PENTAIR INC
Form 10-Q
October 26, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 1, 2011

OR

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

Commission file number 000-04689

Pentair, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota	**41-0907434**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification number)**
5500 Wayzata Blvd, Suite 800, Golden Valley, Minnesota	**55416**
(Address of principal executive offices)	**(Zip code)**

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

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

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

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

On October 1, 2011, 98,566,023 shares of Registrant s common stock were outstanding.

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Pentair, Inc. and Subsidiaries

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

In thousands, except per-share data	Three months ended October 1, 2011	Three months ended October 2, 2010	Nine months ended October 1, 2011	Nine months ended October 2, 2010
Net sales	$ 890,546	$ 773,735	$ 2,590,994	$ 2,276,915
Cost of goods sold	618,484	537,193	1,782,137	1,578,503
Gross profit	272,062	236,542	808,857	698,412
Selling, general and administrative	159,068	128,854	462,260	392,787
Research and development	20,091	16,865	58,095	51,075
Operating income	92,903	90,823	288,502	254,550
Other (income) expense:				
Equity income of unconsolidated subsidiaries	(574)	(347)	(1,481)	(1,806)
Net interest expense	17,373	8,953	41,311	27,049
Income from continuing operations before income taxes and noncontrolling interest	76,104	82,217	248,672	229,307
Provision for income taxes	24,050	26,488	76,447	75,937
Income from continuing operations	52,054	55,729	172,225	153,370
Gain on disposal of discontinued operations, net of tax		549		1,666
Net income before noncontrolling interest	52,054	56,278	172,225	155,036
Noncontrolling interest	962	1,228	3,880	3,584
Net income attributable to Pentair, Inc.	$ 51,092	$ 55,050	$ 168,345	$ 151,452
Net income from continuing operations attributable to Pentair, Inc.	$ 51,092	$ 54,501	$ 168,345	$ 149,786
Earnings per common share attributable to Pentair, Inc.				
Basic				
Continuing operations	$ 0.52	$ 0.55	$ 1.71	$ 1.53
Discontinued operations		0.01		0.01
Basic earnings per common share	$ 0.52	$ 0.56	$ 1.71	$ 1.54
Diluted				
Continuing operations	$ 0.51	$ 0.55	$ 1.69	$ 1.51
Discontinued operations				0.01
Diluted earnings per common share	$ 0.51	$ 0.55	$ 1.69	$ 1.52
Weighted average common shares outstanding				
Basic	98,472	98,298	98,228	98,105

Diluted		99,802		99,514		99,759		99,326
Cash dividends declared per common share	$	0.20	$	0.19	$	0.60	$	0.57

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

In thousands, except share and per-share data	October 1, 2011	December 31, 2010	October 2, 2010
Assets			
Current assets			
Cash and cash equivalents	$ 52,665	$ 46,056	$ 56,995
Accounts and notes receivable, net	556,688	516,905	490,221
Inventories	459,916	405,356	410,072
Deferred tax assets	61,411	56,349	50,991
Prepaid expenses and other current assets	147,568	44,631	48,555
Total current assets	1,278,248	1,069,297	1,056,834
Property, plant and equipment, net	394,922	329,435	327,602
Other assets			
Goodwill	2,516,692	2,066,044	2,070,911
Intangibles, net	619,262	453,570	461,378
Other	73,319	55,187	56,033
Total other assets	3,209,273	2,574,801	2,588,322
Total assets	$ 4,882,443	$ 3,973,533	$ 3,972,758
Liabilities and Shareholders Equity			
Current liabilities			
Short-term borrowings	$ 29,705	$ 4,933	$ 4,180
Current maturities of long-term debt	1,194	18	37
Accounts payable	281,448	262,357	266,416
Employee compensation and benefits	117,538	107,995	100,626
Current pension and post-retirement benefits	8,733	8,733	8,948
Accrued product claims and warranties	43,920	42,295	40,783
Income taxes	26,283	5,964	22,202
Accrued rebates and sales incentives	45,231	33,559	39,066
Other current liabilities	163,550	80,942	90,286
Total current liabilities	717,602	546,796	572,544
Other liabilities			
Long-term debt	1,317,454	702,521	673,265
Pension and other retirement compensation	190,221	209,859	219,463
Post-retirement medical and other benefits	26,933	30,325	28,506
Long-term income taxes payable	23,891	23,507	23,857
Deferred tax liabilities	228,737	169,198	147,772
Other non-current liabilities	79,489	86,295	93,681
Total liabilities	2,584,327	1,768,501	1,759,088
Commitments and contingencies			
Shareholders equity			
Common shares par value $0.16 2/3; 98,566,023, 98,409,192 and 98,960,604 shares issued and outstanding, respectively	16,427	16,401	16,493

Additional paid-in capital	481,028	474,489	489,028
Retained earnings	1,733,281	1,624,605	1,597,110
Accumulated other comprehensive loss	(48,039)	(22,342)	(4,955)
Noncontrolling interest	115,419	111,879	115,994
Total shareholders equity	2,298,116	2,205,032	2,213,670
Total liabilities and shareholders equity	$ 4,882,443	$ 3,973,533	$ 3,972,758

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

In thousands	Nine months ended October 1, 2011	Nine months ended October 2, 2010
Operating activities		
Net income before noncontrolling interest	$ 172,225	$ 155,036
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Gain on disposal of discontinued operations		(1,666)
Equity income of unconsolidated subsidiaries	(1,481)	(1,806)
Depreciation	49,079	43,141
Amortization	29,807	19,742
Deferred income taxes	4,445	4,866
Stock compensation	14,695	16,598
Excess tax benefits from stock-based compensation	(3,137)	(2,193)
Loss on sale of assets	702	166
Changes in assets and liabilities, net of effects of business acquisitions and dispositions		
Accounts and notes receivable	22,657	(36,216)
Inventories	15,633	(49,822)
Prepaid expenses and other current assets	(26,380)	(1,476)
Accounts payable	(45,759)	60,162
Employee compensation and benefits	(12,334)	21,600
Accrued product claims and warranties	115	6,556
Income taxes	18,045	18,013
Other current liabilities	46,924	15,493
Pension and post-retirement benefits	(23,636)	(15,197)
Other assets and liabilities	(21,041)	(3,754)
Net cash provided by (used for) operating activities	240,559	249,243
Investing activities		
Capital expenditures	(53,063)	(42,981)
Proceeds from sale of property and equipment	139	340
Acquisitions, net of cash acquired	(733,105)	
Other	(441)	(1,232)
Net cash provided by (used for) investing activities	(786,470)	(43,873)
Financing activities		
Net short-term borrowings	24,772	1,975
Proceeds from long-term debt	1,370,423	493,821
Repayment of long-term debt	(771,793)	(624,007)
Debt issuance costs	(8,973)	(50)
Excess tax benefits from stock-based compensation	3,137	2,193
Stock issued to employees, net of shares withheld	11,788	7,861
Repurchases of common stock	(12,785)	(2,786)
Dividends paid	(59,669)	(56,584)
Net cash provided by (used for) financing activities	556,900	(177,577)
Effect of exchange rate changes on cash and cash equivalents	(4,380)	(4,194)
Change in cash and cash equivalents	6,609	23,599
Cash and cash equivalents, beginning of period	46,056	33,396

Cash and cash equivalents, end of period	$ 52,665	$ 56,995

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc.

Condensed Consolidated Statements of Changes in Shareholders Equity (Unaudited)

In thousands, except share and per-share data	Common shares Number	Common shares Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair, Inc.	Noncontrolling interest	Total	Comprehensive income attributable to Pentair, Inc.
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				168,345		168,345	3,880	172,225	$ 168,345
Change in cumulative translation adjustment					(29,263)	(29,263)	(340)	(29,603)	(29,263)
Changes in market value of derivative financial instruments, net of $2,303 tax					3,566	3,566		3,566	3,566
Comprehensive income									$ 142,648
Cash dividends - $0.60 per common share				(59,669)		(59,669)		(59,669)	
Share repurchase	(397,126)	(66)	(12,719)			(12,785)		(12,785)	
Exercise of stock options, net of 181,648 shares tendered for payment	601,207	100	13,091			13,191		13,191	
Issuance of restricted shares, net of cancellations	27,532	5	1,417			1,422		1,422	
Amortization of restricted shares			743			743		743	
Shares surrendered by employees to pay taxes	(74,782)	(13)	(2,752)			(2,765)		(2,765)	
Stock compensation			6,759			6,759		6,759	
Balance - October 1, 2011	98,566,023	$ 16,427	$ 481,028	$ 1,733,281	$ (48,039)	$ 2,182,697	$ 115,419	$ 2,298,116	

In thousands, except share and per-share data	Common shares Number	Common shares Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair, Inc.	Noncontrolling interest	Total	Comprehensive income (loss) attributable to Pentair, Inc.
Balance - December 31, 2009	98,655,506	$ 16,442	$ 472,807	$ 1,502,242	$ 20,597	$ 2,012,088	$ 114,252	$ 2,126,340	
Net income				151,452		151,452	3,584	155,036	$ 151,452
Change in cumulative translation adjustment					(24,185)	(24,185)	(1,842)	(26,027)	(24,185)
Changes in market value of derivative financial instruments, net of ($851) tax					(1,367)	(1,367)		(1,367)	(1,367)
Comprehensive income (loss)									$ 125,900
Cash dividends - $0.57 per common share				(56,584)		(56,584)		(56,584)	

Share repurchases	(84,500)	(14)	(2,772)			(2,786)		(2,786)
Exercise of stock options, net of 27,177 shares tendered for payment	535,767	89	11,811			11,900		11,900
Issuance of restricted shares, net of cancellations	(7,689)	(1)	625			624		624
Amortization of restricted shares			2,878			2,878		2,878
Shares surrendered by employees to pay taxes	(138,480)	(23)	(4,639)			(4,662)		(4,662)
Stock compensation			8,318			8,318		8,318
Balance - October 2, 2010	98,960,604	$ 16,493	$ 489,028	$ 1,597,110	$ (4,955)	$ 2,097,676	$ 115,994	$ 2,213,670

See accompanying notes to condensed consolidated financial statements

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

1. Basis of Presentation and Responsibility for Interim Financial Statements

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

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto for the year ended December 31, 2010, which are included in our Current Report on Form 8-K dated May 2, 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 nine months ended October 1, 2011, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing.

2. New Accounting Standards

In June 2011, the Financial Accounting Standards Board (FASB) amended its guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

There were no other new accounting pronouncements issued or effective during the nine months ended of 2011 that have had or are expected to have a material impact on the Condensed Consolidated Financial Statements.

3. Stock-based Compensation

Total stock-based compensation expense was $4.2 million for each of the three months ended October 1, 2011 and October 2, 2010, and was $14.7 million and $16.6 million for the nine months ended October 1, 2011 and October 2, 2010, respectively.

During the first nine months of 2011, restricted shares and restricted stock units of our common stock were granted under the 2008 Omnibus Stock Incentive Plan to eligible employees with a vesting period of three to four years after issuance. Restricted share awards and restricted stock units are valued at market value on the date of grant and are typically expensed over the vesting period. Total compensation expense for restricted share awards and restricted stock units was $2.2 million and $1.8 million for the three months ended October 1, 2011 and October 2, 2010, respectively, and was $8.0 million and $8.3 million for the nine months ended October 1, 2011 and October 2, 2010, respectively.

During the first nine months of 2011, option awards were granted under the 2008 Omnibus Stock Incentive Plan with an exercise price equal to the market price of our common stock on the date of grant. Option awards are typically expensed over the vesting period. Total compensation expense for stock option awards was $2.0 million and $2.4 million for the three months ended October 1, 2011 and October 2, 2010, respectively, and $6.7 million and $8.3 million for the nine months ended October 1, 2011 and October 2, 2010, respectively.

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

	October 1, 2011	October 2, 2010
Expected stock price volatility	35.5%	35.0%
Expected life	5.5yrs	5.5yrs
Risk-free interest rate	1.84%	1.54%
Dividend yield	2.06%	2.33%

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

The weighted-average fair value of options granted during the third quarter of 2011 and 2010 were $10.00 and $8.74 per share, respectively.

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

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

4. Earnings Per Common Share

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

	Three months ended		Nine months ended	
In thousands	**October 1, 2011**	**October 2, 2010**	**October 1, 2011**	**October 2, 2010**
Weighted average common shares outstanding basic	98,472	98,298	98,228	98,105
Dilutive impact of stock options and restricted stock	1,330	1,216	1,531	1,221
Weighted average common shares outstanding diluted	99,802	99,514	99,759	99,326
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	3,078	4,088	2,143	3,761

5. Restructuring

Restructuring accrual activity recorded on the Condensed Consolidated Balance Sheets is summarized as follows for the nine months ended October 1, 2011 and October 2, 2010 and year ended December 31, 2010:

In thousands	**October 1, 2011**	**December 31, 2010**	**October 2, 2010**
Beginning balance	$ 3,994	$ 14,509	$ 14,509
Cash payments and other	(1,274)	(10,515)	(7,524)
Ending balance	$ 2,720	$ 3,994	$ 6,985

6. Acquisitions

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

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

Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

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.

The CPT business records certain long term contracts under the percentage-of-completion method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. We record costs and earnings in excess of billings on uncompleted contracts within P*repaid expenses and other current assets* and billings in excess of costs and earnings on uncompleted contracts within *Other current liabilities* in the Condensed Consolidated Balance Sheets. Amounts included in P*repaid expenses and other current assets* related to these contracts were $55.6 million at October 1, 2011. Amounts included in O*ther current liabilities* related to these contracts were $16.9 million at October 1, 2011.

The total purchase price has been allocated to the estimated fair values of assets acquired and liabilities assumed as follows:

(in thousands)	
Accounts and notes receivable	$ 70,038
Inventories	60,382
Deferred tax assets	4,926
Prepaid expenses and other current assets	40,252
Property, plant and equipment	69,010
Goodwill	451,809
Intangibles	197,231
Accounts payable	(41,061)
Income taxes	(3,937)
Other current liabilities	(59,229)
Long-term debt	(17,041)
Deferred tax liabilities	(57,069)
Purchase Price	$ 715,311

CPT s net sales and loss from continuing operations for the period from the acquisition date to October 1, 2011 were $142.2 million and $2.9 million, respectively, and include $11.1 million of non-recurring expenses for acquisition date fair value adjustments related to inventory and customer backlog.

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 each period presented:

	Three months ended		**Nine months ended**	
In thousands, except share and per-share data	**October 1, 2011**	**October 2, 2010**	**October 1, 2011**	**October 2, 2010**
Pro forma net sales	$ 890,546	$ 838,968	$ 2,712,770	$ 2,485,913
Pro forma income from continuing operations	56,287	48,404	181,366	133,122
Gain on disposal of discontinued operations, net of tax		549		1,666
Pro forma net income from continuing operations attributable to Pentair, Inc.	55,325	47,176	177,486	129,528
Pro forma earnings per common share - continuing operations				
Basic	$ 0.56	$ 0.48	$ 1.81	$ 1.32

Diluted	$ 0.55	$ 0.47	$ 1.78	$ 1.30
Weighted average common shares outstanding				
Basic	98,472	98,298	98,228	98,105
Diluted	99,802	99,514	99,759	99,326

The 2010 unaudited pro forma net income was adjusted to include the impact of approximately $7.4 million and $12.9 million for the three and nine months ended October 2, 2010, respectively, in non-recurring items related to acquisition date fair value adjustments to inventory and customer backlog. The 2011 unaudited pro forma net income was adjusted to exclude the impact of these items.

Acquisition-related transaction costs of approximately $7.8 million associated with the CPT acquisition were excluded from the pro forma net income in each of the 2011 and 2010 periods presented.

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.

Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

On January 31, 2011 we acquired as part of our Water Group all of the outstanding shares of capital stock of Hidro Filtros do Brasil (Hidro Filtros) for 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 deemed to be not material.

Additionally, during the first nine months of 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 our Water Group. 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 deemed to be not material.

Total transaction costs related to acquisition activities for the nine months ended October 1, 2011 were $7.8 million, which were expensed as incurred and recorded in *Selling, general and administrative* in our Condensed Consolidated Statements of Income.

7. Inventories

Inventories were comprised of:

In thousands	**October 1, 2011**	**December 31, 2010**	**October 2, 2010**
Raw materials and supplies	$ 236,159	$ 223,482	$ 222,964
Work-in-process	49,393	37,748	42,780
Finished goods	174,364	144,126	144,328
Total inventories	$ 459,916	$ 405,356	$ 410,072

8. Goodwill and Other Identifiable Intangible Assets

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

In thousands	**December 31, 2010**	**Acquisitions/ Divestitures**	**Foreign Currency Translation/Other**	**October 1, 2011**
Water Group	$ 1,784,100	$ 466,182	$ (15,961)	$ 2,234,321
Technical Products Group	281,944		427	282,371
Consolidated Total	$ 2,066,044	$ 466,182	$ (15,534)	$ 2,516,692

In thousands	**December 31, 2009**	**Acquisitions/ Divestitures**	**Foreign Currency Translation/Other**	**October 2, 2010**
Water Group	$ 1,802,913	$	$ (14,754)	$ 1,788,159
Technical Products Group	285,884		(3,132)	282,752

Consolidated Total	$	2,088,797	$		$	(17,886)	$	2,070,911

Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

The detail of acquired intangible assets consisted of the following:

In thousands	October 1, 2011 Gross carrying amount	October 1, 2011 Accumulated amortization	October 1, 2011 Net	December 31, 2010 Gross carrying amount	December 31, 2010 Accumulated amortization	December 31, 2010 Net	October 2, 2010 Gross carrying amount	October 2, 2010 Accumulated amortization	October 2, 2010 Net
Finite-life intangibles									
Patents	$ 5,893	$ (3,908)	$ 1,985	$ 15,469	$ (12,695)	$ 2,774	$ 15,462	$ (12,400)	$ 3,062
Proprietary technology	131,972	(37,094)	94,878	74,176	(29,862)	44,314	74,102	(28,306)	45,796
Customer relationships	366,540	(102,919)	263,621	282,479	(82,901)	199,578	283,313	(78,461)	204,852
Trade names	1,537	(500)	1,037	1,532	(383)	1,149	1,538	(345)	1,193
Total finite-life intangibles	$ 505,942	$ (144,421)	$ 361,521	$ 373,656	$ (125,841)	$ 247,815	$ 374,415	$ (119,512)	$ 254,903
Indefinite-life intangibles									
Trade names	257,741		257,741	205,755		205,755	206,475		206,475
Total intangibles, net	$ 763,683	$ (144,421)	$ 619,262	$ 579,411	$ (125,841)	$ 453,570	$ 580,890	$ (119,512)	$ 461,378

Intangible asset amortization expense was approximately $12.6 million and $6.3 million for the three months ended October 1, 2011 and October 2, 2010, respectively, and was approximately $29.8 million and $18.1 million for the nine months ended October 1, 2011 and October 2, 2010, respectively.

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

In thousands	2011 Q4	2012	2013	2014	2015	2016
Estimated amortization expense	$ 12,183	$ 39,853	$ 39,688	$ 39,314	$ 39,032	$ 38,050

9. Debt

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

In thousands	Average interest rate October 1, 2011	Maturity (Year)	October 1, 2011	December 31, 2010	October 2, 2010
Revolving credit facilities - USD	1.98%	2016	$ 127,600	$ 97,500	$ 68,200
Revolving credit facilities - EUR	2.94%	2016	54,385		
Private placement - fixed rate	5.65%	2013-2017	400,000	400,000	400,000
Private placement - floating rate	0.82%	2012-2013	205,000	205,000	205,000

Public - fixed rate	5.00%	2021	500,000		
Other	3.58%	2011-2016	61,368	4,972	4,282
Total debt, including current portion			1,348,353	707,472	677,482
Less: Current maturities			(1,194)	(18)	(37)
Short-term borrowings			(29,705)	(4,933)	(4,180)
Long-term debt			$ 1,317,454	$ 702,521	$ 673,265

The fair value of total debt excluding the deferred gain on interest rate swaps was $1,400.1 million, $745.9 million and $712.4 million as of October 1, 2011, December 31, 2010 and October 2, 2010, respectively.

On May 9, 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.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

On April 28, 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 $518.0 million as of October 1, 2011, which was not limited by any of the credit agreement s financial covenants as of that date.

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 3.75 to 1.0 as of October 1, 2011 and 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 October 1, 2011.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $76.0 million, of which $40.0 million was outstanding at October 1, 2011. 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 $18.1 million at October 1, 2011.

We have $105 million of outstanding private placement debt maturing in May 2012. We classified this debt as long-term as of October 1, 2011 as we have the intent and ability to refinance such obligation on a long-term basis under the Credit Facility.

Debt outstanding at October 1, 2011 matures on a calendar year basis as follows:

In thousands	**2011 Q4**	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Contractual debt obligation maturities	$ 29,016	$ 2,344	$ 201,838	$ 1,354	$ 1,192	$ 300,774	$ 811,835	$ 1,348,353

10. Derivatives and Financial Instruments

Fair value measurements

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

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

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

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

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

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 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 $7.6 million, $9.4 million and $7.6 million at October 1, 2011, December 31, 2010 and October 2, 2010, respectively, and was recorded in *Other non-current liabilities* on the Condensed Consolidated Balance Sheets.

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 $2.9 million, $6.4 million and $11.0 million at October 1, 2011, December 31, 2010 and October 2, 2010, respectively, and was recorded in *Other non-current liabilities* on the Condensed Consolidated Balance Sheets.

The variable to fixed interest rate swaps are designated as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Condensed Consolidated Balance Sheets. Unrealized income/expense is included in *Accumulated other comprehensive income* (OCI) and realized income/expense and amounts due to/from swap counterparties are recorded in *Net interest expense* in our Condensed Consolidated Statements of Income. We realized incremental expense resulting from the swaps of $7.0 million and $6.9 million for the nine months ended October 1, 2011 and October 2, 2010, respectively.

The variable to fixed interest rate swaps are designated as and are effective as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Condensed Consolidated Balance Sheets, with changes in their fair value included in OCI. Derivative gains and losses included in OCI are reclassified into earnings at the time the related interest expense is recognized or the settlement of the related commitment occurs.

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

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 $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 exposure over the life of the Notes.

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.

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 the planned CPT acquisition. The contract had a notional amount of 286.0 million, a strike price of 1.4375 and a maturity date of May 13, 2011.

Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

In May 2011, we sold the foreign currency option contract for $1.0 million. The net cost of $2.1 million is recorded in *Selling, general and administrative* on the Condensed Consolidated Statements on Income.

Fair value of financial information

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

In thousands	Fair Value October 1, 2011	(Level 1)	(Level 2)	(Level 3)
Cash-flow hedges	$ 10,504	$	$ 10,504	$
Deferred compensation plan (1)	21,684	21,684		

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

In thousands	Fair Value October 2, 2010	(Level 1)	(Level 2)	(Level 3)
Cash-flow hedges	$ 18,535	$	$ 18,535	$
Deferred compensation plan (1)	22,699	22,699		

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

11. Income Taxes

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

The effective income tax rate for the nine months ended October 1, 2011 was 30.7% compared to 33.1% for the nine months ended October 2, 2010. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

The total gross liability for uncertain tax positions was $24.6 million, $24.3 million and $24.6 million at October 1, 2011,

December 31, 2010 and October 2, 2010, respectively. We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, on the Condensed Consolidated Statements of Income, which is consistent with our past practices.

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

12. Benefit Plans

Components of net periodic benefit cost were as follows:

	Three months ended			
	Pension benefits		Post-retirement	
In thousands	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Service cost	$ 3,131	$ 2,886	$ 45	$ 50
Interest cost	8,225	7,887	472	503
Expected return on plan assets	(7,963)	(7,710)		
Amortization of transition obligation		6		
Amortization of prior year service cost (benefit)		8	(7)	(7)
Recognized net actuarial loss (gains)	971	406	(826)	(823)
Net periodic benefit cost (income)	$ 4,364	$ 3,483	$ (316)	$ (277)

	Nine months ended			
	Pension benefits		Post-retirement	
In thousands	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Service cost	$ 9,392	$ 8,658	$ 135	$ 150
Interest cost	24,675	23,661	1,416	1,509
Expected return on plan assets	(23,890)	(23,130)		
Amortization of transition obligation		18		
Amortization of prior year service cost (benefit)		24	(21)	(21)
Recognized net actuarial loss (gains)	2,914	1,218	(2,479)	(2,469)
Net periodic benefit cost (income)	$ 13,091	$ 10,449	$ (949)	$ (831)

13. Business Segments

Financial information by reportable segment is shown below:

	Three months ended		Nine months ended	
In thousands	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net sales to external customers				
Water Group	$ 614,557	$ 512,587	$ 1,761,919	$ 1,539,943
Technical Products Group	275,989	261,148	829,075	736,972
Consolidated	$ 890,546	$ 773,735	$ 2,590,994	$ 2,276,915

Intersegment sales				
Water Group	$ 426	$ 442	$ 1,197	$ 1,386
Technical Products Group	1,755	1,154	4,313	2,904
Other	(2,181)	(1,596)	(5,510)	(4,290)
Consolidated	$	$	$	$
Operating income (loss)				
Water Group	$ 59,608	$ 58,457	$ 200,657	$ 176,549
Technical Products Group	48,611	42,605	144,959	113,693
Other	(15,316)	(10,239)	(57,114)	(35,692)
Consolidated	$ 92,903	$ 90,823	$ 288,502	$ 254,550

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

In thousands	October 1, 2011	December 31, 2010	October 2, 2010
		Identifiable assets (1)	
Water Group	$ 4,767,632	$ 3,409,556	$ 3,370,351
Technical Products Group	743,021	728,969	761,225
Other (1)	(628,210)	(164,992)	(158,818)
Consolidated	$ 4,882,443	$ 3,973,533	$ 3,972,758

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

14. Warranty

The changes in the carrying amount of service and product warranties as were as follows:

In thousands	October 1, 2011	December 31, 2010	October 2, 2010
Balance at beginning of the year	$ 30,050	$ 24,288	$ 24,288
Service and product warranty provision	38,892	56,553	46,401
Payments	(40,611)	(50,729)	(39,843)
Acquired	3,551		
Translation	(197)	(62)	(63)
Balance at end of the period	$ 31,685	$ 30,050	$ 30,783

15. Commitments and Contingencies

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

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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, 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 (Unaudited)

For the three months ended October 1, 2011

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 549,306	$ 416,131	$ (74,891)	$ 890,546
Cost of goods sold		383,206	310,011	(74,733)	618,484
Gross profit		166,100	106,120	(158)	272,062
Selling, general and administrative	2,671	81,150	75,405	(158)	159,068
Research and development	218	10,093	9,780		20,091
Operating (loss) income	(2,889)	74,857	20,935		92,903
Earnings from investment in subsidiaries	(35,644)	1,686	(718)	34,676	
Other (income) expense:					
Equity income of unconsolidated subsidiaries	(512)		(62)		(574)
Net interest (income) expense	(26,822)	37,676	6,519		17,373
Income (loss) from continuing operations before income taxes and noncontrolling interest	60,089	35,495	15,196	(34,676)	76,104
Provision for income taxes	8,997	13,150	1,903		24,050
Income from continuing operations	51,092	22,345	13,293	(34,676)	52,054
Net income before noncontrolling interest	51,092	22,345	13,293	(34,676)	52,054
Noncontrolling interest			962		962
Net income attributable to Pentair, Inc.	$ 51,092	$ 22,345	$ 12,331	$ (34,676)	$ 51,092
Net income from continuing operations attributable to Pentair, Inc.	$ 51,092	$ 22,345	$ 12,331	$ (34,676)	$ 51,092

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the nine months ended October 1, 2011

In thousands	**Parent Company**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Net sales	$	$ 1,650,755	$ 1,156,342	$ (216,103)	$ 2,590,994
Cost of goods sold		1,138,037	859,570	(215,470)	1,782,137
Gross profit		512,718	296,772	(633)	808,857
Selling, general and administrative	15,942	249,902	197,049	(633)	462,260
Research and development	823	31,448	25,824		58,095
Operating (loss) income	(16,765)	231,368	73,899		288,502
Earnings from investment in subsidiaries	(126,938)	1,686	(718)	125,970	
Other (income) expense:					
Equity income of unconsolidated subsidiaries	(1,295)		(186)		(1,481)
Net interest (income) expense	(80,838)	114,269	7,880		41,311
Income (loss) from continuing operations before income taxes and noncontrolling interest	192,306	115,413	66,923	(125,970)	248,672
Provision for income taxes	23,961	39,932	12,554		76,447
Income from continuing operations	168,345	75,481	54,369	(125,970)	172,225
Net income before noncontrolling interest	168,345	75,481	54,369	(125,970)	172,225
Noncontrolling interest			3,880		3,880
Net income attributable to Pentair, Inc.	$ 168,345	$ 75,481	$ 50,489	$ (125,970)	$ 168,345
Net income from continuing operations attributable to Pentair, Inc.	$ 168,345	$ 75,481	$ 50,489	$ (125,970)	$ 168,345

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

October 1, 2011

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 4,816	$ 5,010	$ 42,839	$	$ 52,665
Accounts and notes receivable, net	366	298,043	344,320	(86,041)	556,688
Inventories		201,372	258,544		459,916
Deferred tax assets	112,022	40,565	13,877	(105,053)	61,411
Prepaid expenses and other current assets	17,095	21,762	145,412	(36,701)	147,568
Total current assets	134,299	566,752	804,992	(227,795)	1,278,248
Property, plant and equipment, net	19,520	109,876	265,526		394,922
Other assets					
Investments in/advances to subsidiaries	2,834,569	563,756	649,722	(4,048,047)	
Goodwill		1,471,582	1,045,110		2,516,692
Intangibles, net		214,406	404,856		619,262
Other	69,916	5,452	23,000	(25,049)	73,319
Total other assets	2,904,485	2,255,196	2,122,688	(4,073,096)	3,209,273
Total assets	$ 3,058,304	$ 2,931,824	$ 3,193,206	$ (4,300,891)	$ 4,882,443
Liabilities and Shareholders Equity					
Current liabilities					
Short-term borrowings	$	$	$ 29,705	$	$ 29,705
Current maturities of long-term debt	2,719	(2)	26,865	(28,388)	1,194
Accounts payable	4,669	152,721	210,316	(86,258)	281,448
Employee compensation and benefits	39,319	25,149	53,070		117,538
Current pension and post-retirement benefits	8,733				8,733
Accrued product claims and warranties	12,235	20,431	11,254		43,920
Income taxes	26,011	1,531	(1,259)		26,283
Accrued rebates and sales incentives		33,855	11,376		45,231
Other current liabilities	25,831	42,854	131,604	(36,739)	163,550
Total current liabilities	119,517	276,539	472,931	(151,385)	717,602
Other liabilities					
Long-term debt	1,232,600	2,417,895	941,979	(3,275,020)	1,317,454
Pension and other retirement compensation	121,148	(7,107)	76,180		190,221
Post-retirement medical and other benefits	17,332	34,651		(25,050)	26,933
Long-term income taxes payable	23,891				23,891
Deferred tax liabilities	(79)	213,201	120,668	(105,053)	228,737

Due to/ (from) affiliates	(678,340)	(283,366)	896,497	65,209	
Other non-current liabilities	39,537	1,604	38,348		79,489
Total liabilities	875,606	2,653,417	2,546,603	(3,491,299)	2,584,327
Noncontrolling interest			115,419		115,419
Shareholders equity attributable to Pentair, Inc.	2,182,698	278,407	531,184	(809,592)	2,182,697
Total liabilities and shareholders equity	$ 3,058,304	$ 2,931,824	$ 3,193,206	$ (4,300,891)	$ 4,882,443

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended October 1, 2011

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities					
Net income before noncontrolling interest	$ 168,345	$ 75,481	$ 54,369	$ (125,970)	$ 172,225
Adjustments to reconcile net income to net cash provided by (used for) operating activities					
Equity income of unconsolidated subsidiaries	(1,295)		(186)		(1,481)
Depreciation	4,232	20,780	24,067		49,079
Amortization		11,494	18,313		29,807
Earnings from investments in subsidiaries	(126,938)	1,686	(718)	125,970	
Deferred income taxes	6,890	(536)	(1,909)		4,445
Stock compensation	14,695				14,695
Excess tax benefits from stock-based compensation	(3,137)				(3,137)
Loss on sale of assets	702				702
Changes in assets and liabilities, net of effects of business acquisitions and dispositions					
Accounts and notes receivable	(58,643)	67,192	(8,111)	22,219	22,657
Inventories		38,199	(22,566)		15,633
Prepaid expenses and other current assets	38,033	(11,493)	(64,380)	11,460	(26,380)
Accounts payable	61,962	(28,241)	(57,037)	(22,443)	(45,759)
Employee compensation and benefits	(6,326)	(8,160)	2,152		(12,334)
Accrued product claims and warranties		(1,299)	1,414		115
Income taxes	30,411	(2,429)	(9,937)		18,045
Other current liabilities	(34,504)	19,029	73,635	(11,236)	46,924
Pension and post-retirement benefits	(16,658)	(9,816)	2,838		(23,636)
Other assets and liabilities	(60,635)	57,799	(18,205)		(21,041)
Net cash provided by (used for) operating activities	17,134	229,686	(6,261)		240,559
Investing activities					
Capital expenditures	(6,509)	(20,837)	(25,717)		(53,063)
Proceeds from sale of property and equipment		82	57		139
Acquisitions, net of cash acquired			(733,105)		(733,105)
Other	1,533	(1,295)	(679)		(441)
Net cash provided by (used for) investing activities	(4,976)	(22,050)	(759,444)		(786,470)
Financing activities					
Net short-term borrowings	24,772				24,772
Proceeds from long-term debt	1,370,423				1,370,423
Repayment of long-term debt	(771,793)				(771,793)
Debt issuance costs	(8,973)				(8,973)
Net change in advances to subsidiaries	(568,347)	(249,605)	817,952		
Excess tax benefits from stock-based compensation	3,137				3,137

Stock issued to employees, net of shares withheld	11,788				11,788
Repurchases of common stock	(12,785)				(12,785)
Dividends paid	(59,660)		(9)		(59,669)
Net cash provided by (used for) financing activities	(11,438)	(249,605)	817,943		556,900
Effect of exchange rate changes on cash and cash equivalents	895	43,575	(48,850)		(4,380)
Change in cash and cash equivalents	1,615	1,606	3,388		6,609
Cash and cash equivalents, beginning of period	3,201	3,404	39,451		46,056
Cash and cash equivalents, end of period	$ 4,816	$ 5,010	$ 42,839	$	$ 52,665

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the three months ended October 2, 2010

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 533,704	$ 305,030	$ (64,999)	$ 773,735
Cost of goods sold		371,926	230,085	(64,818)	537,193
Gross profit		161,778	74,945	(181)	236,542
Selling, general and administrative	(2,260)	84,655	46,640	(181)	128,854
Research and development	108	10,430	6,327		16,865
Operating income	2,152	66,693	21,978		90,823
Earnings from investment in subsidiaries	(35,774)			35,774	
Other (income) expense:					
Equity income of unconsolidated subsidiaries		(347)			(347)
Net interest (income) expense	(27,834)	38,462	(1,675)		8,953
Income (loss) from continuing operations before income taxes and noncontrolling interest	65,760	28,578	23,653	(35,774)	82,217
Provision for income taxes	11,259	8,907	6,322		26,488
Income from continuing operations	54,501	19,671	17,331	(35,774)	55,729
Gain on disposal of discontinued operations, net of tax	549				549
Net income before noncontrolling interest	55,050	19,671	17,331	(35,774)	56,278
Noncontrolling interest			1,228		1,228
Net income attributable to Pentair, Inc.	$ 55,050	$ 19,671	$ 16,103	$ (35,774)	$ 55,050
Net income from continuing operations attributable to Pentair, Inc.	$ 54,501	$ 19,671	$ 16,103	$ (35,774)	$ 54,501

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the nine months ended October 2, 2010

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 1,577,215	$ 890,692	$ (190,992)	$ 2,276,915
Cost of goods sold		1,094,977	674,009	(190,483)	1,578,503
Gross profit		482,238	216,683	(509)	698,412
Selling, general and administrative	(2,006)	249,353	145,949	(509)	392,787
Research and development	380	32,148	18,547		51,075
Operating income	1,626	200,737	52,187		254,550
Earnings from investment in subsidiaries	(96,737)			96,737	
Other (income) expense:					
Equity income of unconsolidated subsidiaries		(1,370)	(436)		(1,806)
Net interest (income) expense	(83,341)	115,440	(5,050)		27,049
Income (loss) from continuing operations before income taxes and noncontrolling interest	181,704	86,667	57,673	(96,737)	229,307
Provision for income taxes	31,918	30,326	13,693		75,937
Income from continuing operations	149,786	56,341	43,980	(96,737)	153,370
Gain on disposal of discontinued operations, net of tax	1,666				1,666
Net income before noncontrolling interest	151,452	56,341	43,980	(96,737)	155,036
Noncontrolling interest			3,584		3,584
Net income attributable to Pentair, Inc.	$ 151,452	$ 56,341	$ 40,396	$ (96,737)	$ 151,452
Net income from continuing operations attributable to Pentair, Inc.	$ 149,786	$ 56,341	$ 40,396	$ (96,737)	$ 149,786

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

October 2, 2010

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 9,326	$ 4,059	$ 43,610	$	$ 56,995
Accounts and notes receivable, net	1,289	312,378	235,591	(59,037)	490,221
Inventories		242,716	167,356		410,072
Deferred tax assets	120,973	35,211	8,351	(113,544)	50,991
Prepaid expenses and other current assets	3,277	11,141	51,155	(17,018)	48,555
Total current assets	134,865	605,505	506,063	(189,599)	1,056,834
Property, plant and equipment, net	16,311	145,260	166,031		327,602
Investments in/advances to subsidiaries	2,365,958	94,241	734,158	(3,194,357)	
Goodwill		1,549,537	521,374		2,070,911
Intangibles, net		269,886	191,492		461,378
Other	58,818	5,914	19,146	(27,845)	56,033
Total other assets	2,424,776	1,919,578	1,466,170	(3,222,202)	2,588,322
Total assets	$ 2,575,952	$ 2,670,343	$ 2,138,264	$ (3,411,801)	$ 3,972,758
Liabilities and Shareholders Equity					
Current liabilities					
Short-term borrowings	$	$	$ 4,180	$	$ 4,180
Current maturities of long-term debt	114,000	16	24,346	(138,325)	37
Accounts payable	5,173	178,350	141,932	(59,039)	266,416
Employee compensation and benefits	33,938	31,613	35,075		100,626
Current pension and post-retirement benefits	8,948				8,948
Accrued product claims and warranties		23,491	17,292		40,783
Income taxes	12,165	8,037	2,000		22,202
Accrued rebates and sales incentives		28,897	10,169		39,066
Other current liabilities	20,988	33,691	52,623	(17,016)	90,286
Total current liabilities	195,212	304,095	287,617	(214,380)	572,544
Other liabilities					
Long-term debt	673,200	1,947,442	382,618	(2,329,995)	673,265
Pension and other retirement compensation	139,825	5,856	73,782		219,463
Post-retirement medical and other benefits	18,665	37,686		(27,845)	28,506
Long-term income taxes payable	23,857				23,857
Deferred tax liabilities	429	198,892	61,995	(113,544)	147,772
Due to/ (from) affiliates	(619,173)	(114,370)	767,246	(33,703)	

Other non-current liabilities	46,261	4,108	43,312		93,681
Total liabilities	478,276	2,383,709	1,616,570	(2,719,467)	1,759,088
Noncontrolling interest			115,994		115,994
Shareholders equity attributable to Pentair, Inc.	2,097,676	286,634	405,700	(692,334)	2,097,676
Total liabilities and shareholders equity	$ 2,575,952	$ 2,670,343	$ 2,138,264	$ (3,411,801)	$ 3,972,758

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended October 2, 2010

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities					
Net income before noncontrolling interest	$ 151,452	$ 56,341	$ 43,980	$ (96,737)	$ 155,036
Adjustments to reconcile net income to net cash provided by (used for) operating activities					
Gain on disposal of discontinued operations	(1,666)				(1,666)
Equity income of unconsolidated subsidiaries		(1,370)	(436)		(1,806)
Depreciation	1,795	22,424	18,922		43,141
Amortization	604	11,698	7,440		19,742
Earnings from investments in subsidiaries	(96,737)			96,737	
Deferred income taxes	4,391	39	436		4,866
Stock compensation	16,598				16,598
Excess tax benefits from stock-based compensation	(2,193)				(2,193)
Loss on sale of assets	166				166
Changes in assets and liabilities, net of effects of business acquisitions and dispositions					
Accounts and notes receivable	656	(15,688)	(27,558)	6,374	(36,216)
Inventories		(21,029)	(28,793)		(49,822)
Prepaid expenses and other current assets	34,620	(4,078)	(31,132)	(886)	(1,476)
Accounts payable	(1,434)	51,884	16,010	(6,298)	60,162
Employee compensation and benefits	11,880	4,286	5,434		21,600
Accrued product claims and warranties		5,777	779		6,556
Income taxes	(4,526)	22,916	(377)		18,013
Other current liabilities	(18,820)	603	32,900	810	15,493
Pension and post-retirement benefits	(12,070)	(5,355)	2,228		(15,197)
Other assets and liabilities	(2,659)	(8,747)	7,652		(3,754)
Net cash provided by (used for) operating activities	82,057	119,701	47,485		249,243
Investing activities					
Capital expenditures	(8,785)	(17,720)	(16,476)		(42,981)
Proceeds from sale of property and equipment		264	76		340
Other	441		(1,673)		(1,232)
Net cash provided by (used for) investing activities	(8,344)	(17,456)	(18,073)		(43,873)
Financing activities					
Net short-term borrowings	1,975	27	(27)		1,975
Proceeds from long-term debt	493,821				493,821
Repayment of long-term debt	(624,007)				(624,007)
Debt issuance costs	(50)				(50)
Net change in advances to subsidiaries	106,817	(96,159)	(10,658)		
Excess tax benefits from stock-based compensation	2,193				2,193

Stock issued to employees, net of shares withheld	7,861				7,861
Repurchases of common stock	(2,786)				(2,786)
Dividends paid	(55,370)	142	(1,356)		(56,584)
Net cash provided by (used for) financing activities	(69,546)	(95,990)	(12,041)		(177,577)
Effect of exchange rate changes on cash and cash equivalents	3,127	(4,009)	(3,312)		(4,194)
Change in cash and cash equivalents	7,294	2,246	14,059		23,599
Cash and cash equivalents, beginning of period	2,032	1,813	29,551		33,396
Cash and cash equivalents, end of period	$ 9,326	$ 4,059	$ 43,610	$	$ 56,995

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Pentair, Inc. and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

December 31, 2010

In thousands	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 3,201	$ 3,404	$ 39,451	$	$ 46,056
Accounts and notes receivable, net	678	357,730	222,319	(63,822)	516,905
Inventories		232,369	172,987		405,356
Deferred tax assets	115,722	40,064	7,928	(107,365)	56,349
Prepaid expenses and other current assets	8,278	10,098	51,497	(25,242)	44,631
Total current assets	127,879	643,665	494,182	(196,429)	1,069,297
Property, plant and equipment, net	17,392	144,332	167,711		329,435
Other assets					
Investments in/advances to subsidiaries	2,355,343	89,659	748,181	(3,193,183)	
Goodwill		1,549,537	516,507		2,066,044
Intangibles, net		265,987	187,583		453,570
Other	56,052	4,045	20,139	(25,049)	55,187
Total other assets	2,411,395	1,909,228	1,472,410	(3,218,232)	2,574,801
Total assets	$ 2,556,666	$ 2,697,225	$ 2,134,303	$ (3,414,661)	$ 3,973,533
Liabilities and Shareholders Equity					
Current liabilities					
Short-term borrowings	$	$	$ 4,933	$	$ 4,933
Current maturities of long-term debt	135,678		18,154	(153,814)	18
Accounts payable	4,908	170,747	150,517	(63,815)	262,357
Employee compensation and benefits	38,513	32,167	37,315		107,995
Current pension and post-retirement benefits	8,733				8,733
Accrued product claims and warranties	12,245	23,410	6,640		42,295
Income taxes	4,788	633	543		5,964
Accrued rebates and sales incentives		23,500	10,059		33,559
Other current liabilities	9,772	33,227	63,185	(25,242)	80,942
Total current liabilities	214,637	283,684	291,346	(242,871)	546,796
Other liabilities					
Long-term debt	702,500	1,947,400	377,539	(2,324,918)	702,521
Pension and other retirement compensation	136,750	112	72,997		209,859
Post-retirement medical and other benefits	18,388	36,986		(25,049)	30,325
Long-term income taxes payable	23,507				23,507
Deferred tax liabilities	5	213,385	63,173	(107,365)	169,198

Due to/ (from) affiliates	(678,966)	(80,779)	810,652	(50,907)	
Other non-current liabilities	46,692	1,892	37,711		86,295
Total liabilities	463,513	2,402,680	1,653,418	(2,751,110)	1,768,501
Noncontrolling interest			111,879		111,879
Shareholders equity attributable to Pentair, Inc.	2,093,153	294,545	369,006	(663,551)	2,093,153
Total liabilities and shareholders equity	$ 2,556,666	$ 2,697,225	$ 2,134,303	$ (3,414,661)	$ 3,973,533

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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:

- our ability to integrate the Clean Process Technologies (CPT) acquisition successfully;
- increased leverage as a result of the CPT acquisition;
- general economic and political conditions, such as political instability, credit market uncertainty, the rate of economic growth or decline in our principal geographic or product markets or fluctuations in exchange rates;
- changes in general economic and industry conditions in markets in which we participate, such as:
  - magnitude, timing and scope of the global economic recovery or any potential future downturn;
  - stabilization or strength of the North American housing markets;
  - the strength of product demand and the markets we serve;
  - the intensity of competition, including that from foreign competitors;
  - pricing pressures;
  - the financial condition of our customers;
  - market acceptance of our new product introductions and enhancements;
  - the introduction of new products and enhancements by competitors;

- our ability to maintain and expand relationships with large customers;
- our ability to source raw material commodities from our suppliers without interruption and at reasonable prices; and
- 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, particularly as a result of the CPT acquisition;
- our ability to access capital markets and obtain anticipated financing under favorable terms;
- our ability to identify, complete and integrate acquisitions successfully and to realize expected synergies on our anticipated timetable;
- changes in our business strategies, including acquisition and divestiture activities;
- any impairment of goodwill and indefinite-lived intangible assets as a result of deterioration in our markets;
- domestic and foreign governmental and regulatory policies;
- changes in operating factors, such as continued improvement in manufacturing activities and the achievement of related efficiencies, cost reductions and inventory risks due to shifts in market demand and costs associated with moving production to lower-cost locations and faster growth;
- our ability to generate savings from our excellence in operations initiatives consisting of lean enterprise, supply management and cash flow practices;
- unanticipated developments that could occur with respect to contingencies such as litigation, intellectual property matters, product liability exposures and environmental matters;
- our ability to accurately evaluate the effects of contingent liabilities such as tax, product liability, environmental and other claims; and
- those we identify under Risk Factors in Item 1A of this report.

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

Our Water Group has progressively become a more important part of our business portfolio with sales increasing from approximately $125 million in 1995 to approximately $2.0 billion in 2010. We believe the water industry is structurally attractive as a result of a growing demand for clean water and the large global market size. Our vision is to be a leading global provider of innovative products and systems used in the movement, storage, treatment and enjoyment of water.

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

On May 12, 2011, we acquired as part of our Water Group 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, CO_2 recovery and control systems and specialty pumping equipment. Based in the Netherlands, CPT has broad sales diversity with the majority of 2010 revenues generated in European Union countries and Asia-Pacific.

The 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.

On January 31, 2011 we acquired as part of our Water Group all of the outstanding shares of capital stock of Hidro Filtros do Brasil (Hidro Filtros) for 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 the first nine months of 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 our Water Group. Total goodwill recorded as part of the purchase price allocation was $4.3 million, none of which is tax deductible.

Key Trends and Uncertainties

The following trends and uncertainties affected our financial performance in 2010 and the first nine months of 2011 and will likely impact our results in the future:

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

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

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

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

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

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

We have a long-term goal to consistently generate free cash flow that equals or exceeds 100 percent of our net income. We define free cash flow as cash flow from continuing operating activities less capital expenditures plus proceeds from sale of property and equipment. Free cash flow for the full year 2010 was approximately $211 million, or 106% of our net income. We continue to expect to generate free cash flow in excess of net income from continuing operations in 2011. We are continuing to target reductions in working capital and particularly inventory, as a percentage of sales. See our discussion of *Other financial measures* under the caption Liquidity and Capital Resources in this report for a reconciliation of our free cash flow.

In 2011, our operating objectives include the following:

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

Leveraging our technological capabilities to increasingly generate innovative new products;

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

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

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

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RESULTS OF OPERATIONS

Net Sales

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

In thousands	Three months ended October 1, 2011	October 2, 2010	$ change	% change	Nine months ended October 1, 2011	October 2, 2010	$ change	% change
Net sales	$ 890,546	$ 773,735	$ 116,811	15.1%	$ 2,590,994	$ 2,276,915	$ 314,079	13.8%

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

In thousands	Three months ended October 1, 2011	October 2, 2010	$ change	% change	Nine months ended October 1, 2011	October 2, 2010	$ change	% change
Water Group	$ 614,557	$ 512,587	$ 101,970	19.9%	$ 1,761,919	$ 1,539,943	$ 221,976	14.4%
Technical Product Group	275,989	261,148	14,841	5.7%	829,075	736,972	92,103	12.5%
Net sales	$ 890,546	$ 773,735	$ 116,811	15.1%	$ 2,590,994	$ 2,276,915	$ 314,079	13.8%

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

	% Change from 2010					
	Three months ended			Nine months ended		
Percentages	Water Group	Technical Products Group	Total	Water Group	Technical Products Group	Total
Volume	(0.9)	0.6	(0.5)	2.6	8.3	4.5
Acquisition	17.2		11.5	9.2		6.2
Price	1.9	2.4	2.1	0.9	1.8	1.2
Currency	1.7	2.7	2.0	1.7	2.4	1.9
Total	19.9	5.7	15.1	14.4	12.5	13.8

Consolidated net sales

The 15.1 and 13.8 percentage point increases in consolidated net sales in the third quarter and first nine months, respectively, of 2011 from 2010 were primarily driven by:

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

- higher sales of certain pump, pool and filtration products primarily serving the North American and Western European residential markets and other global markets;

- higher sales within the industrial, general electronics and energy vertical markets of our Technical Products Group;
- selective increases in selling prices to mitigate inflationary cost increases; and
- favorable foreign currency effects.

These increases were partially offset by:

- 2010 sales resulting from the Gulf Intracoastal Waterway Project which did not reoccur in 2011;
- lower sales within the communications vertical market of our Technical Products Group.

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Water Group

The 19.9 and 14.4 percentage point increases in Water Group net sales in each of the third quarter and first nine months, respectively of 2011 from 2010 were primarily driven by:

- higher sales volume related to the May 2011 acquisition of CPT;
- organic sales growth for the third quarter and first nine months, respectively, of 2011 primarily due to higher sales of certain pump, pool and filtration products primarily serving the North American and Western European residential markets and other global markets;
- continued sales growth in Latin America, India and emerging markets in the Asia-Pacific region;
- favorable foreign currency effects; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

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

Technical Products Group

The 5.7 and 12.5 percentage point increases in Technical Product Group net sales in the third quarter and first nine months, respectively, of 2011 from 2010 were primarily driven by:

- an increase in sales in industrial, general electronics and energy vertical markets;
- favorable foreign currency effects; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- lower sales within the communications vertical market.

Gross Profit

	Three months ended				Nine months ended			
In thousands	**October 1, 2011**	**% of sales**	**October 2, 2010**	**% of sales**	**October 1, 2011**	**% of sales**	**October 2, 2010**	**% of sales**

Gross Profit	$ 272,062	30.6%	$ 236,542	30.6%	$ 808,857	31.2%	$ 698,412	30.7%
Percentage point change		- pts				0.5 pts		

Gross profit as a percentage of sales was flat in the third quarter of 2011 compared to 2010 and increased 0.5 percentage points in the first nine months of 2011 compared to 2010 primarily as a result of:

- higher sales volumes in our Water and Technical Products Groups and higher fixed cost absorption resulting from that volume;
- savings generated from our Pentair Integrated Management System (PIMS) initiatives including lean and supply management practices; and
- selective increases in selling prices in our Water and Technical Products Groups to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases related to certain raw materials and labor costs; and
- higher cost of goods sold in 2011 as a result of the inventory fair market value step-up and customer backlog recorded as part of the CPT purchase accounting.

Selling, general and administrative (SG&A)

	Three months ended				Nine months ended			
In thousands	**October 1, 2011**	**% of sales**	**October 2, 2010**	**% of sales**	**October 1, 2011**	**% of sales**	**October 2, 2010**	**% of sales**
SG&A	$ 159,068	17.9%	$ 128,854	16.7%	$ 462,260	17.8%	$ 392,787	17.3%
Percentage point change		1.2 pts				0.5 pts		

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The 1.2 and 0.5 percentage point increases in SG&A expense as a percentage of sales in the third quarter and first nine months, respectively, of 2011 from 2010 were primarily due to:

- higher costs associated with the integration and intangible amortization related to the May 2011 acquisition of CPT;
- insurance proceeds related to the Horizon litigation and other legal settlements received in the second and third quarters of 2010;
- continued investments in future growth with emphasis on international markets, including personnel and business infrastructure investments; and
- certain increases for labor and related costs.

These increases were partially offset by:

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

Research and development (R&D)

	Three months ended				Nine months ended			
In thousands	**October 1, 2011**	**% of sales**	**October 2, 2010**	**% of sales**	**October 1, 2011**	**% of sales**	**October 2, 2010**	**% of sales**
R&D	$ 20,091	2.3%	$ 16,865	2.2%	$ 58,095	2.3%	$ 51,075	2.2%
Percentage point change		0.1 pts				0.1 pts		

The 0.1 percentage point increase in R&D expense as a percentage of sales in each of the third quarter and first nine months of 2011 from 2010 was primarily due to:

- higher costs associated with the May 2011 acquisition of CPT; and
- continued investments in the development of new products to generate growth.

These increases were partially offset by:

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

Operating income

Water Group

	Three months ended				Nine months ended			
	October 1,	**% of**	**October 2,**	**% of**	**October 1,**	**% of**	**October 2,**	**% of**

In thousands	2011	sales	2010	sales	2011	sales	2010	sales
Operating Income	$ 59,608	9.7%	$ 58,457	11.4%	$ 200,657	11.4%	$ 176,549	11.5%
Percentage point change			(1.7) pts				(0.1) pts	

The 1.7 and 0.1 percentage point decreases in Water segment operating income as a percentage of net sales in the third quarter and first nine months, respectively, of 2011 as compared to 2010 were primarily the result of:

lower margin associated with May 2011 acquisition of CPT, inclusive of the fair market value step-up, integration and intangible amortization;

cost increases for certain raw materials and labor;

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insurance proceeds related to the Horizon litigation and other legal settlements received in the second and third quarters of 2010; and

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

These decreases were partially offset by:

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

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

selective increases in selling prices to mitigate inflationary cost increases.

Technical Products Group

	Three months ended				Nine months ended			
In thousands	October 1, 2011	% of sales	October 2, 2010	% of sales	October 1, 2011	% of sales	October 2, 2010	% of sales
Operating Income	$ 48,611	17.6%	$ 42,605	16.3%	$ 144,959	17.5%	$ 113,693	15.4%
Percentage point change		1.3 pts				2.1 pts		

The 1.3 and 2.1 percentage point increases in Technical Products Group operating income as a percentage of sales in the third quarter and first nine months, respectively, of 2011 from 2010 were primarily the result of:

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

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

selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

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

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

Net interest expense

	Three months ended	Nine months ended

In thousands	October 1, 2011	October 2, 2010	$change	%change	October 1, 2011	October 2, 2010	$change	%change
Net interest expense	$ 17,373	$ 8,953	$ 8,420	94.0%	$ 41,311	$ 27,049	$ 14,262	52.7%

The 94.0 and 52.7 percentage point increases in interest expense in the third quarter and first nine months, respectively, of 2011 from 2010 were primarily the result of:

- the impact of higher debt levels in the third quarter and first nine months, respectively, of 2011 following the May 2011 acquisition of CPT.

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Provision for income taxes

In thousands	Three months ended October 1, 2011	Three months ended October 2, 2010	Nine months ended October 1, 2011	Nine months ended October 2, 2010
Income from continuing operations before income taxes and noncontrolling interest	$ 76,104	$ 82,217	$ 248,672	$ 229,307
Provision for income taxes	24,050	26,488	76,447	75,937
Effective tax rate	31.6%	32.2%	30.7%	33.1%

The 0.6 and 2.4 percentage point decreases in the effective tax rate in the third quarter and first nine months, respectively, of 2011 from 2010 were primarily the result of:

- certain discrete items in the first nine months of 2011 that did not occur in 2010;
- the mix of global earnings; and
- favorable tax benefits related to the acquisition of CPT in the second quarter of 2011.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Operating activities

Cash provided by operating activities was $240.6 million in the first nine months of 2011 compared to $249.2 million in the prior year period. The decrease in cash provided by operating activities was due primarily to an increase in working capital, partially offset by an increase in income from continuing operations.

Investing activities

Capital expenditures in the first nine months of 2011 were $53.1 million compared with $43.0 million in the prior year period. We currently anticipate capital expenditures for fiscal 2011 will be approximately $70 million, primarily for capacity expansions in our key growth markets, new product development and replacement equipment.

On January 31, 2011 we acquired as part of our Water Group all of the outstanding shares of capital stock of Hidro Filtros for cash of $14.9 million and a note payable of $2.1 million.

On May 12, 2011, we acquired as part of our Water Group the CPT division from privately held Norit Holding for $715.3 million.

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Additionally, during the first nine months of 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 our Water Group.

Financing activities

Net cash provided by financing activities was $556.9 million in the first nine months of 2011 compared with cash used for financing activities of $177.6 million in the prior year period. The increase primarily relates to borrowing utilized to fund the CPT acquisition. Additionally, 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 and tax benefits related to stock-based compensation.

On May 9, 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.

On April 28, 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 October 1, 2011, we had no commercial paper outstanding.

Total availability under our existing Credit Facility was $518.0 million as of October 1, 2011, which was not limited by any of the credit agreement s financial covenants as of that date.

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 3.75 to 1.0 as of October 1, 2011 and 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 October 1, 2011.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $76.0 million, of which $40.0 million was outstanding at October 1, 2011. 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 $18.1 million at October 1, 2011.

We have $105 million of outstanding private placement debt maturing in May 2012. We classified this debt as long-term as of October 1, 2011 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.

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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 nine months of 2011 were $59.7 million, or $0.60 per common share, compared with $56.6 million, or $0.57 per common share, in the prior year period. We have increased dividends every year for the last 35 years and expect to continue paying dividends on a quarterly basis.

The total gross liability for uncertain tax positions was $24.6 million, $24.3 million and $24.6 million at October 1, 2011, December 31, 2010 and October 2, 2010, respectively. We are not able to reasonably estimate the amount by which the estimate will increase or decrease over time; however, at this time, we do not expect a significant payment related to these obligations within the next twelve months.

Other financial measures

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

	Nine months ended	
In thousands	**October 1, 2011**	**October 2, 2010**
Net cash provided by (used for) operating activities	$ 240,559	$ 249,243
Capital expenditures	(53,063)	(42,981)
Proceeds from sale of property and equipment	139	340
Free cash flow	$ 187,635	$ 206,602

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NEW ACCOUNTING STANDARDS

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

CRITICAL ACCOUNTING POLICIES

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the quarter ended October 1, 2011. For additional information, refer to Item 7A of our 2010 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

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 October 1, 2011 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarter ended October 1, 2011 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the quarter ended October 1, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

You should carefully consider the following risk factors and warnings before making an investment decision. You are cautioned not to place undue reliance on any forward-looking statements. If any of the risks described below actually occur, our business, financial condition, results of operations or prospects could be materially adversely affected. In that case, the price of our securities could decline and you could lose all or part of your investment. You should also refer to other information set forth in this document.

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

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

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

As of October 1, 2011, we had $1,348.4 million of total debt on a consolidated basis. We increased our indebtedness materially in connection with our acquisition of CPT. We and our subsidiaries may incur additional indebtedness in the future. This increase and any future increase in our level of indebtedness will have several important effects on our future operations, including, without limitation:

- we will have additional cash requirements in order to support the payment of interest on our outstanding indebtedness;
- increases in our outstanding indebtedness and leverage may increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;
- our ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes may be reduced;
- our flexibility in planning for, or reacting to, changes in our business and our industry may be reduced; and
- our flexibility to make acquisitions and develop technology may be limited.

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

- to seek additional financing in the debt or equity markets;
- to refinance or restructure all or a portion of our indebtedness;
- to sell selected assets or businesses; or
- to reduce or delay planned capital or operating expenditures.

Such measures might not be sufficient to enable us to service our debt and meet our other cash requirements. In addition, any such

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financing, refinancing or sale of assets might not be available at all or on economically favorable terms.

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

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

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

Over the past five years, our organic growth has been generated in part from expanding international sales, entering new distribution channels, introducing new products and price increases. To grow more rapidly than our end markets, we would have to continue to expand our geographic reach, further diversify our distribution channels, continue to introduce new products and increase sales of existing products to our customer base. Difficult economic and competitive factors materially and adversely impacted our financial performance in 2009. These conditions started to improve in many of our end markets in 2010 and the first nine months of 2011, but we cannot assure you that these markets will continue to improve nor that we will be able to increase revenues and profitability to match our earlier financial performance. We have chosen to focus our growth initiatives in specific end markets and geographies. We cannot assure you that these growth initiatives will be sufficient to offset revenue declines in other markets.

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

Our businesses generally face substantial competition in each of their respective markets. Competition may force us to cut prices or to incur additional costs to remain competitive. We compete on the basis of product design, quality, availability, performance, customer service and price. Present or future competitors may have greater financial, technical or other resources which could put us at a disadvantage in the affected business or businesses. We cannot assure you that these and other factors will not have a material adverse effect on our future results of operations.

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

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

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

Sales outside of the United States, including export sales from our domestic businesses, accounted for approximately 34% of our net sales in both 2010 and 2009. Our sales outside of the United States will increase materially as a result of the CPT acquisition. Further, most of our businesses obtain some products, components and raw materials from foreign suppliers. Accordingly, our business is subject to the political, economic and other risks that are inherent in operating in numerous countries. These risks include:

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

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

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

trade protection measures and import or export licensing requirements;

the possibility of terrorist action against us or our operations;

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

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- difficulty in staffing and managing widespread operations in non-U.S. labor markets;
- changes in tax laws or rulings could have an adverse impact on our effective tax rate;
- the difficulty of protecting intellectual property in foreign countries; and
- required compliance with a variety of foreign laws and regulations.

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

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

Our international operations are subject to foreign market and currency fluctuation risks.

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

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

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

We test goodwill and indefinite-lived intangible assets for impairment on an annual basis, by comparing the estimated fair value of each of our reporting units to their respective carrying values on their balance sheets. At October 1, 2011 our goodwill and intangible assets were approximately $3,136.0 million and represented approximately 64.2% of our total assets. Long-term declines in projected future cash flows could result in future goodwill and intangible asset impairments. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

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

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

Intellectual property challenges may hinder product development and marketing.

Patents, non-compete agreements, proprietary technologies, customer relationships, trade marks, trade names and brand names are important to our business. Intellectual property protection, however, may not preclude competitors from developing products similar to ours or from challenging our names or products. Over the past few years, we have noticed an increasing tendency for participants in our markets to use conflicts over and challenges to intellectual property as a means to compete. Patent and trademark challenges increase our costs to develop, engineer and market our products.

Our results of operations may be negatively impacted by litigation.

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

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

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

- Limitations on pursuing acquisitions due to increased leverage as a result of the CPT acquisition;
- Higher acquisition prices;
- Lack of suitable acquisition candidates in targeted product or market areas;
- Increased competition for acquisitions, especially in the water industry;
- Inability to integrate acquired businesses effectively or profitably; and
- Inability to achieve anticipated synergies or other benefits from acquisitions.

Acquisitions we may undertake could have a material adverse effect on our operating results, particularly in the fiscal quarters immediately following the acquisitions, while we attempt to integrate operations of the acquired businesses into our operations. Once integrated, acquired operations may not achieve the levels of financial performance originally anticipated.

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

Our plans to vigorously compete in our chosen markets will require additional capital for future acquisitions, capital expenditures, growth of working capital and continued international and regional expansion. In the past, we have financed growth of our businesses primarily through cash from operations and debt financing. While we refinanced our primary credit agreements in 2011 on what we believe to be favorable terms, future acquisitions or other uses of funds may require us to expand our debt financing resources or to issue equity securities. Our financial results may be adversely affected if new financing is not available on favorable terms or if interest costs under our debt financings are higher than the income generated by acquisitions or other internal growth. In addition, future share issuances could be dilutive to your equity investment if we sell shares into the market or issue additional stock as consideration in any acquisition. We cannot assure you that we will be able to issue equity securities or obtain future debt financing at favorable terms. Without sufficient financing, we will not be able to pursue our targeted growth strategy and our acquisition program, which may limit our revenue growth and future financial performance.

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

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

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

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

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

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

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

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

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 3 July 30, 2011	628	$ 41.06		$ 25,000,000
July 31 August 27, 2011	361,042	$ 31.94	359,300	$ 13,531,220
August 28 October 1, 2011	209,079	$ 34.51	30,000	$ 12,501,935
Total	570,749		389,300	

(a) The purchases in this column includes 628 shares for the period July 3 July 30, 2011, 1,742 shares for the period July 31 August 27, 2011 and 179,079 shares for the period August 28 October 1, 2011 deemed surrendered to us by participants in our Omnibus Stock Incentive Plan and the Outside Directors Nonqualified Stock Option Plan (the Plans) to satisfy the exercise price or withholding of tax obligations related to the exercise of stock options and vesting of restricted shares.

(b) The average price paid in this column includes shares repurchased as part of our publicly announced plan and shares deemed surrendered to us by participants in the Plans to satisfy the exercise price for the exercise price of stock options and withholding tax obligations due upon stock option exercises and vesting of restricted shares.

(c) The number of shares in this column represents the number of shares repurchased as part of our publicly announced plan to repurchase shares of our common stock up to a maximum dollar limit of $25 million.

(d) In December 2010, the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of $25 million. As of October 1, 2011, we had repurchased 389,300 shares for $12.5 million pursuant to this authorization. This authorization expires in December 2011.

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ITEM 6. Exhibits

(a) Exhibits

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 October 1, 2011 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income for the three and nine months ended October 1, 2011 and October 2, 2010, (ii) the Condensed Consolidated Balance Sheets as of October 1, 2011, December 31, 2010 and October 2, 2010, (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 1, 2011 and October 2, 2010, (iv) the Condensed Consolidated Statements of Changes in Shareholders Equity for the nine months ended October 1, 2011 and October 2, 2010, 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 October 26, 2011.

PENTAIR, INC.

Registrant

By: /s/ John L. Stauch
John L. Stauch

Executive Vice President and Chief Financial Officer

By: /s/ Mark C. Borin
Mark C. Borin

Corporate Controller and Chief Accounting Officer

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Exhibit Index to Form 10-Q for the Period Ended October 1, 2011

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