

PENTAIR INC
Form 10-Q
April 24, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2012

OR

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

Pentair, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation or organization)

5500 Wayzata Blvd, Suite 800, Golden Valley, Minnesota
(Address of principal executive offices)

41-0907434
(I.R.S. Employer Identification number)

55416
(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):

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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 March 31, 2012, 99,048,375 shares of Registrant's common stock were outstanding.

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Pentair, Inc. and Subsidiaries

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| | Three months ended | |
|--|--------------------|-------------|
| | March 31, | April 2, |
| <i>In thousands, except per-share data</i> | 2012 | 2011 |
| Net sales | \$ 858,177 | \$ 790,273 |
| Cost of goods sold | 577,458 | 541,214 |
| Gross profit | 280,719 | 249,059 |
| Selling, general and administrative | 175,010 | 144,760 |
| Research and development | 20,757 | 18,122 |
| Operating income | 84,952 | 86,177 |
| Other (income) expense: | | |
| Equity income of unconsolidated subsidiaries | (1,049) | (235) |
| Net interest expense | 14,768 | 9,325 |
| Income before income taxes and noncontrolling interest | 71,233 | 77,087 |
| Provision for income taxes | 9,079 | 25,053 |
| Net income before noncontrolling interest | 62,154 | 52,034 |
| Noncontrolling interest | 1,340 | 1,493 |
| Net income attributable to Pentair, Inc. | \$ 60,814 | \$ 50,541 |
| Comprehensive income | \$ 104,238 | \$ 94,813 |
| Earnings per common share attributable to Pentair, Inc. | | |
| Basic | \$ 0.62 | \$ 0.52 |
| Diluted | \$ 0.61 | \$ 0.51 |
| Weighted average common shares outstanding | | |
| Basic | 98,633 | 98,098 |
| Diluted | 100,407 | 99,670 |
| Cash dividends declared per common share | \$ 0.22 | \$ 0.20 |

See accompanying notes to condensed consolidated financial statements.

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

| | March 31, | December 31, | April 2, |
|--|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2011 |
| <i>In thousands, except share and per-share data</i> | | | |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 55,438 | \$ 50,077 | \$ 57,134 |
| Accounts and notes receivable, net | 680,260 | 569,204 | 625,856 |
| Inventories | 475,403 | 449,863 | 411,767 |
| Deferred tax assets | 62,405 | 60,899 | 56,370 |
| Prepaid expenses and other current assets | 115,701 | 107,792 | 57,950 |
| Total current assets | 1,389,207 | 1,237,835 | 1,209,077 |
| Property, plant and equipment, net | 393,335 | 387,525 | 338,610 |
| Other assets | | | |
| Goodwill | 2,297,175 | 2,273,918 | 2,097,428 |
| Intangibles, net | 594,929 | 592,285 | 461,244 |
| Other | 103,560 | 94,750 | 56,328 |
| Total other assets | 2,995,664 | 2,960,953 | 2,615,000 |
| Total assets | \$ 4,778,206 | \$ 4,586,313 | \$ 4,162,687 |

Liabilities and Shareholders Equity

| | | | |
|--|-----------|-----------|-----------|
| Current liabilities | | | |
| Short-term borrowings | \$ 19,190 | \$ 3,694 | \$ 6,093 |
| Current maturities of long-term debt | 1,207 | 1,168 | 13 |
| Accounts payable | 293,398 | 294,858 | 256,492 |
| Employee compensation and benefits | 86,774 | 109,361 | 84,043 |
| Current pension and post-retirement benefits | 9,052 | 9,052 | 8,733 |
| Accrued product claims and warranties | 42,684 | 42,630 | 43,418 |
| Income taxes | 25,153 | 14,547 | 20,492 |
| Accrued rebates and sales incentives | 31,730 | 37,009 | 29,546 |
| Other current liabilities | 150,135 | 129,522 | 97,531 |
| Total current liabilities | 659,323 | 641,841 | 546,361 |
| Other liabilities | | | |
| Long-term debt | 1,395,093 | 1,304,225 | 802,321 |
| Pension and other retirement compensation | 251,551 | 248,615 | 216,592 |
| Post-retirement medical and other benefits | 30,918 | 31,774 | 29,459 |
| Long-term income taxes payable | 13,382 | 26,470 | 23,548 |
| Deferred tax liabilities | 194,469 | 188,957 | 175,877 |
| Other non-current liabilities | 89,863 | 97,039 | 86,085 |
| Total liabilities | 2,634,599 | 2,538,921 | 1,880,243 |

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Commitments and contingencies

| Shareholders equity | | | |
|---|---------------------|---------------------|---------------------|
| Common shares par value \$0.16 2/3; 99,048,375, 98,622,564 and 98,419,314 shares issued and outstanding, respectively | 16,507 | 16,437 | 16,403 |
| Additional paid-in capital | 502,855 | 488,843 | 476,930 |
| Retained earnings | 1,617,999 | 1,579,290 | 1,655,302 |
| Accumulated other comprehensive income (loss) | (110,060) | (151,241) | 18,525 |
| Noncontrolling interest | 116,306 | 114,063 | 115,284 |
| Total shareholders equity | 2,143,607 | 2,047,392 | 2,282,444 |
| Total liabilities and shareholders equity | \$ 4,778,206 | \$ 4,586,313 | \$ 4,162,687 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three months ended | |
|--|--------------------|-----------|
| | March 31, | April 2, |
| <i>In thousands</i> | 2012 | 2011 |
| Operating activities | | |
| Net income before noncontrolling interest | \$ 62,154 | \$ 52,034 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities | | |
| Equity income of unconsolidated subsidiaries | (1,049) | (235) |
| Depreciation | 16,076 | 15,224 |
| Amortization | 9,842 | 6,401 |
| Deferred income taxes | (167) | 3,845 |
| Stock compensation | 5,249 | 5,725 |
| Excess tax benefits from stock-based compensation | (1,384) | (557) |
| (Gain) loss on sale of assets | (506) | 7 |
| Changes in assets and liabilities, net of effects of business acquisitions and dispositions | | |
| Accounts and notes receivable | (100,353) | (101,505) |
| Inventories | (20,028) | (708) |
| Prepaid expenses and other current assets | 2,798 | (8,946) |
| Accounts payable | (4,077) | (11,992) |
| Employee compensation and benefits | (24,400) | (28,759) |
| Accrued product claims and warranties | (117) | 883 |
| Income taxes | 10,495 | 14,506 |
| Other current liabilities | 4,402 | 8,248 |
| Pension and post-retirement benefits | (48) | 1,619 |
| Other assets and liabilities | (26,396) | (3,970) |
| Net cash provided by (used for) operating activities | (67,509) | (48,180) |
| Investing activities | | |
| Capital expenditures | (15,621) | (13,268) |
| Proceeds from sale of property and equipment | 1,528 | 42 |
| Acquisitions, net of cash acquired | | (14,856) |
| Other | (3,076) | 58 |
| Net cash provided by (used for) investing activities | (17,169) | (28,024) |
| Financing activities | | |
| Net short-term borrowings | 15,165 | 1,160 |
| Proceeds from long-term debt | 182,976 | 249,366 |
| Repayments of long-term debt | (94,572) | (150,000) |
| Excess tax benefits from stock-based compensation | 1,384 | 557 |
| Stock issued to employees, net of shares withheld | 7,200 | (37) |
| Repurchases of common stock | | (287) |
| Dividends paid | (22,105) | (19,844) |
| Net cash provided by (used for) financing activities | 90,048 | 80,915 |
| Effect of exchange rate changes on cash and cash equivalents | (9) | 6,367 |
| Change in cash and cash equivalents | 5,361 | 11,078 |

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| | | |
|---|------------------|------------------|
| Cash and cash equivalents, beginning of period | 50,077 | 46,056 |
| Cash and cash equivalents, end of period | \$ 55,438 | \$ 57,134 |

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 and per-share data</i> | Common shares | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Total Pentair, Inc. | Noncontrolling interest | Total |
|--|----------------------|---------------|---|------------------------------|--|--------------------------------|------------------------------------|--------------|
| | Number | Amount | | | | | | |
| Balance - December 31, 2011 | 98,622,564 | \$ 16,437 | \$ 488,843 | \$ 1,579,290 | \$ (151,241) | \$ 1,933,329 | \$ 114,063 | \$ 2,047,392 |
| Net income | | | | 60,814 | | 60,814 | 1,340 | 62,154 |
| Change in cumulative translation adjustment | | | | | 39,388 | 39,388 | 903 | 40,291 |
| Changes in market value of derivative financial instruments, net of \$1,285 tax | | | | | 1,793 | 1,793 | | 1,793 |
| Cash dividends - \$0.22 per common share | | | | (22,105) | | (22,105) | | (22,105) |
| Exercise of stock options, net of 29,346 shares tendered for payment | 337,651 | 56 | 10,370 | | | 10,426 | | 10,426 |
| Issuance of restricted shares, net of cancellations | 151,997 | 25 | 3,460 | | | 3,485 | | 3,485 |
| Amortization of restricted shares | | | 213 | | | 213 | | 213 |
| Shares surrendered by employees to pay taxes | (63,837) | (11) | (2,354) | | | (2,365) | | (2,365) |
| Stock compensation | | | 2,323 | | | 2,323 | | 2,323 |
| Balance - March 31, 2012 | 99,048,375 | \$ 16,507 | \$ 502,855 | \$ 1,617,999 | \$ (110,060) | \$ 2,027,301 | \$ 116,306 | \$ 2,143,607 |

| <i>In thousands, except share and per-share data</i> | Common shares | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Total Pentair, Inc. | Noncontrolling interest | Total |
|--|----------------------|---------------|---|------------------------------|--|--------------------------------|------------------------------------|--------------|
| | Number | Amount | | | | | | |
| Balance - December 31, 2010 | 98,409,192 | \$ 16,401 | \$ 474,489 | \$ 1,624,605 | \$ (22,342) | \$ 2,093,153 | \$ 111,879 | \$ 2,205,032 |
| Net income | | | | 50,541 | | 50,541 | 1,493 | 52,034 |
| Change in cumulative translation adjustment | | | | | 39,410 | 39,410 | 1,912 | 41,322 |
| Changes in market value of derivative financial instruments, net of \$758 tax | | | | | 1,457 | 1,457 | | 1,457 |
| Cash dividends - \$0.20 per common share | | | | (19,844) | | (19,844) | | (19,844) |
| Share repurchase | (7,826) | (1) | (286) | | | (287) | | (287) |
| Exercise of stock options, net of 1,825 shares tendered for payment | 48,587 | 8 | 1,112 | | | 1,120 | | 1,120 |
| Issuance of restricted shares, net of cancellations | 37,638 | 6 | 1,367 | | | 1,373 | | 1,373 |
| Amortization of restricted shares | | | 330 | | | 330 | | 330 |

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| | | | | | |
|--|-------------------|------------------|-------------------|---------------------|---------------------|
| Shares surrendered by employees to pay taxes | (68,277) | (11) | (2,520) | (2,531) | (2,531) |
| Stock compensation | | | 2,438 | 2,438 | 2,438 |
| Balance - April 2, 2011 | 98,419,314 | \$ 16,403 | \$ 476,930 | \$ 1,655,302 | \$ 18,525 |
| | | | | \$ 2,167,160 | \$ 115,284 |
| | | | | | \$ 2,282,444 |

See accompanying notes to condensed consolidated financial statements

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

1. Basis of Presentation and Responsibility for Interim Financial Statements

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

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto, which are included in our 2011 Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

In connection with preparing the unaudited condensed consolidated financial statements for the three months ended March 31, 2012, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing.

2. New Accounting Standards

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

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

3. Stock-based Compensation

Total stock-based compensation expense was \$5.2 million and \$5.7 million for the first quarter of 2012 and 2011, respectively.

During the first quarter of 2012, restricted shares and restricted stock units of our common stock were granted under the 2008 Omnibus Stock Incentive Plan to eligible employees with a vesting period of three to four years after issuance. Restricted share awards and restricted stock units are valued at market value on the date of grant and are typically expensed over the vesting period. Total compensation expense for restricted share awards and restricted stock units during the first quarter of 2012 and 2011 was \$2.9 million and \$3.3 million, respectively.

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During the first quarter of 2012, option awards were granted under the 2008 Omnibus Stock Incentive Plan with an exercise price equal to the market price of our common stock on the date of grant. Option awards are typically expensed over the vesting period. Total compensation expense for stock option awards was \$2.3 million and \$2.4 million for the first quarter of 2012 and 2011, respectively.

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

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

| | March 31, 2012 | April 2, 2011 |
|---------------------------------|---------------------------|--------------------------|
| Expected stock price volatility | 36.5% | 35.5% |
| Expected life | 5.7 yrs | 5.5 yrs |
| Risk-free interest rate | 0.96% | 1.49% |
| Dividend yield | 2.48% | 2.33% |

The weighted-average fair value of options granted during the first quarter of 2012 and 2011 was \$9.65 and \$8.04 per share, respectively.

These estimates require us to make assumptions based on historical results, observance of trends in our stock price, changes in option exercise behavior, future expectations and other relevant factors. If other assumptions had been used, stock-based compensation expense, as calculated and recorded under the accounting guidance could have been affected.

We based the expected life assumption on historical experience as well as the terms and vesting periods of the options granted. For purposes of determining expected 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 were calculated using the following:

| | Three months ended | |
|---|---------------------------|--------------------------|
| <i>In thousands</i> | March 31, 2012 | April 2, 2011 |
| Weighted average common shares outstanding basic | 98,633 | 98,098 |
| Dilutive impact of stock options and restricted stock | 1,774 | 1,572 |
| Weighted average common shares outstanding diluted | 100,407 | 99,670 |

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

| | |
|-------|-------|
| 2,481 | 2,191 |
|-------|-------|

5. Restructuring

During 2011, we announced and initiated certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business. These initiatives included the reduction in hourly and salaried headcount of approximately 210 employees, which included 160 in

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Water & Fluid Solutions and 50 in Technical Products.

Restructuring accrual activity recorded on the Condensed Consolidated Balance Sheets is summarized as follows for the three months ended March 31, 2012, and April 2, 2011, and for the year ended December 31, 2011.

| <i>In thousands</i> | March 31, 2012 | December 31, 2011 | April 2, 2011 |
|-------------------------|---------------------------|------------------------------|--------------------------|
| Beginning balance | \$ 12,805 | \$ 3,994 | \$ 3,994 |
| Costs incurred | | 11,500 | |
| Cash payments and other | (4,885) | (2,689) | (866) |
| Ending balance | \$ 7,920 | \$ 12,805 | \$ 3,128 |

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***6. Acquisitions**

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

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

CPT's net sales and income from continuing operations for the three month period ending March 31, 2012 were \$68.2 million and \$1.6 million, respectively.

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

| <i>In thousands, except share and per-share data</i> | Three months ended April 2, 2011 | |
|--|---|---------|
| Pro forma net sales | \$ | 868,849 |
| Pro forma net income attributable to Pentair, Inc. | | 47,949 |
| Pro forma earnings per common share attributable to Pentair, Inc. | | |
| Basic | \$ | 0.49 |
| Diluted | \$ | 0.48 |
| Weighted average common shares outstanding | | |
| Basic | | 98,098 |
| Diluted | | 99,670 |

The 2011 unaudited pro forma net income was adjusted to exclude the impact of approximately \$12.9 million in non-recurring items related to acquisition date fair value adjustments to inventory and customer backlog. Acquisition-related transaction costs of approximately \$8.0 million associated with the CPT acquisition were excluded from the pro forma net income in the 2011 period presented. The impact of these items were included in pro forma net income as of January 1, 2010.

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

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

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

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

Inventories were comprised of:

| <i>In thousands</i> | March 31, 2012 | December 31, 2011 | April 2, 2011 |
|----------------------------|---------------------------|------------------------------|--------------------------|
| Raw materials and supplies | \$ 223,707 | \$ 219,487 | \$ 217,855 |
| Work-in-process | 50,894 | 47,707 | 45,553 |
| Finished goods | 200,802 | 182,669 | 148,359 |
| Total inventories | \$ 475,403 | \$ 449,863 | \$ 411,767 |

8. Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill by segment were as follows:

| <i>In thousands</i> | December 31, 2011 | Acquisitions/ divestitures | Foreign currency translation/other | March 31, 2012 |
|-------------------------|--------------------------|---------------------------------------|---|-----------------------|
| Water & Fluid Solutions | \$ 1,994,781 | \$ | \$ 21,233 | \$ 2,016,014 |
| Technical Products | 279,137 | | 2,024 | 281,161 |
| Consolidated Total | \$ 2,273,918 | \$ | \$ 23,257 | \$ 2,297,175 |

| <i>In thousands</i> | December 31, 2010 | Acquisitions/ divestitures | Foreign currency translation/other | April 2, 2011 |
|-------------------------|--------------------------|---------------------------------------|---|----------------------|
| Water & Fluid Solutions | \$ 1,784,100 | \$ 10,078 | \$ 17,589 | \$ 1,811,767 |
| Technical Products | 281,944 | | 3,717 | 285,661 |
| Consolidated Total | \$ 2,066,044 | \$ 10,078 | \$ 21,306 | \$ 2,097,428 |

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Accumulated goodwill impairment losses were \$200.5 million, \$200.5 million and \$0 as of March 31, 2012, December 31, 2011, and April 2, 2011, respectively.

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

The detail of intangible assets consisted of the following:

| <i>In thousands</i> | March 31, 2012 | | | December 31, 2011 | | | April 2, 2011 | | |
|------------------------------------|-----------------------|--------------------------|------------|-----------------------|--------------------------|------------|-----------------------|--------------------------|------------|
| | Gross carrying amount | Accumulated amortization | Net | Gross carrying amount | Accumulated amortization | Net | Gross carrying amount | Accumulated amortization | Net |
| Finite-life intangibles | | | | | | | | | |
| Patents | \$ 5,900 | \$ (4,169) | \$ 1,731 | \$ 5,896 | \$ (4,038) | \$ 1,858 | \$ 15,476 | \$ (13,003) | \$ 2,473 |
| Proprietary technology | 134,042 | (43,531) | 90,511 | 128,841 | (39,956) | 88,885 | 74,169 | (31,110) | 43,059 |
| Customer relationships | 363,077 | (117,036) | 246,041 | 358,410 | (109,887) | 248,523 | 292,920 | (88,830) | 204,090 |
| Trade names | 1,528 | (573) | 955 | 1,515 | (530) | 985 | 1,557 | (430) | 1,127 |
| Total finite-life intangibles | \$ 504,547 | \$ (165,309) | \$ 339,238 | \$ 494,662 | \$ (154,411) | \$ 340,251 | \$ 384,122 | \$ (133,373) | \$ 250,749 |
| Indefinite-life intangibles | | | | | | | | | |
| Trade names | 255,691 | | 255,691 | 252,034 | | 252,034 | 210,495 | | 210,495 |
| Total intangibles, net | \$ 760,238 | \$ (165,309) | \$ 594,929 | \$ 746,696 | \$ (154,411) | \$ 592,285 | \$ 594,617 | \$ (133,373) | \$ 461,244 |

Intangible asset amortization expense was approximately \$9.8 million and \$6.4 million for the three months ended March 31, 2012 and April 2, 2011, respectively.

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

| <i>In thousands</i> | Q2-Q4 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------|------------|-----------|-----------|-----------|-----------|-----------|
| Estimated amortization expense | \$ 29,831 | \$ 39,628 | \$ 39,256 | \$ 38,976 | \$ 38,012 | \$ 36,378 |

9. Debt

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

In thousands

April 2, 2011

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| | Average interest rate March 31, 2012 | Maturity (Year) | March 31, 2012 | December 31, 2011 | |
|---|--|--------------------|-------------------|----------------------|------------|
| Commercial paper | 1.22% | 2016 | \$ 6,645 | \$ 3,497 | \$ |
| Revolving credit facilities | 1.99% | 2016 | 257,700 | 168,500 | \$ 197,300 |
| Private placement - fixed rate | 5.65% | 2013-2017 | 400,000 | 400,000 | 400,000 |
| Private placement - floating rate | 1.08% | 2012-2013 | 205,000 | 205,000 | 205,000 |
| Public - fixed rate | 5.00% | 2021 | 500,000 | 500,000 | |
| Capital lease obligations | 3.72% | 2025 | 15,960 | 15,788 | |
| Other | 2.24% | 2012-2016 | 30,185 | 16,302 | 6,127 |
| Total debt, including current portion per balance sheet | | | 1,415,490 | 1,309,087 | 808,427 |
| Less: Current maturities | | | (1,207) | (1,168) | (13) |
| Short-term borrowings | | | (19,190) | (3,694) | (6,093) |
| Long-term debt | | | \$ 1,395,093 | \$ 1,304,225 | \$ 802,321 |

The fair value of total debt excluding the effect of the interest rate swaps was \$1,482.5 million, \$1,361.0 million and \$838.9 million as of March 31, 2012, December 31, 2011 and April 2, 2011, respectively. This debt is classified as Level 2 in the valuation hierarchy as defined in Note 10, Derivatives and Financial Instruments.

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

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

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

Total availability under our existing Credit Facility was \$435.7 million as of March 31, 2012, which was limited to \$362.2 million by the leverage ratio financial covenant in the credit agreement.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio (total consolidated indebtedness, as defined, over consolidated net income before interest, taxes, depreciation, amortization and non-cash compensation expense, as defined) that may not exceed 3.5 to 1.0 as of the last date of each of our fiscal quarters thereafter. We were in compliance with all financial covenants in our debt agreements as of March 31, 2012.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of \$75.3 million, of which \$28.1 million was outstanding at March 31, 2012. Borrowings under these credit facilities bear interest at variable rates.

We have \$105 million of outstanding private placement debt maturing in May 2012. We classified this debt as long-term as of March 31, 2012 as we have the intent and ability to refinance such obligation on a long-term basis under the Credit Facility.

Debt outstanding at March 31, 2012 matures on a calendar year basis as follows:

Q2 -Q4

| <i>In thousands</i> | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter | Total |
|--|------------------|-------------------|-----------------|-----------------|-------------------|-------------------|-------------------|---------------------|
| Contractual debt obligation maturities | \$ 19,030 | \$ 200,638 | \$ | \$ | \$ 379,862 | \$ 300,000 | \$ 500,000 | \$ 1,399,530 |
| Capital lease obligations | 906 | 1,207 | 1,207 | 1,207 | 1,207 | 1,207 | 9,019 | 15,960 |
| Total maturities | \$ 19,936 | \$ 201,845 | \$ 1,207 | \$ 1,207 | \$ 381,069 | \$ 301,207 | \$ 509,019 | \$ 1,415,490 |

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As part of the CPT acquisition, we assumed a capital lease obligation related to land and buildings. As of March 31, 2012 we had a cost of \$23.4 million, and accumulated amortization of \$5.3 million, all of which are included in *Property, plant and equipment* on the Consolidated Balance Sheets.

The present value of future minimum lease payments is the total future minimum lease payments of \$18.0 million less the imputed interest of \$2.0 million.

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.

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

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 \$0.6 million, \$1.7 million and \$5.3 million at March 31, 2012, December 31, 2011, and April 2, 2011, respectively, and was recorded in *Accumulated other comprehensive income (loss)* (AOCI) on the Condensed Consolidated Balance Sheets.

In September 2005, we entered into a \$100 million interest rate swap agreement with several major financial institutions to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the fixed rate swap was April 25, 2006. The swap agreement has a fixed interest rate of 4.68% and expires in July 2013. The fixed interest rate of 4.68% plus the .60% interest rate spread over LIBOR results in an effective fixed interest rate of 5.28%. The fair value of the swap was a liability of \$5.5 million, \$6.3 million and \$8.3 million at March 31, 2012, December 31, 2011, and April 2, 2011, respectively, and was recorded in AOCI 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 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 and Comprehensive Income. We realized incremental expense resulting from the swaps of \$2.2 million and \$2.4 million for the three months ended March 31, 2012 and April 2, 2011, 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.

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 entered into interest rate swap contracts to hedge movement in interest rates through the expected date of closing for a portion of the expected fixed rate debt offering. The swaps had a notional amount of

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\$400 million with an average interest rate of 3.65%. In May 2011, upon the sale of the Notes, the swaps were terminated at a cost of \$11.0 million. Because we used the contracts to hedge future interest payments, this amount is recorded in *Prepaid expenses and other current assets* within the Condensed Consolidated Balance Sheets and will be amortized as interest expense over the life of the Notes.

Table of Contents***Pentair, Inc. and Subsidiaries******Notes to condensed consolidated financial statements (unaudited)******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 had a notional amount of 286.0 million, a strike price of 1.4375 and matured May 13, 2011. The fair value of the contract was an asset of \$2.8 million at April 2, 2011, and was recorded in *Prepaid expenses and other current assets* on the Condensed Consolidated Balance Sheets. In May 2011, we sold the foreign currency option contract for \$1.0 million. The net cost of \$2.1 million was recorded in *Selling, general and administrative* on the Condensed Consolidated Statements of Income and Comprehensive Income.

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 information

Assets and liabilities measured at fair value were as follows:

| Recurring fair value measurements | <u>As of March 31, 2012</u> | | | |
|--|------------------------------------|------------------|------------------|------------------|
| | Fair value | (Level 1) | (Level 2) | (Level 3) |
| <i>In thousands</i> | | | | |
| Cash-flow hedges | \$ (6,151) | \$ | \$ (6,151) | \$ |
| Foreign currency contract | 747 | | 747 | |
| Deferred compensation plan (1) | 27,267 | 27,267 | | |
| Total recurring fair value measurements | 21,863 | 27,267 | (5,404) | |

| Recurring fair value measurements | <u>As of December 31, 2011</u> | | | |
|--|---------------------------------------|------------------|------------------|------------------|
| | Fair value | (Level 1) | (Level 2) | (Level 3) |
| <i>In thousands</i> | | | | |
| Cash-flow hedges | \$ (8,034) | \$ | \$ (8,034) | \$ |
| Foreign currency contract | (99) | | (99) | |
| Deferred compensation plan (1) | 22,987 | 22,987 | | |
| Total recurring fair value measurements | \$ 14,854 | \$ 22,987 | \$ (8,133) | \$ |

| Nonrecurring fair value measurements | | | | |
|---|------------|----|----|------------|
| Goodwill (2) | \$ 242,800 | \$ | \$ | \$ 242,800 |

| | | | | |
|--|------------|----|----|------------|
| Total nonrecurring fair value measurement | \$ 242,800 | \$ | \$ | \$ 242,800 |
|--|------------|----|----|------------|

Recurring fair value measurements**As of April 2, 2011**

| <i>In thousands</i> | Fair value | (Level 1) | (Level 2) | (Level 3) |
|--|-------------------|------------------|------------------|------------------|
| Cash-flow hedges | \$ (13,540) | \$ | \$ (13,540) | \$ |
| Foreign currency contract | 2,817 | | 2,817 | |
| Deferred compensation plan (1) | 24,580 | 24,580 | | |
| Total recurring fair value measurements | \$ 13,857 | \$ 24,580 | \$ (10,723) | \$ |

- (1) Deferred compensation plan assets include mutual funds and cash equivalents for payment of certain non-qualified benefits for retired, terminated and active employees. The fair value of these assets was based on quoted market prices in active markets.
- (2) In the fourth quarter of 2011, we completed our annual goodwill impairment review. As a result, we recorded a pre-tax non-cash goodwill impairment charge of \$200.5 million in our Residential Filtration reporting unit. The fair value of each reporting unit is determined using a discounted cash flow analysis and market approach. Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate. Use of the market approach consists of comparisons to comparable publicly-traded companies that are similar in size and industry. Actual results may differ from those used in our valuations. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation.

11. Income Taxes

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

The effective income tax rate for the three months ended March 31, 2012 was 12.7% compared to 32.5% for the three months ended April 2, 2011. Our effective tax rate was lower due to the resolution of U.S. federal and state tax audits, the mix of global earnings and favorable benefits related to the May 2011 acquisition of CPT.

We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

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

The total gross liability for uncertain tax positions was \$13.4 million, \$26.5 million and \$24.5 million at March 31, 2012, December 31, 2011 and April 2, 2011, respectively. We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, on the Condensed Consolidated Statements of Income and Comprehensive Income, which is consistent with our past practices.

12. Benefit Plans

Components of net periodic benefit cost (income) for the three months ended March 31, 2012 and April 2, 2011 were as follows:

| <i>In thousands</i> | Three months ended | | | |
|---|---------------------------|--------------------------|---------------------------|--------------------------|
| | Pension benefits | | Post-retirement | |
| | March 31, 2012 | April 2, 2011 | March 31, 2012 | April 2, 2011 |
| Service cost | \$ 3,761 | \$ 3,130 | \$ 55 | \$ 45 |
| Interest cost | 8,087 | 8,225 | 422 | 472 |
| Expected return on plan assets | (7,844) | (7,963) | | |
| Amortization of prior year service cost (benefit) | | | (6) | (7) |
| Recognized net actuarial loss (gains) | 2,577 | 971 | (602) | (826) |
| Net periodic benefit cost (income) | \$ 6,581 | \$ 4,363 | \$ (131) | \$ (316) |

13. Business Segments

Financial information by reportable segment for the three months ended March 31, 2012 and April 2, 2011 is shown below:

| <i>In thousands</i> | Three months ended | |
|---|---------------------------|--------------------------|
| | March 31, 2012 | April 2, 2011 |
| <i>Net sales to external customers</i> | | |
| Water & Fluid Solutions | \$ 586,978 | \$ 515,368 |
| Technical Products | 271,199 | 274,905 |
| Consolidated | \$ 858,177 | \$ 790,273 |

| | | | | |
|---------------------------------------|-----------|---------------|-----------|---------------|
| <i>Intersegment sales</i> | | | | |
| Water & Fluid Solutions | \$ | 73 | \$ | 455 |
| Technical Products | | 1,359 | | 999 |
| Other | | (1,432) | | (1,454) |
| Consolidated | \$ | | \$ | |
| <i>Operating income (loss)</i> | | | | |
| Water & Fluid Solutions | \$ | 63,677 | \$ | 56,528 |
| Technical Products | | 50,459 | | 48,087 |
| Other | | (29,184) | | (18,438) |
| Consolidated | \$ | 84,952 | \$ | 86,177 |

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 March 31, 2012 and April 2, 2011 and the year ended December 31, 2011 were as follows:

| <i>In thousands</i> | March 31, 2012 | December 31, 2011 | April 2, 2011 |
|--|---------------------------|------------------------------|--------------------------|
| Balance at beginning of the year | \$ 29,355 | \$ 30,050 | \$ 30,050 |
| Service and product warranty provision | 11,395 | 50,096 | 11,769 |
| Payments | (11,424) | (53,937) | (10,886) |
| Acquired | | 3,575 | 40 |
| Translation | 83 | (429) | 197 |
| Balance at end of the period | \$ 29,409 | \$ 29,355 | \$ 31,170 |

15. Commitments and Contingencies

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

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***16. Financial Statements of Subsidiary Guarantors**

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

Pentair, Inc. and Subsidiaries**Condensed Consolidated Statements of Income and Comprehensive Income****For the three months ended March 31, 2012**

| <i>In thousands</i> | Parent company | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Consolidated |
|--|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales | \$ | \$ 558,068 | \$ 386,177 | \$ (86,068) | \$ 858,177 |
| Cost of goods sold | | 386,058 | 277,162 | (85,762) | 577,458 |
| Gross profit | | 172,010 | 109,015 | (306) | 280,719 |
| Selling, general and administrative | 16,884 | 88,363 | 70,069 | (306) | 175,010 |
| Research and development | 223 | 10,610 | 9,924 | | 20,757 |
| Operating (loss) income | (17,107) | 73,037 | 29,022 | | 84,952 |
| Earnings from investment in subsidiaries | (53,393) | (798) | (964) | 55,155 | |
| Other (income) expense: | | | | | |
| Equity (income) losses of unconsolidated subsidiaries | | (908) | (141) | | (1,049) |
| Net interest (income) expense | (29,034) | 38,183 | 5,619 | | 14,768 |
| Income before income taxes and noncontrolling interest | 65,320 | 36,560 | 24,508 | (55,155) | 71,233 |
| Provision for income taxes | 4,506 | 307 | 4,266 | | 9,079 |
| Net income before noncontrolling interest | 60,814 | 36,253 | 20,242 | (55,155) | 62,154 |
| Noncontrolling interest | | | 1,340 | | 1,340 |
| Net income attributable to Pentair, Inc. | \$ 60,814 | \$ 36,253 | \$ 18,902 | \$ (55,155) | \$ 60,814 |
| Comprehensive income (loss) | \$ 101,995 | \$ 67,292 | \$ 27,728 | \$ (92,777) | \$ 104,238 |

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***Pentair, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****March 31, 2012**

| <i>In thousands</i> | Parent company | Guarantor subsidiaries | Non- guarantor subsidiaries | Eliminations | Consolidated |
|---|---------------------------|-----------------------------------|--|-----------------------|---------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 3,730 | \$ 10,857 | \$ 40,851 | \$ | \$ 55,438 |
| Accounts and notes receivable, net | 5,603 | 448,706 | 294,942 | (68,991) | 680,260 |
| Inventories | | 246,245 | 229,158 | | 475,403 |
| Deferred tax assets | 133,616 | 40,698 | 13,419 | (125,328) | 62,405 |
| Prepaid expenses and other current assets | 36,289 | 18,431 | 96,744 | (35,763) | 115,701 |
| Total current assets | 179,238 | 764,937 | 675,114 | (230,082) | 1,389,207 |
| Property, plant and equipment, net | 18,933 | 132,185 | 242,217 | | 393,335 |
| Other assets | | | | | |
| Investments in/advances to subsidiaries | 2,912,488 | 1,490,430 | 90,716 | (4,493,634) | |
| Goodwill | | 1,330,265 | 966,910 | | 2,297,175 |
| Intangibles, net | | 247,111 | 347,818 | | 594,929 |
| Other | 68,237 | 7,839 | 46,624 | (19,140) | 103,560 |
| Total other assets | 2,980,725 | 3,075,645 | 1,452,068 | (4,512,774) | 2,995,664 |
| Total assets | \$ 3,178,896 | \$ 3,972,767 | \$ 2,369,399 | \$ (4,742,856) | \$ 4,778,206 |

Liabilities and Shareholders Equity

| | | | | | |
|--|---------------|----------------|----------------|------------------|----------------|
| Current liabilities | | | | | |
| Short-term borrowings | \$ | \$ | \$ 19,190 | \$ | \$ 19,190 |
| Current maturities of long-term debt | 2,665 | | 1,207 | (2,665) | 1,207 |
| Accounts payable | 5,049 | 190,209 | 167,461 | (69,321) | 293,398 |
| Employee compensation and benefits | 12,470 | 17,052 | 57,252 | | 86,774 |
| Current pension and post-retirement benefits | 9,052 | | | | 9,052 |
| Accrued product claims and warranties | 165 | 22,305 | 20,214 | | 42,684 |
| Income taxes | 23,536 | (3,779) | 5,396 | | 25,153 |
| Accrued rebates and sales incentives | | 23,201 | 8,529 | | 31,730 |
| Other current liabilities | 45,408 | 56,153 | 84,343 | (35,769) | 150,135 |
| Total current liabilities | 98,345 | 305,141 | 363,592 | (107,755) | 659,323 |
| Other liabilities | | | | | |

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| | | | | | |
|---|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Long-term debt | 1,414,113 | 2,417,922 | 543,760 | (2,980,702) | 1,395,093 |
| Pension and other retirement compensation | 185,334 | (9,824) | 76,041 | | 251,551 |
| Post-retirement medical and other benefits | 17,677 | 32,381 | | (19,140) | 30,918 |
| Long-term income taxes payable | 13,382 | | | | 13,382 |
| Deferred tax liabilities | | 229,962 | 89,835 | (125,328) | 194,469 |
| Due to/ (from) affiliates | (634,296) | 870,956 | 613,215 | (849,875) | |
| Other non-current liabilities | 57,040 | 1,415 | 31,408 | | 89,863 |
| Total liabilities | 1,151,595 | 3,847,953 | 1,717,851 | (4,082,800) | 2,634,599 |
| Shareholders' equity attributable to Pentair, Inc. | 2,027,301 | 124,814 | 535,242 | (660,056) | 2,027,301 |
| Noncontrolling interest | | | 116,306 | | 116,306 |
| Total shareholders' equity | 2,027,301 | 124,814 | 651,548 | (660,056) | 2,143,607 |
| Total liabilities and shareholders' equity | \$ 3,178,896 | \$ 3,972,767 | \$ 2,369,399 | \$ (4,742,856) | \$ 4,778,206 |

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***Pentair, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****For the three months ended March 31, 2012**

| <i>In thousands</i> | Parent company | Guarantor subsidiaries | Non- guarantor subsidiaries | Eliminations | Consolidated |
|---|---------------------------|-----------------------------------|--|---------------------|---------------------|
| Net cash provided by (used for) operating activities | (8,291) | (79,455) | 20,237 | | (67,509) |
| Investing activities | | | | | |
| Capital expenditures | (1,059) | (8,090) | (6,472) | | (15,621) |
| Proceeds from sale of property and equipment | | (10) | 1,538 | | 1,528 |
| Other | | | (3,076) | | (3,076) |
| Net cash provided by (used for) investing activities | (1,059) | (8,100) | (8,010) | | (17,169) |
| Financing activities | | | | | |
| Net short-term borrowings | 15,165 | | | | 15,165 |
| Proceeds from long-term debt | 182,976 | | | | 182,976 |
| Repayment of long-term debt | (94,572) | | | | (94,572) |
| Net change in advances to subsidiaries | (81,959) | 95,080 | (13,121) | | |
| Excess tax benefits from stock-based compensation | 1,384 | | | | 1,384 |
| Stock issued to employees, net of shares withheld | 7,200 | | | | 7,200 |
| Dividends paid | (22,105) | | | | (22,105) |
| Net cash provided by (used for) financing activities | 8,089 | 95,080 | (13,121) | | 90,048 |
| Effect of exchange rate changes on cash and cash equivalents | 1,894 | | (1,903) | | (9) |
| Change in cash and cash equivalents | 633 | 7,525 | (2,797) | | 5,361 |
| Cash and cash equivalents, beginning of period | 3,097 | 3,332 | 43,648 | | 50,077 |
| Cash and cash equivalents, end of period | \$ 3,730 | \$ 10,857 | \$ 40,851 | \$ | \$ 55,438 |

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***Pentair, Inc. and Subsidiaries****Condensed Consolidated Statements of Income and Comprehensive Income****For the period ended April 2, 2011**

| <i>In thousands</i> | Parent company | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Consolidated |
|---|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales | \$ | \$ 515,054 | \$ 341,578 | \$ (66,359) | \$ 790,273 |
| Cost of goods sold | | 355,561 | 251,730 | (66,077) | 541,214 |
| Gross profit | | 159,493 | 89,848 | (282) | 249,059 |
| Selling, general and administrative | 6,606 | 85,119 | 53,317 | (282) | 144,760 |
| Research and development | 170 | 10,846 | 7,106 | | 18,122 |
| Operating (loss) income | (6,776) | 63,528 | 29,425 | | 86,177 |
| Earnings from investment in subsidiaries | (37,306) | | | 37,306 | |
| Other (income) expense: | | | | | |
| Equity income of unconsolidated subsidiaries | (176) | | (59) | | (235) |
| Net interest (income) expense | (27,379) | 38,485 | (1,781) | | 9,325 |
| Income (loss) before income taxes and noncontrolling interest | 58,085 | 25,043 | 31,265 | (37,306) | 77,087 |
| Provision for income taxes | 7,544 | 8,481 | 9,028 | | 25,053 |
| Net income before noncontrolling interest | 50,541 | 16,562 | 22,237 | (37,306) | 52,034 |
| Noncontrolling interest | | | 1,493 | | 1,493 |
| Net income attributable to Pentair, Inc. | \$ 50,541 | \$ 16,562 | \$ 20,744 | \$ (37,306) | \$ 50,541 |
| Comprehensive income (loss) | \$ 91,408 | \$ 21,772 | \$ 38,017 | \$ (56,384) | \$ 94,813 |

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***Pentair, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****April 2, 2011**

| <i>In thousands</i> | Parent company | Guarantor subsidiaries | Non- guarantor subsidiaries | Eliminations | Consolidated |
|--|---------------------------|-----------------------------------|--|-----------------------|---------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 4,685 | \$ 3,002 | \$ 49,447 | \$ | \$ 57,134 |
| Accounts and notes receivable, net | 920 | 396,800 | 296,182 | (68,046) | 625,856 |
| Inventories | | 199,662 | 212,105 | | 411,767 |
| Deferred tax assets | 113,937 | 40,064 | 9,032 | (106,663) | 56,370 |
| Prepaid expenses and other current assets | 12,344 | 7,471 | 52,328 | (14,193) | 57,950 |
| Total current assets | 131,886 | 646,999 | 619,094 | (188,902) | 1,209,077 |
| Property, plant and equipment, net | 20,002 | 112,276 | 206,332 | | 338,610 |
| Other assets | | | | | |
| Investments in/advances to subsidiaries | 2,376,211 | 92,230 | 785,383 | (3,253,824) | |
| Goodwill | | 1,471,582 | 625,846 | | 2,097,428 |
| Intangibles, net | | 220,344 | 240,900 | | 461,244 |
| Other | 55,588 | 4,167 | 21,622 | (25,049) | 56,328 |
| Total other assets | 2,431,799 | 1,788,323 | 1,673,751 | (3,278,873) | 2,615,000 |
| Total assets | \$ 2,583,687 | \$ 2,547,598 | \$ 2,499,177 | \$ (3,467,775) | \$ 4,162,687 |
| Liabilities and Shareholders Equity | | | | | |
| Current liabilities | | | | | |
| Short-term borrowings | \$ | \$ | \$ 6,093 | \$ | \$ 6,093 |
| Current maturities of long-term debt | 118,836 | (13) | 29,684 | (148,494) | 13 |
| Accounts payable | 9,445 | 148,024 | 167,071 | (68,048) | 256,492 |
| Employee compensation and benefits | 24,218 | 19,759 | 40,066 | | 84,043 |
| Current pension and post-retirement benefits | 8,733 | | | | 8,733 |
| Accrued product claims and warranties | 12,248 | 22,121 | 9,049 | | 43,418 |
| Income taxes | 2,318 | 7,524 | 10,650 | | 20,492 |
| Accrued rebates and sales incentives | | 21,560 | 7,986 | | 29,546 |
| Other current liabilities | 15,551 | 31,461 | 64,710 | (14,191) | 97,531 |
| Total current liabilities | 191,349 | 250,436 | 335,309 | (230,733) | 546,361 |

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| | | | | | |
|--|------------------|------------------|------------------|--------------------|------------------|
| Other liabilities | | | | | |
| Long-term debt | 802,300 | 1,947,379 | 399,205 | (2,346,563) | 802,321 |
| Pension and other retirement compensation | 138,135 | 501 | 77,956 | | 216,592 |
| Post-retirement medical and other benefits | 18,135 | 36,373 | | (25,049) | 29,459 |
| Long-term income taxes payable | 23,548 | | | | 23,548 |
| Deferred tax liabilities | 25 | 213,385 | 69,130 | (106,663) | 175,877 |
| Due to/ (from) affiliates | (802,224) | (160,911) | 948,590 | 14,545 | |
| Other non-current liabilities | 45,259 | 1,797 | 39,029 | | 86,085 |
| Total liabilities | 416,527 | 2,288,960 | 1,869,219 | (2,694,463) | 1,880,243 |
| Shareholders equity attributable to Pentair, Inc. | | | | | |
| Noncontrolling interest | 2,167,160 | 258,638 | 514,674 | (773,312) | 2,167,160 |
| Total shareholders equity | 2,167,160 | 258,638 | 629,958 | (773,312) | 2,282,444 |
| Total liabilities and shareholders equity | | | | | |
| | \$ 2,583,687 | \$ 2,547,598 | \$ 2,499,177 | \$ (3,467,775) | \$ 4,162,687 |

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***Pentair, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****For the period ended April 2, 2011**

| <i>In thousands</i> | Parent company | Guarantor subsidiaries | Non- guarantor subsidiaries | Eliminations | Consolidated |
|---|---------------------------|-----------------------------------|--|---------------------|---------------------|
| Net cash provided by (used for) operating activities | (32,301) | 17,385 | (33,264) | | (48,180) |
| Investing activities | | | | | |
| Capital expenditures | (1,129) | (6,112) | (6,027) | | (13,268) |
| Proceeds from sale of property and equipment | | 23 | 19 | | 42 |
| Acquisitions, net of cash acquired | | | (14,856) | | (14,856) |
| Other | 234 | (176) | | | 58 |
| Net cash provided by (used for) investing activities | (895) | (6,265) | (20,864) | | (28,024) |
| Financing activities | | | | | |
| Net short-term borrowings | 1,160 | (33) | 33 | | 1,160 |
| Proceeds from long-term debt | 249,366 | | | | 249,366 |
| Repayment of long-term debt | (150,000) | | | | (150,000) |
| Net change in advances to subsidiaries | (15,920) | (104,670) | 120,590 | | |
| Excess tax benefits from stock-based compensation | 557 | | | | 557 |
| Stock issued to employees, net of shares withheld | (37) | | | | (37) |
| Repurchases of common stock | (287) | | | | (287) |
| Dividends paid | (19,835) | | (9) | | (19,844) |
| Net cash provided by (used for) financing activities | 65,004 | (104,703) | 120,614 | | 80,915 |
| Effect of exchange rate changes on cash and cash equivalents | (30,324) | 93,181 | (56,490) | | 6,367 |
| Change in cash and cash equivalents | 1,484 | (402) | 9,996 | | 11,078 |
| Cash and cash equivalents, beginning of period | 3,201 | 3,404 | 39,451 | | 46,056 |
| Cash and cash equivalents, end of period | \$ 4,685 | \$ 3,002 | \$ 49,447 | \$ | \$ 57,134 |

Table of Contents*Pentair, Inc. and Subsidiaries**Notes to condensed consolidated financial statements (unaudited)***Pentair, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****December 31, 2011**

| <i>In thousands</i> | Parent company | Guarantor subsidiaries | Non- guarantor subsidiaries | Eliminations | Consolidated |
|--|---------------------------|-----------------------------------|--|-----------------------|---------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 3,097 | \$ 3,332 | \$ 43,648 | \$ | \$ 50,077 |
| Accounts and notes receivable, net | 828 | 360,027 | 263,201 | (54,852) | 569,204 |
| Inventories | | 227,472 | 222,391 | | 449,863 |
| Deferred tax assets | 134,240 | 40,698 | 13,382 | (127,421) | 60,899 |
| Prepaid expenses and other current assets | 28,937 | (6,886) | 107,121 | (21,380) | 107,792 |
| Total current assets | 167,102 | 624,643 | 649,743 | (203,653) | 1,237,835 |
| Property, plant and equipment, net | 19,693 | 136,102 | 231,730 | | 387,525 |
| Other assets | | | | | |
| Investments in/advances to subsidiaries | 2,910,927 | 1,447,522 | 92,396 | (4,450,845) | |
| Goodwill | | 1,330,265 | 943,653 | | 2,273,918 |
| Intangibles, net | | 250,792 | 341,493 | | 592,285 |
| Other | 63,508 | 27,337 | 23,045 | (19,140) | 94,750 |
| Total other assets | 2,974,435 | 3,055,916 | 1,400,587 | (4,469,985) | 2,960,953 |
| Total assets | \$ 3,161,230 | \$ 3,816,661 | \$ 2,282,060 | \$ (4,673,638) | \$ 4,586,313 |
| Liabilities and Shareholders Equity | | | | | |
| Current liabilities | | | | | |
| Short-term borrowings | \$ | \$ | \$ 3,694 | \$ | \$ 3,694 |
| Current maturities of long-term debt | 2,585 | | 1,168 | (2,585) | 1,168 |
| Accounts payable | 5,036 | 189,355 | 152,065 | (51,598) | 294,858 |
| Employee compensation and benefits | 24,466 | 30,015 | 54,880 | | 109,361 |
| Current pension and post-retirement benefits | 9,052 | | | | 9,052 |
| Accrued product claims and warranties | 165 | 22,037 | 20,428 | | 42,630 |
| Income taxes | 40,999 | (28,717) | 2,265 | | 14,547 |
| Accrued rebates and sales incentives | | 25,612 | 11,397 | | 37,009 |
| Other current liabilities | 25,050 | 53,960 | 71,890 | (21,378) | 129,522 |
| Total current liabilities | 107,353 | 292,262 | 317,787 | (75,561) | 641,841 |

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| | | | | | |
|--|------------------|------------------|------------------|--------------------|------------------|
| Other liabilities | | | | | |
| Long-term debt | 1,312,053 | 2,417,922 | 542,411 | (2,968,161) | 1,304,225 |
| Pension and other retirement compensation | 182,556 | (7,701) | 73,760 | | 248,615 |
| Post-retirement medical and other benefits | 17,024 | 33,890 | | (19,140) | 31,774 |
| Long-term income taxes payable | 26,470 | | | | 26,470 |
| Deferred tax liabilities | | 229,962 | 86,416 | (127,421) | 188,957 |
| Due to/ (from) affiliates | (479,943) | 751,145 | 711,705 | (982,907) | |
| Other non-current liabilities | 62,388 | 1,508 | 33,143 | | 97,039 |
| Total liabilities | 1,227,901 | 3,718,988 | 1,765,222 | (4,173,190) | 2,538,921 |
| Shareholders equity attributable to Pentair, Inc. | | | | | |
| Noncontrolling interest | 1,933,329 | 97,673 | 402,775 | (500,448) | 1,933,329 |
| Total shareholders equity | 1,933,329 | 97,673 | 516,838 | (500,448) | 2,047,392 |
| Total liabilities and shareholders equity | | | | | |
| | \$ 3,161,230 | \$ 3,816,661 | \$ 2,282,060 | \$ (4,673,638) | \$ 4,586,313 |

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

17. Proposed Merger

On March 27, 2012, we entered into a definitive agreement to merge with the flow control business of Tyco International Ltd. (Tyco) in a tax-free, all-stock merger (the Merger). We expect the Merger will bring together complementary leaders in water and fluid solutions, valves and controls, and equipment protection products to create a premier industrial growth company. The Tyco flow control business had net revenue and operating income for its fiscal year ended September 30, 2011 of \$3.6 billion and \$296 million, respectively. The transaction values the Tyco flow control business at approximately \$4.9 billion based on the March 26, 2012, Pentair stock price, including assumed net debt of \$275 million and minority interest. If the Merger is not completed, depending on the reasons for the termination of the merger agreement, Pentair would be required to pay Tyco a termination fee of \$145 million.

18. Subsequent Event

On April 4, 2012, we announced the acquisition of Sibrape Indústria E Comércio de Artigos Para Lazer Ltda. and its subsidiary Hidrovachek Ltda. (Sibrape) for cash of approximately \$21.5 million. Sibrape offers a complete line of pool products and is a market leader in pool liner sales throughout Brazil.

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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 similar words or the negative thereof or variations thereon. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Any or all of our forward-looking statements in this report and in any public statements we make are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Consequently, we cannot guarantee any forward-looking statements. Investors are cautioned not to place undue reliance on any forward-looking statements. The risks and uncertainties that may impact achievement of forward-looking statements include, but are not limited to:

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

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

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

stabilization or strength of the North American and Western European housing markets;

the strength of product demand and the markets we serve;

the intensity of competition, including that from foreign competitors;

pricing pressures;

the financial condition of our customers;

market acceptance of our new product introductions and enhancements;

the introduction of new products and enhancements by competitors;

our ability to maintain and expand relationships with large customers;

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

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

increased risks associated with operating foreign businesses;

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

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

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

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

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

domestic and foreign governmental and regulatory policies;

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

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 and in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Overview

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

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

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

On March 27, 2012, we entered into a definitive agreement to merge with the flow control business of Tyco International Ltd. (Tyco) in a tax-free, all-stock merger (the Merger). We expect the Merger will bring together complementary leaders in water and fluid solutions, valves and controls, and equipment protection products to create a premier industrial growth company. The Tyco flow control business had net revenue and operating income for its fiscal year ended September 30, 2011 of \$3.6 billion and \$296 million, respectively. The transaction values the Tyco flow control business at approximately \$4.9 billion based on the March 26, 2012 Pentair stock price, including assumed net debt of \$275 million and minority interest.

The Merger is expected to occur immediately after Tyco distributes all of the shares of Tyco Flow Control International Ltd. (Tyco Flow Control), the entity that will hold the Tyco flow control business prior to the distribution, to its shareholders in a tax-free pro rata dividend (the Distribution). In connection with the Merger, Tyco Flow Control will be renamed Pentair Ltd. (New Pentair). In the Merger, a wholly-owned subsidiary of New Pentair will merge with and into us, with our company surviving as a wholly-owned subsidiary of New Pentair. At the effective time of the Merger, each of our outstanding common shares will be converted into the right to receive one New Pentair common share. Upon completion of the Distribution and the Merger, New Pentair common shares will be listed on the New York Stock Exchange with our shareholders owning approximately 47.5% of New Pentair and Tyco shareholders owning approximately 52.5% of New Pentair. Completion of the Distribution and the Merger is expected to occur at the end of September 2012, subject to the approval of the Distribution by Tyco shareholders, the approval of the Merger by our shareholders, regulatory approvals and customary closing conditions. Our executive officers will become the executive officers of New Pentair and our board of directors, together with up to two new directors selected by Tyco and reasonably acceptable to us, will be the board of directors of New Pentair. We will be treated as the accounting acquirer under generally accepted accounting principles in the United States. See ITEM 1A Risk Factors of this Quarterly Report on Form 10-Q regarding risks posed to our shareholders as a result of the proposed Distribution and Merger.

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

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

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

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

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

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Key Trends and Uncertainties Regarding Our Existing Business

The following trends and uncertainties affected our financial performance in 2011 and the first quarter of 2012 and will likely impact our results in the future:

Since 2010, most markets we serve have shown signs of improvement since the global recession in 2008 and 2009. Because our businesses are significantly affected by general economic trends, a lack of continued improvement in our most important markets addressed below would likely have an adverse impact on our results of operation for 2012 and beyond.

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

After four years of new home building and new pool start contraction in the United States, these end markets stabilized in 2010. Although stabilized, these end markets have not shown significant signs of improvement and continue at historically low levels. In the fourth quarter of 2011, as a result of these current economic conditions and end market softness, we recorded a goodwill impairment charge of \$200.5 million. While we expect new product introductions, expanded distribution and channel penetration to result in volume increases for 2012, continued stagnation in new housing construction and new pool starts could negatively impact our ability to grow sales in the future and could have a material adverse effect on our results of operations. Overall, we believe approximately 35% of Pentair sales are used in global residential applications for replacement, refurbishment, remodeling, repair and new construction.

Order rates and sales improved in our industrial business in 2010 and 2011 after slowing significantly in 2009. We believe that the outlook for industrial markets in 2012 is mixed. Any significant reduction in global capital spending could adversely impact our results in the future.

Through 2011 and the first three months of 2012, we experienced material and other cost inflation. We strive for productivity improvements, and we implement increases in selling prices to help mitigate this inflation. We expect the current economic environment will result in continuing price volatility for many of our raw materials. Commodity prices have begun to moderate, but we are uncertain as to the timing and impact of these market changes.

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

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

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

In 2012, our operating objectives include the following:

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

Optimizing our technological capabilities to increasingly generate innovative new products;

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

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

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

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

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

| <i>In thousands</i> | Three months ended | | | |
|---------------------|---------------------------|--------------------------|------------------|-----------------|
| | March 31, 2012 | April 2, 2011 | \$ change | % change |
| Net sales | \$ 858,177 | \$ 790,273 | \$ 67,904 | 8.6% |

The components of the net sales change in 2012 from 2011 were as follows:

| <i>Percentages</i> | % Change from First quarter 2011 | | |
|--------------------|---|-------------------------------|--------------|
| | Water & Fluid Solutions | Technical Products | Total |
| Volume | (0.2) | (1.2) | (0.6) |
| Acquisition | 13.2 | | 8.6 |
| Price | 1.8 | 0.9 | 1.5 |
| Currency | (0.9) | (1.0) | (0.9) |
| Total | 13.9 | (1.3) | 8.6 |

Consolidated net sales

The 8.6 percentage point increase in consolidated net sales in the first quarter of 2012 from 2011 was primarily driven by:

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

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

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

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

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lower sales volume within the communications vertical market of Technical Products;

lower sales of pumps and filtration products into the residential markets within North America and Western Europe. Lower pump sales primarily related to moderate weather and reduced flooding; and

unfavorable foreign currency effects.

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

| <i>In thousands</i> | Three months ended | | | |
|-------------------------|---------------------------|-------------------|------------------|-----------------|
| | March 31, | April 2, | \$ change | % change |
| | 2012 | 2011 | | |
| Water & Fluid Solutions | \$ 586,978 | \$ 515,368 | \$ 71,610 | 13.9% |
| Technical Products | 271,199 | 274,905 | (3,706) | (1.3%) |
| Net sales | \$ 858,177 | \$ 790,273 | \$ 67,904 | 8.6% |

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Water & Fluid Solutions

The 13.9 percentage point increase in Water & Fluid Solutions net sales in the first quarter of 2012 from 2011 was primarily driven by:

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

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

continued growth in fast growth regions led by strength in the Middle East and Latin America; and

selective increases in selling prices to mitigate inflationary costs increases.

These increases were partially offset by:

lower sales of pumps and filtration products into the residential markets within North America and Western Europe. Lower pump sales primarily related to moderate weather and reduced flooding; and

unfavorable foreign currency effects.

Technical Products

The 1.3 percentage point decrease in Technical Products net sales in the first quarter 2012 from 2011 was primarily driven by:

lower sales volume within the communications vertical market of Technical Products; and

unfavorable foreign currency effects.

These decreases were partially offset by:

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

selective increases in selling prices to mitigate inflationary cost increases.

Gross profit

| <i>In thousands</i> | Three months ended | | | |
|---------------------|---------------------------|-----------------------|--------------------------|-----------------------|
| | March 31, 2012 | % of sales | April 2, 2011 | % of sales |

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| | | | | |
|--------------|------------|-------|------------|-------|
| Gross profit | \$ 280,719 | 32.7% | \$ 249,059 | 31.5% |
|--------------|------------|-------|------------|-------|

Percentage point change

1.2 pts

The 1.2 percentage point increase in gross profit as a percentage of sales in the first quarter of 2012 from 2011 was primarily the result of:

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

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

selective increases in selling prices in Water & Fluid Solutions and Technical Products to mitigate inflationary cost increases.
These increases were partially offset by:

inflationary increases related to raw materials and labor costs.

Table of Contents**Selling, general and administrative (SG&A)**

| <i>In thousands</i> | Three months ended | | | |
|---------------------|--------------------|---------------|------------------|---------------|
| | March 31, 2012 | % of sales | April 2, 2011 | % of sales |
| SG&A | \$ 175,010 | 20.4% | \$ 144,760 | 18.3% |

Percentage point change 2.1 pts

The 2.1 percentage point increase in SG&A expense as a percentage of sales in the first quarter of 2012 from 2011 was primarily due to:

costs associated with the proposed transaction with Tyco Flow Control;

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

certain increases for labor and related costs.

Research and development (R&D)

| <i>In thousands</i> | Three months ended | | | |
|---------------------|--------------------|---------------|------------------|---------------|
| | March 31, 2012 | % of sales | April 2, 2011 | % of sales |
| R&D | \$ 20,757 | 2.4% | \$ 18,122 | 2.3% |

Percentage point change 0.1 pts

The 0.1 percentage point increase in R&D expense as a percentage of sales in the first quarter of 2012 from 2011 was primarily due to:

higher costs associated with the May 2011 acquisition of CPT.

Operating income**Water & Fluid Solutions**

| <i>In thousands</i> | Three months ended | | | |
|---------------------|--------------------|---------------|------------------|---------------|
| | March 31, 2012 | % of sales | April 2, 2011 | % of sales |

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| | | | | | | |
|------------------|----|--------|-------|----|--------|-------|
| Operating income | \$ | 63,677 | 10.8% | \$ | 56,528 | 11.0% |
|------------------|----|--------|-------|----|--------|-------|

Percentage point change

(0.2) pts

The 0.2 percentage point decrease in Water & Fluid Solutions operating income as a percentage of net sales in the first quarter of 2012 as compared to 2011 was primarily the result of:

lower margin associated with the May 2011 acquisition of CPT, including intangible asset amortization and integration costs; and

cost increases for certain raw materials and labor.

These decreases were offset by:

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

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

Table of Contents**Technical Products**

| <i>In thousands</i> | Three months ended | | | |
|---------------------|--------------------|---------------|------------------|---------------|
| | March 31, 2012 | % of sales | April 2, 2011 | % of sales |
| Operating income | \$ 50,459 | 18.6% | \$ 48,087 | 17.5% |

Percentage point change

1.1 pts

The 1.1 percentage point increase in Technical Products operating income as a percentage of sales in the first quarter of 2012 from 2011 was primarily the result of:

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

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

favorable mix resulting from higher sales in the industrial, energy and infrastructure vertical markets.

These increases were partially offset by:

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

lower sales volume within the communications vertical market.

Net interest expense

| <i>In thousands</i> | Three months ended | | | |
|----------------------|--------------------|------------------|------------|----------|
| | March 31, 2012 | April 2, 2011 | Difference | % change |
| Net interest expense | \$ 14,768 | \$ 9,325 | \$ 5,443 | 58.4% |

The 58.4 percentage point increase in interest expense in the first quarter of 2012 from 2011 was primarily the result of:

the impact of higher debt levels following the May 2011 acquisition of CPT.
These increases were partially offset by:

the interest benefit related to tax adjustments in 2012.
Provision for income taxes

| <i>In thousands</i> | Three months ended | |
|--|---------------------------|--------------------------|
| | March 31, 2012 | April 2, 2011 |
| Income before income taxes and noncontrolling interest | \$ 71,233 | \$ 77,087 |
| Provision for income taxes | 9,079 | 25,053 |
| Effective tax rate | 12.7% | 32.5% |

The 19.8 percentage point decrease in the effective tax rate in the first quarter of 2012 from 2011 was primarily the result of:

the resolution of U.S. federal and state tax audits in 2012, that did not occur in 2011;

the mix of global earnings; and

the favorable benefits related to the May 2011 acquisition of CPT.

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.

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

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

Operating activities

Cash used for operating activities was \$67.5 million in the first three months of 2012 compared to \$48.2 million in the same period of 2011. The increase in cash used by operating activities was due primarily to an increase in working capital and other long-term assets and a decrease in long-term liabilities, partially offset by an increase in net income before noncontrolling interest.

Investing activities

Capital expenditures in the first three months of 2012 were \$15.6 million compared with \$13.3 million in the prior year period. We currently anticipate capital expenditures for fiscal 2012 will be approximately \$75 million to \$85 million, primarily for capacity expansions in our key growth markets, new product development, and replacement equipment.

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

Financing activities

Net cash provided by financing activities was \$90.0 million in the first three months of 2012 compared with \$80.9 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.

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

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

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. We use the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. Our use of commercial paper as a funding vehicle depends upon the relative interest rates for our commercial paper compared to the cost of borrowing under our Credit Facility. As of March 31, 2012, we had \$6.6 million of commercial paper outstanding.

Total availability under our existing Credit Facility was \$435.7 million as of March 31, 2012, which was limited to \$362.2 million by the leverage ratio financial covenant in the credit agreement.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio (total consolidated indebtedness, as defined, over consolidated net income before interest, taxes, depreciation, amortization and non-cash compensation expense, as defined) that may not exceed 3.5 to 1.0 as of the last date of each of our fiscal quarters. We were in compliance with all financial covenants in our debt agreements as of March 31, 2012.

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In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of \$75.3 million, of which \$28.1 million was outstanding at March 31, 2012. Borrowings under these credit facilities bear interest at variable rates. Additionally, as part of the CPT acquisition we assumed certain capital leases with an outstanding balance of \$16.0 million at March 31, 2012.

We have \$105 million of outstanding private placement debt maturing in May 2012. We classified this debt as long-term as of March 31, 2012, as we have the intent and ability to refinance such obligation on a long-term basis under the Credit Facility.

Our cost of and ability to obtain debt financing may be impacted by our credit ratings. Our long-term debt is rated at BBB- by Standard & Poor's (S&P) with stable outlook and Baa3 by Moody's with stable outlook.

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 borrowings and interest rates under our Credit Facility 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.

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.

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 believe 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 2012 were \$22.1 million, or \$0.22 per common share, compared with \$19.8 million, or \$0.20 per common share, in the prior year period. We have increased dividends every year for the last 36 years and expect to continue paying dividends on a quarterly basis.

The total gross liability for uncertain tax positions was \$13.4 million, \$26.5 million and \$24.5 million at March 31, 2012, December 31, 2011, and April 2, 2011, 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.

Table of Contents**Impact of Tyco Flow Control merger**

In connection with the consummation of the Merger, we may refinance some or all of the indebtedness described above, subject to the terms of the merger agreement, which provides that we may not repay, incur or refinance any indebtedness to the extent such action would cause us not to be rated investment grade by any rating agency.

Prior to the Distribution, New Pentair will incur indebtedness in an amount not to exceed \$500 million upon terms negotiated by us. A portion of the proceeds of the indebtedness will be transferred to Tyco. After accounting for the transfer of proceeds to Tyco, the payment of transaction expenses and transfer of excess cash to Tyco, New Pentair will have an additional net indebtedness upon consummation of the Distribution and the Merger of \$275 million.

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 before noncontrolling interest. 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> | Three months ended | |
|--|---------------------------|--------------------------|
| | March 31, 2012 | April 2, 2011 |
| Net cash provided by (used for) operating activities | \$ (67,509) | \$ (48,180) |
| Capital expenditures | (15,621) | (13,268) |
| Proceeds from sale of property and equipment | 1,528 | 42 |
| Free cash flow | \$ (81,602) | \$ (61,406) |

NEW ACCOUNTING STANDARDS

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

CRITICAL ACCOUNTING POLICIES

In our 2011 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 March 31, 2012. For additional information, refer to Item 7A of our 2011 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 March 31, 2012 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarter ended March 31, 2012 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 March 31, 2012 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 2011 Annual Report on Form 10-K.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in ITEM 1A. of our 2011 Annual Report on Form 10-K, except for the addition of the risks factors set forth below.

On March 27, 2012, Pentair, Inc. (Pentair) entered into a definitive agreement to merge with the flow control business (the Tyco Flow Control Business) of Tyco International Ltd. (Tyco) in a tax-free, all-stock merger (the Merger). The Merger is expected to occur immediately after Tyco distributes all of the shares of Tyco Flow Control International Ltd. (Tyco Flow Control), the entity that will hold the Tyco Flow Control Business prior to the distribution, to its shareholders in a tax-free pro rata dividend (the Distribution, and together with the Merger, the Transactions). In connection with the Merger, Tyco Flow Control will be renamed Pentair Ltd. (New Pentair) and a wholly-owned subsidiary of New Pentair will merge with and into Pentair, with Pentair surviving as a wholly-owned subsidiary of New Pentair. Upon completion of the Distribution and the Merger, Pentair shareholders will own approximately 47.5% of New Pentair and Tyco shareholders will own approximately 52.5% of New Pentair. Completion of the Distribution and the Merger is subject to the approval of the Distribution by Tyco shareholders, the approval of the Merger by Pentair shareholders, regulatory approvals and customary closing conditions. The following risk factors relate to risks posed to Pentair shareholders from the proposed Distribution and Merger. Additional risks exist that are related to the ownership of the combined flow control and Pentair businesses following the Distribution and Merger. These risks will be detailed in the documents filed by Pentair, Tyco and Tyco Flow Control with the Securities and Exchange Commission related to the Distribution and the Merger.

The calculation of the consideration payable pursuant to the Merger will not be adjusted based on the performance of Pentair or the Tyco Flow Control Business. Accordingly, the relative market value of the New Pentair common shares that Pentair shareholders receive in the Merger may not reflect the performance of Pentair and the Tyco Flow Control Business.

In the Merger, holders of Pentair common shares will receive one common share of New Pentair for every Pentair common share they own with the result that former Pentair shareholders will own approximately 47.5% of the outstanding New Pentair common shares and Tyco shareholders will own approximately 52.5% of the outstanding New Pentair common shares, measured on a fully-diluted basis after giving effect to the Merger. Tyco shareholders who receive New Pentair common shares in the Distribution will not receive any new shares in the Merger and will continue to hold their existing shares of Tyco and New Pentair. The one-to-one exchange ratio and overall allocation of New Pentair common shares will not be adjusted for changes in the economic performance of the Tyco Flow Control Business and Pentair or the market price of Pentair common shares. If the economic performance of the Tyco Flow Control Business relative to Pentair declines (or the economic performance of Pentair improves relative to the Tyco Flow Control Business) prior to completion of the Merger, Pentair shareholders will not receive any additional compensation or adjustment to account for the effective diminishment in the value of their New Pentair common shares received in the Merger.

New Pentair may not realize the anticipated growth opportunities and cost synergies from the Transactions.

The success of the Transactions will depend, in part, on the ability of New Pentair to realize the anticipated growth opportunities and cost synergies as a result of the Transactions. New Pentair's success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on the successful integration of Pentair and the Tyco Flow Control Business. Even if the Tyco Flow Control Business is able to integrate Pentair and the New Pentair Business successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that Pentair and New Pentair currently expect from this integration or that these benefits will be achieved within the anticipated time frame or at all. For example, New Pentair may not be able to eliminate duplicative costs, or the benefits from the Merger may be offset by costs incurred or delays in integrating Pentair and the Tyco Flow Control Business. While it is anticipated that certain expenses will be incurred, such expenses are difficult to estimate accurately, and may exceed current estimates.

The integration of Pentair and the Tyco Flow Control Business following the Merger may present significant challenges.

There is a significant degree of difficulty and management distraction inherent in the process of establishing New Pentair as an independent public company and integrating the Pentair and the Tyco Flow Control Business. These difficulties include:

the challenge of establishing New Pentair as a separately traded independent public company while integrating Pentair and the Tyco Flow Control Business and carrying on the ongoing operations of each entity;

the necessity of coordinating geographically separate organizations;

the challenge of integrating the business cultures of Pentair and the Tyco Flow Control Business, which may prove to be incompatible;

the challenge and cost of integrating the information technology systems of Pentair and the Tyco Flow Control Business; and

the potential difficulty in retaining key officers and personnel of Pentair and the Tyco Flow Control Business.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of Pentair and the Tyco Flow Control Business. Members of New Pentair senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage the combined company, service existing customers, attract new customers and develop new products or strategies. If senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, Pentair and the Tyco Flow Control Business could suffer. There can be no assurance that New Pentair will successfully or cost-effectively integrate Pentair and the Tyco Flow Control Business. The failure to do so could have a material adverse effect on New Pentair's business, financial condition and results of operations.

Following the Distribution and the Merger, New Pentair's share price may fluctuate significantly.

Pentair, Tyco and New Pentair cannot predict the prices at which New Pentair common shares may trade following the Distribution and the Merger. Such trading prices will be determined by the market and may be influenced by many factors, some of which may be beyond New Pentair's control, including:

New Pentair's business profile and market capitalization may not fit the investment objectives of some Pentair and Tyco shareholders and, as a result, these shareholders may sell New Pentair's shares after the Transactions are completed;

actual or anticipated fluctuations in the operating results of New Pentair due to factors related to New Pentair's business;

success or failure of New Pentair's combined business strategy;

New Pentair's quarterly or annual earnings, or those of other companies in New Pentair's industry;

New Pentair's ability to obtain third-party financing as needed;

announcements by New Pentair or New Pentair's competitors of significant acquisitions or dispositions;

changes in accounting standards, policies, guidance, interpretations or principles;

the failure of securities analysts to cover New Pentair's common shares after the Transactions are completed;

changes in earnings estimates by securities analysts or New Pentair's ability to meet those estimates;

the operating and stock price performance of other comparable companies;

investor perception of New Pentair;

natural or other environmental disasters that investors believe may affect New Pentair;

overall market fluctuations;

results from any material litigation, including asbestos claims, government investigations or environmental liabilities;

changes in laws and regulations affecting New Pentair's business; and

general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of New Pentair common shares. Until an orderly market develops, the trading prices for New Pentair common shares may fluctuate significantly.

Sales of New Pentair common shares after the Merger may negatively affect its market price.

The New Pentair common shares issued in the Transactions to the holders of Pentair common shares will generally be eligible for immediate resale. The market price of New Pentair common shares could decline as a result of sales of a large number of New Pentair common shares in the market after the completion of the Merger or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for New Pentair to obtain additional capital by selling equity securities in the future at a time and at a price that New Pentair deems appropriate.

Immediately after the Merger, Tyco shareholders will own approximately 52.5% of the New Pentair common shares and former Pentair shareholders will own approximately 47.5% of the New Pentair common shares, in each case on a fully-diluted basis. Although Pentair and Tyco have no actual knowledge of any plan or intention on the part of any significant shareholder to sell New Pentair common shares following the Transactions, it is likely that some Tyco shareholders and some Pentair shareholders, including some of their largest shareholders, will sell the New Pentair common shares received in the Transactions, respectively, for various reasons such as New Pentair's business profile or market capitalization not fitting their investment objectives. Currently, Tyco and Pentair shareholders include institutional investors subject to various investing guidelines. Because New Pentair may not meet the investing guidelines of some of these institutional investors following the Merger, these institutional investors may decide to or may be required to sell the New Pentair common shares that they receive as a result of the Transactions. These sales may negatively affect the New Pentair common share price.

Regulatory agencies may delay or impose conditions on approval of the Distribution and the Merger, which may diminish the anticipated benefits of the Transactions.

Completion of the Distribution and the Merger is conditioned upon the receipt of required government consents and approvals, including required approvals from foreign regulatory agencies. While Pentair and Tyco intend to pursue vigorously all required governmental approvals and do not know of any reason why they would not be able to obtain the necessary approvals in a timely manner, the requirement to receive these approvals before the Distribution and the Merger could delay the completion of the Distribution and the Merger, possibly for a significant period of time after Tyco shareholders have approved the Distribution and after Pentair shareholders have approved the Merger. In addition, these governmental agencies may attempt to condition their approval of the Merger on the imposition of conditions that could have a material adverse effect on New Pentair's operating results or the value of New Pentair common shares after the Distribution and Merger are completed. Any delay in the completion of the Distribution and the Merger could diminish anticipated benefits of the Transactions or result in additional

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transaction costs, loss of revenue or other effects associated with uncertainty about the Transactions. Any uncertainty over the ability of Tyco and Pentair to complete the Distribution and the Merger could make it more difficult for Tyco and Pentair to retain key employees or to pursue business strategies. In addition, until the Distribution and the Merger are completed, the attention of Pentair and Tyco management may be diverted from ongoing business concerns and regular business responsibilities to the extent management is focused on matters relating to the Transactions, such as obtaining regulatory approvals.

The pendency of the Merger could potentially adversely affect the business and operations of Pentair and the Tyco Flow Control Business.

In connection with the pending Merger, some customers of Pentair and the Tyco Flow Control Business may delay or defer decisions or may end their relationships with Pentair and the Tyco Flow Control Business, which could negatively affect the revenues, earnings and cash flows of Pentair and the Tyco Flow Control Business, regardless of whether the Merger is completed. Similarly, it is possible that current and prospective employees of Pentair and the Tyco Flow Control Business could experience uncertainty about their future roles with the combined company following the Merger, which could materially adversely affect the ability of each of Pentair and the Tyco Flow Control Business to attract and retain key personnel during the pendency of the Merger.

Failure to complete the Merger could adversely impact the market price of Pentair as well as Pentair's business and operating results.

If the Merger is not completed for any reason, the price of Pentair common shares may decline to the extent that the market price of Pentair common shares reflects positive market assumptions that the Distribution and the Merger will be completed and the related benefits will be realized. Pentair may also be subject to additional risks if the Merger is not completed, including:

depending on the reasons for termination of the Merger Agreement, the requirement that Pentair pay Tyco a termination fee of \$145 million;

substantial costs related to the Merger, such as legal, accounting, filing, financial advisory and financial printing fees, must be paid regardless of whether the Merger is completed; and

potential disruption to Pentair's business and distraction of its workforce and management team.

As a result of the Transactions, current Pentair shareholder's ownership interest in Pentair will be diluted from 100% of Pentair to less than a majority of New Pentair.

Pentair shareholders immediately prior to the Merger will, in the aggregate, own a significantly smaller percentage of New Pentair after the Merger's completion. Following completion of the Merger, Pentair shareholders immediately prior to the Merger collectively will own approximately 47.5% of New Pentair on a fully-diluted basis. Consequently, Pentair shareholders immediately prior to the Merger, collectively, will be able to exercise less influence over the management and policies of New Pentair than they could exercise over the management and policies of Pentair immediately prior to the Merger. The directors of Pentair prior to the Merger will comprise ten of the twelve members of the board of directors of New Pentair following the Merger.

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 2012:

| | (a) | (b) | (c) | (d) |
|--------|--|------------------------------------|--|---|
| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Dollar value of shares that may yet be purchased under the plans or programs |

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| | | | | |
|-------------|-------------------|--------|---------|--------------|
| January 1 | January 28, 2012 | 20,635 | \$34.20 | \$25,000,000 |
| January 29 | February 25, 2012 | 3,657 | \$37.79 | \$25,000,000 |
| February 26 | March 31, 2012 | 68,777 | \$40.83 | \$25,000,000 |

Total 93,069

- (a) The purchases in this column represent 20,635 shares for the period January 1 – January 28, 2012, 3,657 shares for the period January 29 – February 25, 2012 and 68,777 shares for the period February 26 – March 31, 2012 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 2011, the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of \$25 million. This authorization expires in December 2012.

Table of Contents**ITEM 5. OTHER INFORMATION**

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. We adopted this standard as of January 1, 2012, and will present net income and other comprehensive income in two separate statements in our annual financial statements. The table below reflects the retrospective application of this guidance for each of the three years ended December 31st. The retrospective application did not have a material impact on our financial condition or results of operations.

Pentair, Inc and Subsidiaries**Consolidated Statements of Comprehensive Income (Loss)**

| <i>In thousands</i> | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2011 | 2010 | 2009 |
| Net income before noncontrolling interest | \$ 38,521 | \$ 202,321 | \$ 116,200 |
| Other comprehensive income (loss), net of tax | | | |
| Cumulative translation adjustment | (93,706) | (32,706) | 35,528 |
| Change in market value of derivative financial instruments, net of taxes of \$2,884, \$229 and (\$2,323), respectively | 4,375 | 310 | 3,585 |
| Adjustment in retirement liability, net of taxes of (\$26,650), (\$8,159) and \$164, respectively | (41,683) | (12,762) | 256 |
| Other comprehensive (loss) income, net of tax | (131,014) | (45,158) | 39,369 |
| Comprehensive (loss) income | (92,493) | 157,163 | 155,569 |
| Less: Comprehensive income (loss) attributable to noncontrolling interest | 2,184 | 2,274 | (7,136) |
| Comprehensive (loss) income attributable to Pentair, Inc. | \$ (94,677) | \$ 154,889 | \$ 162,705 |

The following will be added to the Condensed Consolidated Statements of Income (Loss) included in the financial statements of Subsidiary Guarantors Note to our annual financial statements:

Pentair, Inc. and Subsidiaries**Consolidated Statements of Comprehensive Income (Loss)****Year Ended***(in thousands)*

| December 31, 2011 | Parent company | Guarantor subsidiaries | Non-guarantor subsidiaries | Eliminations | Consolidated |
|--|----------------|------------------------|----------------------------|--------------|--------------|
| Comprehensive (loss) income | \$ (94,677) | \$ 57,225 | \$ (141,403) | \$ 86,362 | \$ (92,493) |
| Less: Comprehensive income attributable to noncontrolling interest | | | 2,184 | | 2,184 |

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| | | | | | |
|--|-------------|-----------|--------------|-----------|-------------|
| Comprehensive (loss) income attributable to Pentair, Inc. | \$ (94,677) | \$ 57,225 | \$ (143,587) | \$ 86,362 | \$ (94,677) |
|--|-------------|-----------|--------------|-----------|-------------|

December 31, 2010

| | | | | | |
|--|-------------------|------------------|------------------|---------------------|-------------------|
| Comprehensive income (loss) | \$ 154,889 | \$ 66,662 | \$ 60,202 | \$ (124,590) | \$ 157,163 |
| Less: Comprehensive income attributable to noncontrolling interest | | | 2,274 | | 2,274 |

| | | | | | |
|--|-------------------|------------------|------------------|---------------------|-------------------|
| Comprehensive income (loss) attributable to Pentair, Inc. | \$ 154,889 | \$ 66,662 | \$ 57,928 | \$ (124,590) | \$ 154,889 |
|--|-------------------|------------------|------------------|---------------------|-------------------|

December 31, 2009

| | | | | | |
|--|-------------------|------------------|------------------|--------------------|-------------------|
| Comprehensive income (loss) | \$ 162,705 | \$ 12,384 | \$ 68,317 | \$ (87,837) | \$ 155,569 |
| Less: Comprehensive loss attributable to noncontrolling interest | | | (7,136) | | (7,136) |

| | | | | | |
|--|-------------------|------------------|------------------|--------------------|-------------------|
| Comprehensive income (loss) attributable to Pentair, Inc. | \$ 162,705 | \$ 12,384 | \$ 75,453 | \$ (87,837) | \$ 162,705 |
|--|-------------------|------------------|------------------|--------------------|-------------------|

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ITEM 6. Exhibits

(a) Exhibits

- 2.1** Merger Agreement, dated as of March 27, 2012, among Tyco International Ltd., Tyco Flow Control International Ltd., Panthro Acquisition Co., Panthro Merger Sub, Inc. and Pentair, Inc. (Incorporated by reference to Exhibit 2.1 contained in Pentair's Current Report on Form 8-K dated March 30, 2012).
- 2.2** Separation and Distribution Agreement, dated as of March 27, 2012, by and among Tyco International Ltd., Tyco Flow Control International Ltd. and The ADT Corporation. (Incorporated by reference to Exhibit 2.2 contained in Pentair's Current Report on Form 8-K dated March 30, 2012).
- 4.1** Amendment No. 1, dated as of March 27, 2012, to the Rights Agreement, dated December 10, 2004, between Pentair, Inc. and Wells Fargo Bank, N.A. (Incorporated by reference to Exhibit 4.1 contained in Pentair's Current Report on Form 8-K dated March 30, 2012).
- 10.1** Form of Letter regarding RSU Grants and Waiver of Certain KEESA Rights, between Pentair, Inc. and certain executives of Pentair, Inc., dated March 27, 2012 (Incorporated by reference to Exhibit 10.1 contained in Pentair's Current Report on Form 8-K dated March 30, 2012).
- 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 March 31, 2012 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2012 and April 2, 2011, (ii) the Condensed Consolidated Balance Sheets as of March 31, 2012, December 31, 2011 and April 2, 2011, (iii) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and April 2, 2011, (iv) the Condensed Consolidated Statements of Changes in Shareholders Equity for the three months ended March 31, 2012 and April 2, 2011, and (v) Notes to Condensed Consolidated Financial Statements.

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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 24, 2012.

PENTAIR, INC.
Registrant

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

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

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Exhibit Index to Form 10-Q for the Period Ended March 31, 2012

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