>\$3,981,184</b>       |
| <b>Liabilities and Shareholders Equity</b>           |                          |                                  |                          |
| <b>Current liabilities</b>                           |                          |                                  |                          |
| Short-term borrowings                                | \$ 6,093                 | \$ 4,933                         | \$ 3,731                 |
| Current maturities of long-term debt                 | 13                       | 18                               | 51                       |
| Accounts payable                                     | 256,492                  | 262,357                          | 229,502                  |
| Employee compensation and benefits                   | 84,043                   | 107,995                          | 77,496                   |
| Current pension and post-retirement benefits         | 8,733                    | 8,733                            | 8,948                    |
| Accrued product claims and warranties                | 43,418                   | 42,295                           | 37,803                   |
| Income taxes   | 20,492                   | 5,964                            | 8,571                    |
| Accrued rebates and sales incentives                 | 29,546                   | 33,559                           | 24,653                   |
| Other current liabilities                            | 97,531                   | 80,942                           | 86,763                   |
| Total current liabilities                            | 546,361                  | 546,796                          | 477,518                  |
| <b>Other liabilities</b>                             |                          |                                  |                          |
| Long-term debt                                       | 802,321                  | 702,521                          | 862,351                  |
| Pension and other retirement compensation            | 216,592                  | 209,859                          | 231,733                  |
| Post-retirement medical and other benefits           | 29,459                   | 30,325                           | 30,630                   |
| Long-term income taxes payable                       | 23,548                   | 23,507                           | 25,720                   |
| Deferred tax liabilities                             | 175,877                  | 169,198                          | 145,777                  |

|   |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
| Other non-current liabilities   | 86,085              | 86,295              | 95,399              |
| Total liabilities   | 1,880,243           | 1,768,501           | 1,869,128           |
| Commitments and contingencies   |                     |                     |                     |
| <b>Shareholders equity</b>  |                     |                     |                     |
| Common shares par value \$0.16 2/3; 98,419,314, 98,409,192 and 98,650,967 shares issued and outstanding, respectively | 16,403              | 16,401              | 16,441              |
| Additional paid-in capital  | 476,930             | 474,489             | 475,135             |
| Retained earnings   | 1,655,302           | 1,624,605           | 1,518,726           |
| Accumulated other comprehensive income (loss)   | 18,525              | (22,342)            | (11,801)            |
| Noncontrolling interest   | 115,284             | 111,879             | 113,555             |
| Total shareholders equity   | 2,282,444           | 2,205,032           | 2,112,056           |
| <b>Total liabilities and shareholders equity</b>  | <b>\$ 4,162,687</b> | <b>\$ 3,973,533</b> | <b>\$ 3,981,184</b> |

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

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

| <i>In thousands</i>  | <b>Three months ended</b> |                          |
|--|---------------------------|--------------------------|
|  | <b>April 2,<br/>2011</b>  | <b>April 3,<br/>2010</b> |
| <b>Operating activities</b>  |                           |                          |
| Net income before noncontrolling interest  | \$ 52,034                 | \$ 36,553                |
| <b>Adjustments to reconcile net income to net cash provided by (used for) operating activities</b> |                           |                          |
| Gain on disposal of discontinued operations  |                           | (524)                    |
| Equity income of unconsolidated subsidiaries   | (235)                     | (84)                     |
| Depreciation   | 15,224                    | 14,564                   |
| Amortization   | 6,401                     | 6,746                    |
| Deferred income taxes  | 3,845                     | 1,617                    |
| Stock compensation   | 5,725                     | 6,802                    |
| Excess tax benefits from stock-based compensation  | (557)                     | (980)                    |
| Loss (gain) on sale of assets  | 7                         | (147)                    |
| <b>Changes in assets and liabilities, net of effects of business acquisitions and dispositions</b> |                           |                          |
| Accounts and notes receivable  | (101,505)                 | (99,054)                 |
| Inventories  | (708)                     | (5,525)                  |
| Prepaid expenses and other current assets  | (8,946)                   | 2,826                    |
| Accounts payable   | (11,992)                  | 22,479                   |
| Employee compensation and benefits   | (28,759)                  | 1,694                    |
| Accrued product claims and warranties  | 883                       | 3,647                    |
| Income taxes   | 14,506                    | 3,446                    |
| Other current liabilities  | 8,248                     | (1,584)                  |
| Pension and post-retirement benefits   | 1,619                     | (426)                    |
| Other assets and liabilities   | (3,970)                   | (2,363)                  |
| Net cash provided by (used for) operating activities   | (48,180)                  | (10,313)                 |
| <b>Investing activities</b>  |                           |                          |
| Capital expenditures   | (13,268)                  | (12,059)                 |
| Proceeds from sale of property and equipment   | 42                        | 127                      |
| Acquisitions, net of cash acquired   | (14,856)                  |                          |
| Other  | 58                        | 292                      |
| Net cash provided by (used for) investing activities   | (28,024)                  | (11,640)                 |
| <b>Financing activities</b>  |                           |                          |
| Net short-term borrowings  | 1,160                     | 1,526                    |
| Proceeds from long-term debt   | 249,366                   | 200,000                  |
| Repayment of long-term debt  | (150,000)                 | (141,025)                |
| Excess tax benefits from stock-based compensation  | 557                       | 980                      |
| Stock issued to employees, net of shares withheld  | (37)                      | (1,938)                  |
| Repurchases of common stock  | (287)                     |                          |
| Dividends paid   | (19,844)                  | (18,837)                 |



|   |                  |                  |
|---|------------------|------------------|
| Net cash provided by (used for) financing activities                | 80,915           | 40,706           |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> | 6,367            | (5,366)          |
| <b>Change in cash and cash equivalents</b>                          | <b>11,078</b>    | <b>13,387</b>    |
| <b>Cash and cash equivalents, beginning of period</b>               | 46,056           | 33,396           |
| <b>Cash and cash equivalents, end of period</b>                     | <b>\$ 57,134</b> | <b>\$ 46,783</b> |

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

**Pentair, Inc.**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)**

| <i>in thousands, except share</i>  |                      | Common shares |           | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Total<br>Noncontrolling<br>interest | Total      | Comprehen<br>income<br>attributab<br>to<br>Pentair<br>Inc. |
|--|----------------------|---------------|-----------|----------------------------------|----------------------|---|-------------------------------------|------------|--|
| <i>and per-share data</i>  |                      | Number        | Amount    |                                  |                      |   |                                     |            |  |
| <b>Balance</b>   | <b>December 31,</b>  |               |           |                                  |                      |   |                                     |            |  |
| <b>2010</b>  |                      | 98,409,192    | \$ 16,401 | \$ 474,489                       | \$ 1,624,605         | \$ (22,342)   | \$ 2,093,153                        | \$ 111,879 | \$ 2,205,032   |
| Net income   |                      |               |           |                                  | 50,541               |   | 50,541                              | 1,493      | 52,034   |
| Change in cumulative<br>translation adjustment   |                      |               |           |                                  |                      | 39,410  | 39,410                              | 1,912      | 41,322   |
| Changes in market value of<br>derivative financial<br>instruments, net of \$758<br>tax |                      |               |           |                                  |                      | 1,457   | 1,457                               |            | 1,457  |
| Comprehensive income   |                      |               |           |                                  |                      |   |                                     |            | \$ 91,408  |
| Cash dividends \$0.20 per<br>common share  |                      |               |           |                                  | (19,844)             |   | (19,844)                            |            | (19,844)   |
| Share repurchase   |                      | (7,826)       | (1)       | (286)                            |                      |   | (287)                               |            | (287)  |
| Exercise of stock options,<br>net of 1,825 shares<br>surrendered for payment           |                      | 48,587        | 8         | 1,112                            |                      |   | 1,120                               |            | 1,120  |
| Issuance of restricted<br>shares, net of cancellations                                 |                      | 37,638        | 6         | 1,367                            |                      |   | 1,373                               |            | 1,373  |
| Amortization of restricted<br>shares   |                      |               |           | 330                              |                      |   | 330                                 |            | 330  |
| Shares surrendered by<br>employees to pay taxes  |                      | (68,277)      | (11)      | (2,520)                          |                      |   | (2,531)                             |            | (2,531)  |
| Stock compensation   |                      |               |           | 2,438                            |                      |   | 2,438                               |            | 2,438  |
| <b>Balance</b>   | <b>April 2, 2011</b> | 98,419,314    | \$ 16,403 | \$ 476,930                       | \$ 1,655,302         | \$ 18,525   | \$ 2,167,160                        | \$ 115,284 | \$ 2,282,444   |
| <i>in thousands, except share</i>  |                      | Common shares |           | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Total<br>Noncontrolling<br>interest | Total      | Comprehen<br>income<br>attributab<br>to<br>Pentair<br>Inc. |
| <i>and per-share data</i>  |                      | Number        | Amount    |                                  |                      |   |                                     |            |  |
| <b>Balance</b>   | <b>December 31,</b>  |               |           |                                  |                      |   |                                     |            |  |
| <b>2009</b>  |                      | 98,655,506    | \$ 16,442 | \$ 472,807                       | \$ 1,502,242         | \$ 20,597   | \$ 2,012,088                        | \$ 114,252 | \$ 2,126,340   |
| Net income   |                      |               |           |                                  | 35,321               |   | 35,321                              | 1,232      | 36,553   |

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|   |                   |                  |                   |                     |                   |                     |                   |                     |
|---|-------------------|------------------|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| Change in cumulative translation adjustment                                     |                   |                  |                   | (31,827)            | (31,827)          | (1,929)             | (33,756)          | (31,827)            |
| Changes in market value of derivative financial instruments, net of (\$357) tax |                   |                  |                   | (571)               | (571)             |                     | (571)             | (571)               |
| Comprehensive income  |                   |                  |                   |                     |                   |                     |                   | \$ 2,927            |
| Cash dividends \$0.19 per common share  |                   |                  |                   | (18,837)            | (18,837)          |                     | (18,837)          |                     |
| Share repurchases   |                   |                  |                   |                     |                   |                     |                   |                     |
| Exercise of stock options, net of 19,141 shares tendered for payment            | 107,672           | 18               | 1,523             |                     | 1,541             |                     | 1,541             |                     |
| Issuance of restricted shares, net of cancellations                             | 6,648             | 1                | 508               |                     | 509               |                     | 509               |                     |
| Amortization of restricted shares   |                   |                  | 1,171             |                     | 1,171             |                     | 1,171             |                     |
| Shares surrendered by employees to pay taxes                                    | (118,859)         | (20)             | (3,970)           |                     | (3,990)           |                     | (3,990)           |                     |
| Stock compensation  |                   |                  | 3,096             |                     | 3,096             |                     | 3,096             |                     |
| <b>Balance April 3, 2010</b>  | <b>98,650,967</b> | <b>\$ 16,441</b> | <b>\$ 475,135</b> | <b>\$ 1,518,726</b> | <b>\$(11,801)</b> | <b>\$ 1,998,501</b> | <b>\$ 113,555</b> | <b>\$ 2,112,056</b> |

*See accompanying notes to condensed consolidated financial statements*

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

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

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto, which are included in our 2010 Annual Report on Form 10-K for the year ended December 31, 2010.

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

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

In connection with preparing the unaudited condensed consolidated financial statements for the three months ended April 2, 2011, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing.

**2. New Accounting Standards**

There were no new accounting pronouncements issued or effective during the first three months of 2011 which have had or are expected to have a material impact on the Consolidated Financial Statements.

**3. Stock-based Compensation**

Total stock-based compensation expense was \$5.7 million and \$6.8 million for the first quarter of 2011 and 2010, respectively.

During the first quarter of 2011, restricted shares and restricted stock units of our common stock were granted under the 2008 Omnibus Stock Incentive Plan to eligible employees with a vesting period of three to four years after issuance. Restricted share awards and restricted stock units are valued at market value on the date of grant and are typically expensed over the vesting period. Total compensation expense for restricted share awards and restricted stock units during the first quarter of 2011 and 2010 was \$3.3 million and \$3.7 million, respectively.

During the first quarter of 2011, option awards were granted under the 2008 Omnibus Stock Incentive Plan with an exercise price equal to the market price of our common stock on the date of grant. Option awards are typically expensed over the vesting period. Total compensation expense for stock option awards was \$2.4 million and \$3.1 million for the first quarter of 2011 and 2010, respectively.

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

|                                 | <b>April<br/>2,<br/>2011</b> | <b>April<br/>3,<br/>2010</b> |
|---------------------------------|------------------------------|------------------------------|
| Expected stock price volatility | 35.5%                        | 35.0%                        |
| Expected life                   | 5.5 yrs                      | 5.5 yrs                      |
| Risk-free interest rate         | 1.49%                        | 2.47%                        |
| Dividend yield                  | 2.33%                        | 2.30%                        |

The weighted-average fair value of options granted during the first quarter of 2011 and 2010 was \$8.04 and \$7.84 per share, respectively.

These estimates require us to make assumptions based on historical results, observance of trends in our stock price, changes in option exercise behavior, future expectations and other relevant factors. If other assumptions had been

used, stock-based compensation expense, as calculated and recorded under the accounting guidance could have been affected.

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

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

**4. Earnings Per Common Share**

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

| <i>In thousands</i>                                       | <b>Three months ended</b> |                          |
|---|---------------------------|--------------------------|
|   | <b>April 2,<br/>2011</b>  | <b>April 3,<br/>2010</b> |
| <b>Weighted average common shares outstanding basic</b>   | 98,098                    | 98,030                   |
| Dilutive impact of stock options and restricted stock     | 1,572                     | 1,538                    |
| <b>Weighted average common shares outstanding diluted</b> | 99,670                    | 99,568                   |

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

|       |       |
|-------|-------|
| 2,191 | 4,821 |
|-------|-------|

**5. Restructuring**

Restructuring accrual activity recorded on the Condensed Consolidated Balance Sheets is summarized as follows for the periods ended April 2, 2011, December 31, 2010 and April 3, 2010:

| <i>In thousands</i>     | <b>April 2,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> | <b>April 3,<br/>2010</b> |
|-------------------------|--------------------------|----------------------------------|--------------------------|
|                         | Beginning balance        | \$ 3,994                         | \$ 14,509                |
| Cash payments and other | (866)                    | (10,515)                         | (5,286)                  |
| Ending balance          | \$ 3,128                 | \$ 3,994                         | \$ 9,223                 |

**6. Acquisitions**

On January 31, 2011 we acquired as part of our Water Group all of the outstanding shares of capital stock of Hidro Filtros do Brasil ( Hidro Filtros ) for \$17.0 million. The Hidro Filtros results of operations have been included in our consolidated financial statements since the date of acquisition. Hidro Filtros is a leading manufacturer of water filters and filtering elements for residential and industrial applications operating in Brazil and neighboring countries. Goodwill recorded as part of the purchase price allocation was \$10.1 million, none of which is tax deductible. Identified intangible assets acquired as part of the acquisition were \$6.3 million including definite-lived intangibles, primarily customer relationships, of \$5.5 million with an estimated life of 13 years. The proforma impact of this acquisition was deemed to be not material.

On April 2, 2011, we entered into a definitive agreement to acquire as part of our Water Group the Clean Process Technologies ( CPT ) division, from privately held Norit Holding, B.V. The purchase price is 503 million (approximately \$700 million based on the exchange rate on such date), plus an amount, which we expect to be minimal, equal to third party debt of CPT at closing less cash of CPT available to pay off such bank debt. We intend to fund the CPT acquisition with a combination of cash, funds available under our revolving credit facility and new

debt.

CPT is a global leader in membrane solutions and clean process technologies in the high growth water and beverage filtration and separation segments. Supported by more than a century of innovation and expertise and backed by its own proprietary technology, CPT provides sustainable purification systems and solutions for desalination, water reuse, industrial applications and beverage segments that effectively address the increasing challenges of clean water scarcity, rising energy costs and pollution. CPT's product offerings include innovative ultrafiltration and nanofiltration membrane technologies, aseptic valves, CO<sub>2</sub> recovery and control systems and specialty pumping equipment. Based in the Netherlands, CPT has broad sales diversity with the majority of 2010 revenues generated in European Union countries and Asia-Pacific.

The CPT acquisition is expected to close in the second quarter of 2011, subject to satisfaction of customary conditions and applicable regulatory approval.

**Table of Contents*****Pentair, Inc. and Subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****7. Inventories**

Inventories were comprised of:

| <i>In thousands</i>        | <b>April 2,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> | <b>April 3,<br/>2010</b> |
|----------------------------|--------------------------|----------------------------------|--------------------------|
| Raw materials and supplies | \$ 217,855               | \$ 223,482                       | \$ 198,737               |
| Work-in-process            | 45,553                   | 37,748                           | 39,985                   |
| Finished goods             | 148,359                  | 144,126                          | 124,945                  |
| Total inventories          | \$ 411,767               | \$ 405,356                       | \$ 363,667               |

**8. Goodwill and Other Identifiable Intangible Assets**

The changes in the carrying amount of goodwill for the three months ended April 2, 2011 and April 3, 2010 by segment were as follows:

| <i>In thousands</i>      | <b>December 31,<br/>2010</b> | <b>Acquisitions/<br/>Divestitures</b> | <b>Foreign<br/>Currency<br/>Translation/Other</b> | <b>April 2,<br/>2011</b> |
|--------------------------|------------------------------|---------------------------------------|---|--------------------------|
| Water Group              | \$ 1,784,100                 | \$ 10,078                             | \$ 17,589   | \$ 1,811,767             |
| Technical Products Group | 281,944                      |                                       | 3,717   | 285,661                  |
| Consolidated Total       | \$ 2,066,044                 | \$ 10,078                             | \$ 21,306   | \$ 2,097,428             |

| <i>In thousands</i>      | <b>December 31,<br/>2009</b> | <b>Acquisitions/<br/>Divestitures</b> | <b>Foreign<br/>Currency<br/>Translation/Other</b> | <b>April 3,<br/>2010</b> |
|--------------------------|------------------------------|---------------------------------------|---|--------------------------|
| Water Group              | \$ 1,802,913                 | \$                                    | \$ (17,388)                                       | \$ 1,785,525             |
| Technical Products Group | 285,884                      |                                       | (3,573)   | 282,311                  |
| Consolidated Total       | \$ 2,088,797                 | \$                                    | \$ (20,961)                                       | \$ 2,067,836             |

The detail of acquired intangible assets consisted of the following:

| <i>In thousands</i> | <b>April 2, 2011</b>             |                                     |            | <b>December 31, 2010</b>         |                                     |            | <b>April 3, 2010</b>             |                                     |            |
|---------------------|----------------------------------|-------------------------------------|------------|----------------------------------|-------------------------------------|------------|----------------------------------|-------------------------------------|------------|
|                     | <b>Gross<br/>carrying amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net</b> | <b>Gross<br/>carrying amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net</b> | <b>Gross<br/>carrying amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net</b> |

**Finite-life  
intangibles**



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|                        |           |             |          |           |             |          |           |             |          |
|------------------------|-----------|-------------|----------|-----------|-------------|----------|-----------|-------------|----------|
| Patents                | \$ 15,476 | \$ (13,003) | \$ 2,473 | \$ 15,469 | \$ (12,695) | \$ 2,774 | \$ 15,455 | \$ (11,796) | \$ 3,659 |
| Proprietary technology | 74,169    | (31,110)    | 43,059   | 74,176    | (29,862)    | 44,314   | 72,965    | (25,255)    | 47,710   |
| Customer relationships | 292,920   | (88,830)    | 204,090  | 282,479   | (82,901)    | 199,578  | 283,577   | (69,910)    | 213,667  |
| Trade names            | 1,557     | (430)       | 1,127    | 1,532     | (383)       | 1,149    | 1,537     | (269)       | 1,268    |

|                               |            |              |            |            |              |            |            |              |            |
|-------------------------------|------------|--------------|------------|------------|--------------|------------|------------|--------------|------------|
| Total finite-life intangibles | \$ 384,122 | \$ (133,373) | \$ 250,749 | \$ 373,656 | \$ (125,841) | \$ 247,815 | \$ 373,534 | \$ (107,230) | \$ 266,304 |
|-------------------------------|------------|--------------|------------|------------|--------------|------------|------------|--------------|------------|

**Indefinite-life intangibles**

|             |         |  |         |         |  |         |         |  |         |
|-------------|---------|--|---------|---------|--|---------|---------|--|---------|
| Trade names | 210,495 |  | 210,495 | 205,755 |  | 205,755 | 206,094 |  | 206,094 |
|-------------|---------|--|---------|---------|--|---------|---------|--|---------|

|                        |            |              |            |            |              |            |            |              |            |
|------------------------|------------|--------------|------------|------------|--------------|------------|------------|--------------|------------|
| Total intangibles, net | \$ 594,617 | \$ (133,373) | \$ 461,244 | \$ 579,411 | \$ (125,841) | \$ 453,570 | \$ 579,628 | \$ (107,230) | \$ 472,398 |
|------------------------|------------|--------------|------------|------------|--------------|------------|------------|--------------|------------|

Intangible asset amortization expense was approximately \$6.4 million and \$5.5 million for the three months ended April 2, 2011 and April 3, 2010, respectively.

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

The estimated future amortization expense for identifiable intangible assets during the remainder of 2011 and the next five years is as follows:

| <i>In thousands</i>            | <b>Q2-Q4<br/>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
|--------------------------------|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Estimated amortization expense | \$ 19,193             | \$ 24,849   | \$ 24,376   | \$ 24,052   | \$ 23,753   | \$ 23,636   |

**9. Debt**

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

| <i>In thousands</i>                                     | <b>Average<br/>interest<br/>rate<br/>April 2,<br/>2011</b> | <b>Maturity<br/>(Year)</b> | <b>April 2,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> | <b>April 3,<br/>2010</b> |
|---|--|----------------------------|--------------------------|----------------------------------|--------------------------|
| Revolving credit facilities                             | 0.88%  | 2012                       | \$ 197,300               | \$ 97,500                        | \$ 257,300               |
| Private placement fixed rate                            | 5.65%  | 2013-2017                  | 400,000                  | 400,000                          | 400,000                  |
| Private placement floating rate                         | 0.86%  | 2012-2013                  | 205,000                  | 205,000                          | 205,000                  |
| Other   | 3.01%  | 2011-2016                  | 6,127                    | 4,972                            | 3,833                    |
| Total debt, including current portion per balance sheet |  |                            | 808,427                  | 707,472                          | 866,133                  |
| Less: Current maturities                                |  |                            | (13)                     | (18)                             | (51)                     |
| Short-term borrowings                                   |  |                            | (6,093)                  | (4,933)                          | (3,731)                  |
| Long-term debt  |  |                            | \$ 802,321               | \$ 702,521                       | \$ 862,351               |

The fair value of total debt excluding the deferred gain on interest rate swaps was \$838.9 million, \$745.9 million and \$872.4 million as of April 2, 2011, December 31, 2010 and April 3, 2010, respectively.

We have a multi-currency revolving Credit Facility ( Credit Facility ). The Credit Facility creates an unsecured, committed revolving credit facility of up to \$800 million, with multi-currency sub facilities to support investments outside the U.S. The Credit Facility expires on June 4, 2012. Borrowings under the Credit Facility bear interest at the rate of LIBOR plus 0.625%. Interest rates and fees on the Credit Facility vary based on our credit ratings.

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. We use the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. Our use of commercial paper as a funding vehicle depends upon the relative interest rates for our commercial paper compared to the cost of borrowing under our Credit Facility.

Total availability under our existing Credit Facility was \$602.7 million as of April 2, 2011, which was not limited by any of the credit agreement's financial covenants as of that date.

In addition to the Credit Facility, we have \$40.0 million of uncommitted credit facilities, under which we had \$6.0 million of borrowings as of April 2, 2011.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio (total consolidated indebtedness, as defined, over consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ), as defined) that may not exceed 3.5 to 1.0. We were in compliance with all financial covenants in our debt agreements as of April 2, 2011.

Debt outstanding at April 2, 2011 matures on a calendar year basis as follows:

| <i>In thousands</i>                       | <b>Q2 -Q4<br/>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>Thereafter</b> | <b>Total</b> |
|---|------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Contractual debt<br>obligation maturities | \$ 6,106               | \$ 302,317  | \$ 200,003  | \$ 1        | \$          | \$          | \$ 300,000        | \$ 808,427   |

**Table of Contents*****Pentair, Inc. and Subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****10. Derivatives and Financial Instruments*****Fair value measurements***

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

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

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

*Level 3:* Valuation is based upon other unobservable inputs that are significant to the fair value measurement. In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

***Cash-flow Hedges***

In August 2007, we entered into a \$105 million interest rate swap agreement with a major financial institution to exchange variable rate interest payment obligations for a fixed rate obligation without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the swap was August 30, 2007. The swap agreement has a fixed interest rate of 4.89% and expires in May 2012. The fixed interest rate of 4.89% plus the .50% interest rate spread over LIBOR results in an effective fixed interest rate of 5.39%. The fair value of the swap was a liability of \$5.3 million, \$6.4 million and \$8.2 million at April 2, 2011, December 31, 2010 and April 3, 2010, respectively, and was recorded in *Other non-current liabilities* on the Condensed Consolidated Balance Sheets. In September 2005, we entered into a \$100 million interest rate swap agreement with several major financial institutions to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the fixed rate swap was April 25, 2006. The swap agreement has a fixed interest rate of 4.68% and expires in July 2013. The fixed interest rate of 4.68% plus the .60% interest rate spread over LIBOR results in an effective fixed interest rate of 5.28%. The fair value of the swap was a liability of \$8.3 million, \$9.4 million and \$9.0 million at April 2, 2011, December 31, 2010 and April 3, 2010, respectively, and was recorded in *Other non-current liabilities* on the Condensed Consolidated Balance Sheets.

The variable to fixed interest rate swaps are designated as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Condensed Consolidated Balance Sheets. Unrealized income/expense is included in *Accumulated other comprehensive income* ( OCI ) and realized income/expense and amounts due to/from swap counterparties, are recorded in *Net interest expense* in our Condensed Consolidated Statements of Income. We realized incremental expense resulting from the swaps of \$2.4 million and \$2.3 million for the three months ended April 2, 2011 and April 3, 2010, respectively.

The variable to fixed interest rate swaps are designated as and are effective as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Condensed Consolidated Balance Sheets, with changes in their fair value included in 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.

Failure of one or more of our swap counterparties would result in the loss of any benefit to us of the swap agreement. In this case, we would continue to be obligated to pay the variable interest payments per the underlying debt agreements which are at variable interest rates of 3 month LIBOR plus .50% for \$105 million of debt and 3 month LIBOR plus .60% for \$100 million of debt. Additionally, failure of one or all of our swap counterparties would not

eliminate our obligation to continue to make payments under our existing swap agreements if we continue to be in a net pay position.

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

Our interest rate swaps are carried at fair value measured on a recurring basis. Fair values are determined through the use of models that consider various assumptions, including time value, yield curves, as well as other relevant economic measures, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance.

In April 2011 as part of our planned debt issuance to fund the CPT acquisition, we have entered into interest rate swap contracts to hedge interest rates for a portion of the expected debt offering. The swaps have a notional amount of \$400 million, an average interest rate of 3.65% with an effective date of May 13, 2011.

***Foreign currency contract***

In March 2011, we entered into a foreign currency option contract to reduce our exposure to fluctuations in the euro related to our 503 million acquisition of CPT. The contract has a notional amount of 286.0 million, a strike price of 1.4375 and a maturity date of May 13, 2011. The fair value of the contract was an asset of \$2.8 million at April 2, 2011 and was recorded in *Prepaid expenses and other current assets* on the Condensed Consolidated Balance Sheets. We manage our economic and transaction exposure to certain market-based risks through the use of foreign currency derivative instruments. Our objective in holding derivatives is to reduce the volatility of net earnings and cash flows associated with changes in foreign currency exchange rates.

***Fair value of financial information***

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

| <b>In thousands</b>            | <b>Fair Value<br/>April 2,<br/>2011</b> | <b>(Level 1)</b> | <b>(Level 2)</b> | <b>(Level<br/>3)</b> |
|--------------------------------|---|------------------|------------------|----------------------|
| Cash-flow hedges               | \$ 13,540                               | \$               | \$ 13,540        | \$                   |
| Foreign currency contract      | 2,817                                   |                  | 2,817            |                      |
| Deferred compensation plan (1) | 24,580                                  | 24,580           |                  |                      |

| <b>In thousands</b>            | <b>Fair Value<br/>December 31,<br/>2010</b> | <b>(Level 1)</b> | <b>(Level 2)</b> | <b>(Level<br/>3)</b> |
|--------------------------------|---|------------------|------------------|----------------------|
| Cash-flow hedges               | \$ 15,768                                   | \$               | \$ 15,768        | \$                   |
| Foreign currency contract      | 1,183                                       |                  | 1,183            |                      |
| Deferred compensation plan (1) | 24,126                                      | 24,126           |                  |                      |

| <b>In thousands</b>            | <b>Fair Value<br/>April 3,<br/>2010</b> | <b>(Level 1)</b> | <b>(Level 2)</b> | <b>(Level<br/>3)</b> |
|--------------------------------|---|------------------|------------------|----------------------|
| Cash-flow hedges               | \$ 17,270                               | \$               | \$ 17,270        | \$                   |
| Deferred compensation plan (1) | 23,229                                  | 23,229           |                  |                      |

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

**11. Income Taxes**

The provision for income taxes consists of provisions for federal, state and foreign income taxes. We operate in an international environment with operations in various locations outside the U.S. Accordingly, the consolidated income

tax rate is a composite rate reflecting the earnings in the various locations and the applicable rates.

The effective income tax rate for the three months ended April 2, 2011 was 32.5% compared to 33.5% for the three months ended April 3, 2010. We expect the effective tax rate for the remainder of 2011 to be between 32% and 32.5%, resulting in a full year effective income tax rate of between 32% and 32.5%. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

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

The total gross liability for uncertain tax positions was \$24.5 million, \$24.3 million and \$28.7 million at April 2, 2011, December 31, 2010 and April 3, 2010, respectively. We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, on the Condensed Consolidated Statements of Income, which is consistent with our past practices.

**12. Benefit Plans**

Components of net periodic benefit cost (income) for the three months ended April 2, 2011 and April 3, 2010 were as follows:

| <i>In thousands</i>                               | <b>Three months ended</b>    |                          |                              |                          |
|---|------------------------------|--------------------------|------------------------------|--------------------------|
|   | <b>Pension benefits</b>      |                          | <b>Post-retirement</b>       |                          |
|   | <b>April<br/>2,<br/>2011</b> | <b>April 3,<br/>2010</b> | <b>April<br/>2,<br/>2011</b> | <b>April 3,<br/>2010</b> |
| Service cost                                      | \$ 3,130                     | \$ 2,886                 | \$ 45                        | \$ 50                    |
| Interest cost                                     | 8,225                        | 7,887                    | 472                          | 503                      |
| Expected return on plan assets                    | (7,963)                      | (7,710)                  |                              |                          |
| Amortization of transition obligation             |                              | 6                        |                              |                          |
| Amortization of prior year service cost (benefit) |                              | 8                        | (7)                          | (7)                      |
| Recognized net actuarial loss (gains)             | 971                          | 406                      | (826)                        | (823)                    |
| Net periodic benefit cost (income)                | \$ 4,363                     | \$ 3,483                 | \$ (316)                     | \$ (277)                 |

**13. Business Segments**

Financial information by reportable segment for the three months ended April 2, 2011 and April 3, 2010 is shown below:

| <i>In thousands</i>                           | <b>Three months ended</b> |                          |
|---|---------------------------|--------------------------|
|   | <b>April 2,<br/>2011</b>  | <b>April 3,<br/>2010</b> |
| <b><i>Net sales to external customers</i></b> |                           |                          |
| Water Group                                   | \$ 515,368                | \$ 478,038               |
| Technical Products Group                      | 274,905                   | 228,975                  |
| <b>Consolidated</b>                           | <b>\$ 790,273</b>         | <b>\$ 707,013</b>        |
| <b><i>Intersegment sales</i></b>              |                           |                          |
| Water Group                                   | \$ 455                    | \$ 517                   |
| Technical Products Group                      | 999                       | 703                      |
| Other   | (1,454)                   | (1,220)                  |
| <b>Consolidated</b>                           | <b>\$</b>                 | <b>\$</b>                |
| <b><i>Operating income (loss)</i></b>         |                           |                          |



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|                          |                  |                  |
|--------------------------|------------------|------------------|
| Water Group              | \$ 56,528        | \$ 42,138        |
| Technical Products Group | 48,087           | 33,098           |
| Other                    | (18,438)         | (11,635)         |
| <b>Consolidated</b>      | <b>\$ 86,177</b> | <b>\$ 63,601</b> |

**Table of Contents*****Pentair, Inc. and Subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****14. Warranty**

The changes in the carrying amount of service and product warranties for the three months ended April 2, 2011 and April 3, 2010 and the year ended December 31, 2010 were as follows:

| <i>In thousands</i>                    | <b>April 2,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> | <b>April 3,<br/>2010</b> |
|--|--------------------------|----------------------------------|--------------------------|
| Balance at beginning of the year       | \$ 30,050                | \$ 24,288                        | \$ 24,288                |
| Service and product warranty provision | 11,769                   | 56,553                           | 14,924                   |
| Payments                               | (10,886)                 | (50,729)                         | (11,276)                 |
| Acquired                               | 40                       |                                  |                          |
| Translation                            | 197                      | (62)                             | (133)                    |
| Balance at end of the period           | \$ 31,170                | \$ 30,050                        | \$ 27,803                |

**15. Commitments and Contingencies**

There have been no further material developments from the disclosures contained in our 2010 Annual Report on Form 10-K.

**Table of Contents**

**ITEM 2. 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 continue, or similar words or the 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:

- our ability to close the Clean Process Technologies ( CPT ) acquisition on anticipated terms and schedule, including the ability to obtain regulatory approval of the acquisition;

- our ability to integrate the CPT acquisition successfully;

- increased risks associated with operating foreign businesses, particularly as a result of the CPT acquisition;

- 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;

- 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

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

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

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

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

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;

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.

## **Table of Contents**

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

### ***Overview***

We are a focused diversified industrial manufacturing company comprised of two operating segments: Water and Technical Products. Our Water Group is a global leader in providing innovative products and systems used worldwide in the movement, storage, treatment and enjoyment of water. Our Technical Products Group is a leader in the global enclosures and thermal management markets, designing and manufacturing standard, modified and custom enclosures that house and protect sensitive electronics and electrical components and protect the people that use them. In 2010, our Water Group and Technical Products Group accounted for approximately 2/3 and 1/3 of total revenues, respectively.

Our Water Group has progressively become a more important part of our business portfolio with sales increasing from approximately \$125 million in 1995 to approximately \$2.0 billion in 2010. 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.

Our Technical Products Group operates in a large global market with significant potential for growth in industry segments such as data communications, industrial, infrastructure and energy. 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.

On January 31, 2011 we acquired as part of our Water Group all of the outstanding shares of capital stock of Hidro Filtros do Brasil ( Hidro Filtros ) for \$17.0 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.

On April 2, 2011, we entered into a definitive agreement to acquire as part of our Water Group the CPT division, from privately held Norit Holding, B.V. The purchase price is 503 million (approximately \$700 million based on the exchange rate on such date), plus an amount, which we expect to be minimal, equal to third party debt of CPT at closing less cash of CPT available to pay off such bank debt. We intend to fund the CPT acquisition with a combination of cash, funds available under our revolving credit facility and new debt.

CPT is a global leader in membrane solutions and clean process technologies in the high growth water and beverage filtration and separation segments. Supported by more than a century of innovation and expertise and backed by its own proprietary technology, CPT provides sustainable purification systems and solutions for desalination, water reuse, industrial applications and beverage segments that effectively address the increasing challenges of clean water scarcity, rising energy costs and pollution. CPT's product offerings include innovative ultrafiltration and nanofiltration membrane technologies, aseptic valves, CO<sub>2</sub> recovery and control systems and specialty pumping equipment. Based in the Netherlands, CPT has broad sales diversity with the majority of 2010 revenues generated in European Union countries and Asia-Pacific.

The CPT acquisition is expected to close in the second quarter of 2011, subject to satisfaction of customary conditions and applicable regulatory approval.

### ***Key Trends and Uncertainties***

The following trends and uncertainties affected our financial performance in 2010 and the first quarter of 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 the first quarter of 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 the remainder of 2011 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 will be limited.

## **Table of Contents**

After four years of new home building and new pool start contraction in the United States, these end markets stabilized in 2010 and the first quarter of 2011. Overall, we believe approximately 40% of Pentair sales are used in global residential applications for replacement and refurbishment, remodeling and repair and new construction. We expect this stabilization, along with new product introductions, expanded distribution and channel penetration, to result in volume increases for the remainder of 2011. We believe that housing construction will modestly improve in 2011, which we expect will have a favorable impact on these businesses, but our participation in this trend historically has lagged approximately six months from inception.

Industrial, communications and commercial markets for all of our businesses, including commercial and industrial construction, also slowed significantly in 2009. Order rates and sales improved in our industrial and communications businesses in 2010 and the first quarter of 2011 as business spending returned, while non-residential construction markets still declined. We believe that the outlook for most of these markets is mixed and we currently expect that non-residential construction declines will moderate compared to 2010.

Through 2010 and the first quarter of 2011, we experienced material and other cost inflation. We strive for productivity improvements, and we implement increases in selling prices to mitigate this inflation. We expect the current economic environment will result in continuing price volatility for many of our raw materials. We believe that the impact of higher commodity prices will continue to impact us in 2011, but we are uncertain on the timing and impact of this cost inflation.

Despite higher interest expense and lower discount rates, our unfunded pension liabilities declined to approximately \$201 million as of the end of 2010 due to investment performance and plan contributions. The contributions included accelerated contributions of \$25 million in December 2009 and 2010, respectively, to improve plan balances and reduce future contributions.

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 2010 was approximately \$211 million, or 106% of our net income. We continue to expect to generate free cash flow in excess of net income from continuing operations in 2011. 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 2011, 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;

Leveraging 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 proactive talent development, particularly in international management and other key functional areas.

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 change from the prior year period were as follows:*

| <i>In thousands</i> | April 2,   | Three months ended |           | %<br>change |
|---------------------|------------|--------------------|-----------|-------------|
|                     | 2011       | April 3,<br>2010   | \$ change |             |
| Net sales           | \$ 790,273 | \$ 707,013         | \$ 83,260 | 11.8%       |



**Table of Contents**

*The components of the net sales change in 2011 from 2010 were as follows:*

| <i>Percentages</i> | <b>% Change from<br/>2010<br/>First quarter</b> |
|--------------------|---|
| Volume             | 10.8  |
| Price              | 0.4   |
| Currency           | 0.6   |
| Total              | 11.8  |

**Consolidated net sales**

*The 11.8 percentage point increase in consolidated net sales in the first quarter of 2011 from 2010 was primarily driven by:*

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

higher sales volumes in the Technical Products Group;

favorable foreign currency effects; and

selective increases in selling prices to mitigate inflationary cost increases.

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

| <i>In thousands</i>     | April 2,   | Three months ended |           | %     |
|-------------------------|------------|--------------------|-----------|-------|
|                         | 2011       | April 3,<br>2010   | \$ change |       |
| Water Group             | \$ 515,368 | \$ 478,038         | \$ 37,330 | 7.8%  |
| Technical Product Group | 274,905    | 228,975            | 45,930    | 20.1% |
| Net sales               | \$ 790,273 | \$ 707,013         | \$ 83,260 | 11.8% |

**Water Group**

*The 7.8 percentage point increase in Water Group net sales in the first quarter of 2011 from 2010 was primarily driven by:*

organic sales growth of approximately 7 percent (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;

continued growth in fast growth regions led by strength in Southeast Asia and India;

favorable foreign currency effects; and

selective increases in selling prices to mitigate inflationary costs increases.

**Technical Products Group**

*The 20.1 percentage point increase in Technical Products Group net sales in the first quarter 2011 from 2010 was primarily driven by:*

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

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

favorable foreign currency effects.

**Table of Contents****Gross Profit**

| <i>In thousands</i> | <b>April 2,<br/>2011</b> | <b>Three months ended<br/>% of<br/>sales</b> | <b>April 3,<br/>2010</b> | <b>% of<br/>sales</b> |
|---------------------|--------------------------|--|--------------------------|-----------------------|
| Gross Profit        | \$ 249,059               | 31.5%  | \$ 213,702               | 30.2%                 |

Percentage point change 1.3 pts

*The 1.3 percentage point increase in gross profit as a percentage of sales in the first quarter of 2011 from 2010 was primarily the result of:*

higher sales volumes in our Water and Technical Products Groups and higher fixed cost absorption resulting from that volume;

savings generated from our Pentair Integrated Management System ( PIMS ) initiatives including lean and supply management practices; and

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

*These increases were partially offset by:*

inflationary increases related to raw materials and labor costs.

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

| <i>In thousands</i> | <b>April 2,<br/>2011</b> | <b>Three months ended<br/>% of<br/>sales</b> | <b>April 3,<br/>2010</b> | <b>% of<br/>sales</b> |
|---------------------|--------------------------|--|--------------------------|-----------------------|
| SG&A                | \$ 144,760               | 18.3%  | \$ 132,890               | 18.8%                 |

Percentage point change (0.5) pts

*The 0.5 percentage point decrease in SG&A expense as a percentage of sales in the first quarter of 2011 from 2010 was primarily due to:*

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

continued focus on streamlining general and administrative costs.

*These decreases were partially offset by:*

certain increases for labor and related costs; and

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

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

| <i>In thousands</i> | <b>April 2,<br/>2011</b> | <b>Three months ended<br/>% of<br/>sales</b> | <b>April 3,<br/>2010</b> | <b>% of<br/>sales</b> |
|---------------------|--------------------------|--|--------------------------|-----------------------|
| R&D                 | \$ 18,122                | 2.3%   | \$ 17,211                | 2.4%                  |

Percentage point change (0.1) pts

*The 0.1 percentage point decrease in R&D expense as a percentage of sales in the first quarter of 2011 from the first quarter of 2010 was primarily due to:*

**Table of Contents**

higher sales volume in both our Water and Technical Products Groups, which resulted in increased leverage on the fixed operating expenses.

*The decrease was partially offset by:*

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

**Operating income****Water Group**

| <i>In thousands</i>     | <b>April 2,<br/>2011</b> | <b>Three months ended<br/>% of<br/>sales</b> | <b>April 3,<br/>2010</b> | <b>% of<br/>sales</b> |
|-------------------------|--------------------------|--|--------------------------|-----------------------|
| Operating Income        | \$ 56,528                | 11.0%  | \$ 42,138                | 8.8%                  |
| Percentage point change |                          | 2.2 pts                                      |                          |                       |

*The 2.2 percentage point increase in Water Group operating income as a percentage of net sales in the first quarter of 2011 as compared to 2010 was primarily the result of:*

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

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

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

*These increases were offset by:*

cost increases for certain raw materials and labor; and

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

**Technical Products Group**

| <i>In thousands</i>     | <b>April 2,<br/>2011</b> | <b>Three months ended<br/>% of<br/>sales</b> | <b>April 3,<br/>2010</b> | <b>% of<br/>sales</b> |
|-------------------------|--------------------------|--|--------------------------|-----------------------|
| Operating Income        | \$ 48,087                | 17.5%  | \$ 33,098                | 14.5%                 |
| Percentage point change |                          | 3.0 pts                                      |                          |                       |

*The 3.0 percentage point increase in Technical Products Group operating income as a percentage of sales in the first quarter of 2011 from 2010 was primarily the result of:*

higher sales volumes in our Technical Products Group, 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:*

inflationary increases related to certain raw materials, such as carbon steel; and

**Table of Contents**

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

**Net interest expense**

| <i>In thousands</i>  | <b>Three months ended</b>    |                          |                   |                     |
|----------------------|------------------------------|--------------------------|-------------------|---------------------|
|                      | <b>April<br/>2,<br/>2011</b> | <b>April 3,<br/>2010</b> | <b>Difference</b> | <b>%<br/>change</b> |
| Net interest expense | \$ 9,325                     | \$ 9,527                 | \$ (202)          | (2.1%)              |

*The 2.1 percentage point decrease in interest expense in the first quarter of 2011 from 2010 was primarily the result of:*

favorable impact of lower debt levels in the first quarter of 2011.

**Provision for income taxes**

| <i>In thousands</i>   | <b>Three months ended</b> |                          |
|---|---------------------------|--------------------------|
|   | <b>April 2,<br/>2011</b>  | <b>April 3,<br/>2010</b> |
| Income from continuing operations before income taxes and noncontrolling interest | \$ 77,087                 | \$ 54,158                |
| Provision for income taxes  | 25,053                    | 18,129                   |
| Effective tax rate  | 32.5%                     | 33.5%                    |

*The 1.0 percentage point decrease in the effective tax rate in the first quarter of 2011 from 2010 was primarily the result of:*

the mix of global income.

We estimate our effective income tax rate for the remaining quarters of this year will be between 32% and 32.5% resulting in a full year effective income tax rate of between 32% and 32.5%.

**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 intend to fund the CPT acquisition with a combination of available cash, cash funds available under our revolving credit facility and new debt.

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.

Our current \$800 million multi-currency revolving credit facility (the Credit Facility) expires on June 4, 2012. The agent banks under the Credit Facility are J. P. Morgan, Bank of America, Wells Fargo, U. S. Bank and Bank of Tokyo-Mitsubishi. We believe we have ample borrowing capacity for our currently projected operating needs. Our availability under the Credit Facility was \$602.7 million at April 2, 2011, which was not limited by any of the credit agreement's financial covenants as of that date.

We experience seasonal cash flows primarily due to seasonal demand in a number of markets within our Water Group. 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.

**Table of Contents*****Operating activities***

Cash used for operating activities was \$48.2 million in the first three months of 2011 compared to \$10.3 million in the same period of 2010. The increase in cash used for operating activities was due primarily to an increase in working capital, partially offset by an increase in income from continuing operations.

***Investing activities***

Capital expenditures in the first three months of 2011 were \$13.3 million compared with \$12.1 million in the prior year period. We currently anticipate capital expenditures for fiscal 2011 will be approximately \$60 million to \$65 million, primarily for capacity expansions in our key growth markets, new product development, and replacement equipment.

On January 31, 2011 we acquired as part of our Water Group 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.

***Financing activities***

Net cash provided by financing activities was \$80.9 million in the first three months of 2011 compared with \$40.7 million in the prior year period. The increase primarily relates to fluctuations in liquidity. Financing activities included draw downs and repayments on our revolving credit facilities to fund our operations in the normal course of business, payments of dividends, cash received/used for stock issued to employees, repurchase of common stock and tax benefits related to stock-based compensation.

The Credit Facility creates an unsecured, committed revolving credit facility of up to \$800 million, with multi-currency sub facilities to support investments outside the U.S. Borrowings under the Credit Facility bear interest at the rate of LIBOR plus 0.625%. Interest rates and fees on the Credit Facility vary based on our credit ratings. We believe that internally generated funds and funds available under our Credit Facility will be sufficient to support our normal operations, dividend payments, stock repurchases and debt maturities over the life of the Credit Facility. We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. We use the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. Our use of commercial paper as a funding vehicle depends upon the relative interest rates for our commercial paper compared to the cost of borrowing under our Credit Facility.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio (total consolidated indebtedness, as defined, over consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ), as defined) that may not exceed 3.5 to 1.0. We were in compliance with all financial covenants under our debt agreements as of April 2, 2011.

In addition to the Credit Facility, we have \$40.0 million of uncommitted credit facilities, under which we had \$6.0 million of borrowings as of April 2, 2011.

Our Moody's issuer rating and Standard & Poor's ( S&P ) corporate rating are investment grade ratings. Investment grade is a credit rating of BBB- or higher by S&P or Baa3 or higher by Moody's.

On March 28, 2010, S&P affirmed our BBB- corporate rating with a stable outlook. On April 4, 2011, Moody's placed our Baa3 issuer rating under review for possible downgrade.

A credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program. The credit rating takes into consideration the creditworthiness of guarantors, insurers or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The ratings outlook also highlights the potential direction of a short or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under observation by the respective rating agencies. A change in rating outlook does not mean a rating change is inevitable. Prior changes in our ratings outlook have had no immediate impact on our liquidity exposure or on our cost of debt. We believe the potential impact of a downgrade in our financial outlook is currently not material to our liquidity exposure or cost of debt.

We issue short-term commercial paper notes that are currently not rated by S&P or Moody's. Even though our short-term commercial paper is unrated, we believe a downgrade in our credit rating could have a negative impact on our ability to continue to issue unrated commercial paper.



We do not expect that a one rating downgrade of our credit rating by either S&P or Moody's would substantially affect our ability to access the long-term debt capital markets. However, depending upon market conditions, the amount, timing and pricing of new

**Table of Contents**

borrowings could be adversely affected. If both of our credit ratings were downgraded to below BBB-/Baa3, our flexibility to access the term debt capital markets would be reduced.

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 annually. We have the ability and sufficient capacity to meet these cash requirements, by using available cash and internally generated funds and to borrow under our committed and uncommitted credit facilities.

Dividends paid in the first three months of 2011 were \$19.8 million, or \$0.20 per common share, compared with \$18.8 million, or \$0.19 per common share, in the prior year period. We have increased dividends every year for the last 35 years and expect to continue paying dividends on a quarterly basis.

The total gross liability for uncertain tax positions was \$24.5 million, \$24.3 million and \$28.7 million at April 2, 2011, December 31, 2010 and April 3, 2010, respectively. We are not able to reasonably estimate the amount by which the estimate will increase or decrease over time; however, at this time, we do not expect a significant payment related to these obligations within the next twelve months.

**Other financial measures**

In addition to measuring our cash flow generation or usage based upon operating, investing and financing classifications included in the Condensed Consolidated Statements of Cash Flows, we also measure our free cash flow. We have a long-term goal to consistently generate free cash flow that equals or exceeds 100% conversion of net income from continuing operations. Free cash flow is a non-Generally Accepted Accounting Principles financial measure that we use to assess our cash flow performance. 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 pay dividends, make acquisitions, repay debt and repurchase shares. In addition, free cash flow is used as a criterion to measure and pay compensation-based incentives. Our measure of free cash flow may not be comparable to similarly titled measures reported by other companies. The following table is a reconciliation of free cash flow:

| <i>In thousands</i>                                  | <b>Three months ended</b> |                          |
|--|---------------------------|--------------------------|
|  | <b>April 2,<br/>2011</b>  | <b>April 3,<br/>2010</b> |
| Net cash provided by (used for) operating activities | \$ (48,180)               | \$ (10,313)              |
| Capital expenditures                                 | (13,268)                  | (12,059)                 |
| Proceeds from sale of property and equipment         | 42                        | 127                      |
| Free cash flow                                       | \$ (61,406)               | \$ (22,245)              |

**NEW ACCOUNTING STANDARDS**

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

**CRITICAL ACCOUNTING POLICIES**

In our 2010 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not changed these policies from those previously disclosed in our Annual Report.

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

There have been no material changes in our market risk during the quarter ended April 2, 2011. For additional information, refer to Item 7A of our 2010 Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES****(a) Evaluation of Disclosure Controls and Procedures**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management

evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended April 2, 2011 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act ). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer

**Table of Contents**

concluded that our disclosure controls and procedures were effective as of the end of the quarter ended April 2, 2011 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

**(a) Changes in Internal Controls**

There was no change in our internal control over financial reporting that occurred during the quarter ended April 2, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

There have been no further material developments from the disclosures contained in our 2010 Annual Report on Form 10-K.

**ITEM 1A. Risk Factors**

The following risk factors amend and supersede the risk factors previously disclosed in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2010.

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. 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 may not realize the anticipated benefits of the CPT acquisition and any benefit may take longer to realize than we expect.***

The CPT acquisition involves the integration of CPT's 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 integrating CPT's operations. Delays or unexpected difficulties in the integration process could adversely affect our business, financial results and financial condition. Even if we are able to integrate CPT's operations successfully, this integration may not result in the realization of the full benefits of revenue synergies, cost savings and operational efficiencies that we expect or the achievement of these benefits within a reasonable period of time. In addition, we may have not discovered during the due diligence process, and we may not discover prior to closing, all known and unknown factors regarding CPT that could produce unintended and unexpected consequences for us. Undiscovered factors could result in us incurring financial liabilities, which could be material, and in us not achieving the expected benefits from the CPT acquisition within our desired time frames, if at all.

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

As of April 2, 2011, we had approximately \$808 million of total debt on a consolidated basis. We expect our indebtedness to increase materially in connection with our acquisition of CPT. We and our subsidiaries may incur additional indebtedness in the future. This increase and any future increase in our level of indebtedness will have several important effects on our future operations, including, without limitation:

we will have additional cash requirements in order to support the payment of interest on our outstanding indebtedness;

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.

**Table of Contents**

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 at all or on economically favorable terms.

***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 the Technical Products and Water Groups) and residential markets (for the Water Group). 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 residential housing and home improvement activity fell in 2007, 2008 and 2009, which reduced revenue growth in the residential businesses within our Water Group. While we saw some stabilization in 2010, we believe that weakness in this market could negatively impact our revenues and margins in future periods. Further, 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.

***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 materially and adversely impacted our financial performance in 2009. These conditions started to improve in many of our end markets in 2010, but we cannot assure you that these markets will continue to improve nor that we will be able to increase revenues and profitability to match our earlier 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.

***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 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.

***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 our excellence in operations 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.

***We are exposed to political, 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 34% of our net sales in both 2010 and 2009. If we complete the CPT acquisition, our sales outside of the United States will increase materially. Further, most of our businesses obtain some products, components and raw materials from foreign suppliers. Accordingly, our business is subject to the political, 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;

trade protection measures and import or export licensing requirements;

the possibility of terrorist action against us or our operations;

26

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**Table of Contents**

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

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 Practice Act ( FCPA ) and other laws that prohibit improper payments or offers of payments to foreign governments and their officials for the purpose of obtaining or retaining business. Our international activities create the risk of unauthorized payments or offers of payments in violation of the FCPA by one of our employees, consultants, sales agents or distributors, because these parties are not always subject to our control. Any violations of the FCPA could result in significant fines, criminal sanctions against us or our employees, and prohibitions on the conduct of our business, including our business with the U.S. government. In addition, CPT has previously conducted business in countries that are subject to economic sanctions by the U.S. government. To the extent these sanctions prohibit CPT from selling its products in such countries after we acquire CPT, CPT may have reduced revenues and we could be subject to liability for not being able to fulfill contracts CPT entered into prior to its acquisition by us.

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.***

We expect the percentage of our sales outside of the United States to increase in the future, including due to the completion of the CPT acquisition. Over the past few years, the economies of some of the foreign countries in which we do business have had slower growth than the U.S. economy. The European Union currently accounts for the majority of our foreign sales and income, in which our most significant European market is Germany, and we expect it to continue to do so after the completion of the CPT acquisition. In addition, we have a significant and growing business in the Asia-Pacific region, but the economic conditions in countries in this region are subject to different growth expectations, market weaknesses and business practices. We cannot predict how changing market conditions in these regions will impact our financial results.

We are also exposed to the risk of fluctuation of foreign currency exchange rates which may affect our financial results as we manufacture and source certain products, components and raw materials throughout the world.

***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 April 2, 2011 our goodwill and intangible assets were approximately \$2,558.7 million and represented approximately 61.5% of our total assets. As a result of the CPT acquisition our goodwill and intangible assets will increase. 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.

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

We experience seasonal demand in a number of markets within our Water Group. 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. Over the past few years, we have noticed an increasing tendency for participants in

## **Table of Contents**

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.

### ***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 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 as a result of the CPT acquisition;

Higher acquisition prices;

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

Increased competition for acquisitions, especially in the water industry;

Inability to integrate acquired businesses effectively or profitably; and

Inability to achieve anticipated synergies or other benefits from acquisitions.

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. Once integrated, acquired operations may not achieve the levels of financial performance originally anticipated.

### ***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 refinanced our primary credit agreements in 2007 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 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.

**Table of Contents**

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.

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

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

| <b>Period</b>                  | <b>(a)<br/>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>(b)<br/>Average<br/>Price Paid<br/>per Share</b> | <b>(c)<br/>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>(d)<br/>Dollar Value of<br/>Shares that May<br/>Yet<br/>Be Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|--------------------------------|---|---|---|---|
| January 1 – January 29, 2011   | 14,238  | \$ 36.99  |   | \$ 25,000,000   |
| January 30 – February 26, 2011 | 12,521  | \$ 36.91  |   | \$ 25,000,000   |
| February 27 – April 2, 2011    | 42,937  | \$ 36.94  |   | \$ 25,000,000   |
| <b>Total</b>                   | <b>69,696</b>   |   |   |   |

- (a) The purchases in this column represent 14,238 shares for the period January 1 – January 29, 2011, 12,521 shares for the period January 30 – February 26, 2011 and 42,937 shares for the period February 27 – April 2, 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 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. This authorization expires in December 2011.

**Table of Contents**

**ITEM 6. Exhibits**

**(a) Exhibits**

- 2.1** Agreement dated April 2, 2011, among Norit Holding B.V., Norit Process Technologie Holdings B.V., Pentair Netherlands B.V., and Pentair, Inc. (incorporated by reference to Exhibit 2.1 to the company's Current Report on Form 8-K dated April 2, 2011).
- 31.1** Certification of Chief Executive Officer.
- 31.2** Certification of Chief Financial Officer.
- 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.
- 101** The following materials from Pentair, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 2, 2011 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income for the three months ended April 2, 2011 and April 3, 2010, (ii) the Condensed Consolidated Balance Sheets as of April 2, 2011, December 31, 2010 and April 3, 2010, (iii) the Condensed Consolidated Statements of Cash Flows for the three months ended April 2, 2011 and April 3, 2010, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended April 2, 2011 and April 3, 2010, and (v) Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 26, 2011.

PENTAIR, INC.  
Registrant

By /s/ John L. Stauch  
John L. Stauch  
Executive Vice President and Chief  
Financial Officer

By /s/ Mark C. Borin  
Mark C. Borin  
Corporate Controller and Chief  
Accounting Officer



**Table of Contents**

**Exhibit Index to Form 10-Q for the Period Ended April 2, 2011**

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