PENTAIR INC
Form 10-K/A
April 13, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

OR

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

Pentair, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota *(State or other jurisdiction of* *incorporation or organization)*	**41-0907434** *(I.R.S. Employer* *Identification number)*
5500 Wayzata Boulevard, **Suite 800, Golden Valley, Minnesota** *(Address of principal executive offices)*	**55416-1259** *(Zip code)*

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

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

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

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

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

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

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit to post such files). Yes þ No ¨

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

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

Large accelerated filer þ	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 Act). Yes ¨ No þ

Aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of $41.27 per share as reported on the New York Stock Exchange on July 2, 2011 (the last business day of Registrant s most recently completed second quarter): $3,886,388,296

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

DOCUMENTS INCORPORATED BY REFERENCE

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

EXPLANATORY NOTE

This Form 10-K/A amends the Annual Report on Form 10-K of Pentair, Inc. for the fiscal year ended December 31, 2011 (the Form 10-K), as filed with the Securities and Exchange Commission on February 21, 2012 to revise Item 8 of the original Form 10-K. The revision relates solely to Note 18 of the Notes to the Consolidated Financial Statements, which incorrectly included the word Unaudited in the header of each table. The word Unaudited has been removed from each table header in Note 18 in this Form 10-K/A.

Except as described above, no other changes have been made to the Form 10-K, and this Form 10-K/A does not modify, amend or update in any way any of the financial or other information contained in the Form 10-K. This Form 10-K/A does not reflect events that may have occurred subsequent to the filing date of the Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Pentair, Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2011, the Company s internal control over financial reporting was effective based on those criteria.

Management has excluded from its assessment the internal control over financial reporting at Clean Process Technologies (CPT), which was acquired on May 12, 2011 and whose financial statements constitute approximately 19 percent of total assets and 7 percent of total revenues on the consolidated financial statements as of and for the year ended December 31, 2011.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Company s internal control over financial reporting as of year ended December 31, 2011. That attestation report is set forth immediately following this management report.

Randall J. Hogan
Chairman and Chief Executive Officer

John L. Stauch
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Pentair, Inc.

We have audited the internal control over financial reporting of Pentair, Inc. and subsidiaries (the Company) as of December 31, 2011 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. As described in Management s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Clean Process Technologies (CPT), which was acquired on May 12, 2011 and whose financial statements constitute approximately 19 percent of total assets and 7 percent of total revenues on the consolidated financial statements as of and for the year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at CPT. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule listed in the Index at Item 15 as of and for the year ended December 31, 2011 of the Company and our report dated February 21, 2012, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

Minneapolis, Minnesota
February 21, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Pentair, Inc.

We have audited the accompanying consolidated balance sheets of Pentair, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pentair, Inc. and subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

Minneapolis, Minnesota
February 21, 2012

Pentair, Inc. and Subsidiaries

Consolidated Statements of Income

	Years Ended December 31		
In thousands, except per-share data	**2011**	**2010**	**2009**
Net sales	$ 3,456,686	$ 3,030,773	$ 2,692,468
Cost of goods sold	2,382,964	2,100,133	1,907,333
Gross profit	1,073,722	930,640	785,135
Selling, general and administrative	626,527	529,329	507,303
Research and development	78,158	67,156	57,884
Goodwill impairment	200,520		
Operating income	168,517	334,155	219,948
Other (income) expense:			
Equity (income) losses of unconsolidated subsidiaries	(1,898)	(2,108)	1,379
Loss on early extinguishment of debt			4,804
Interest income	(1,432)	(1,263)	(999)
Interest expense	60,267	37,379	42,117
Income from continuing operations before income taxes and noncontrolling interest	111,580	300,147	172,647
Provision for income taxes	73,059	97,200	56,428
Income from continuing operations	38,521	202,947	116,219
Loss on disposal of discontinued operations, net of tax		(626)	(19)
Net income before noncontrolling interest	38,521	202,321	116,200
Noncontrolling interest	4,299	4,493	707
Net income attributable to Pentair, Inc.	$ 34,222	$ 197,828	$ 115,493
Net income from continuing operations attributable to Pentair, Inc.	$ 34,222	$ 198,454	$ 115,512
Earnings per common share attributable to Pentair, Inc.			
Basic			
Continuing operations	$ 0.35	$ 2.02	$ 1.19
Discontinued operations		(0.01)	
Basic earnings per common share	$ 0.35	$ 2.01	$ 1.19
Diluted			
Continuing operations	$ 0.34	$ 2.00	$ 1.17
Discontinued operations		(0.01)	
Diluted earnings per common share	$ 0.34	$ 1.99	$ 1.17
Weighted average common shares outstanding			
Basic	98,233	98,037	97,415
Diluted	99,753	99,294	98,522

See accompanying notes to consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Consolidated Balance Sheets

In thousands, except share and per-share data	**December 31, 2011**	**December 31, 2010**
Assets		
Current assets		
Cash and cash equivalents	$ 50,077	$ 46,056
Accounts and notes receivable, net of allowances of $39,111 and $36,343, respectively	569,204	516,905
Inventories	449,863	405,356
Deferred tax assets	60,899	56,349
Prepaid expenses and other current assets	107,792	44,631
Total current assets	1,237,835	1,069,297
Property, plant and equipment, net	387,525	329,435
Other assets		
Goodwill	2,273,918	2,066,044
Intangibles, net	592,285	453,570
Other	94,750	55,187
Total other assets	2,960,953	2,574,801
Total assets	$ 4,586,313	$ 3,973,533
Liabilities and Shareholders Equity		
Current liabilities		
Short-term borrowings	$ 3,694	$ 4,933
Current maturities of long-term debt	1,168	18
Accounts payable	294,858	262,357
Employee compensation and benefits	109,361	107,995
Current pension and post-retirement benefits	9,052	8,733
Accrued product claims and warranties	42,630	42,295
Income taxes	14,547	5,964
Accrued rebates and sales incentives	37,009	33,559
Other current liabilities	129,522	80,942
Total current liabilities	641,841	546,796
Other liabilities		
Long-term debt	1,304,225	702,521
Pension and other retirement compensation	248,615	209,859
Post-retirement medical and other benefits	31,774	30,325
Long-term income taxes payable	26,470	23,507
Deferred tax liabilities	188,957	169,198
Other non-current liabilities	97,039	86,295
Total liabilities	2,538,921	1,768,501
Commitments and contingencies		
Shareholders equity		
Common shares par value $0.16 2/3; 98,622,564 and 98,409,192 shares issued and outstanding, respectively	16,437	16,401
Additional paid-in capital	488,843	474,489
Retained earnings	1,579,290	1,624,605
Accumulated other comprehensive income	(151,241)	(22,342)

Noncontrolling interest		114,063		111,879
Total shareholders equity		2,047,392		2,205,032
Total liabilities and shareholders equity	$	4,586,313	$	3,973,533

See accompanying notes to consolidated financial statements.

Pentair, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

In thousands	December 31, 2011	Year Ended December 31, 2010	December 31, 2009
Operating activities			
Net income before noncontrolling interest	$ 38,521	$ 202,321	$ 116,200
Adjustments to reconcile net income to net cash provided by (used for) operating activities			
Loss on disposal of discontinued operations		626	19
Equity (income) losses of unconsolidated subsidiaries	(1,898)	(2,108)	1,379
Depreciation	66,235	57,995	64,823
Amortization	41,897	26,184	40,657
Deferred income taxes	(5,583)	29,453	30,616
Stock compensation	19,489	21,468	17,324
Goodwill impairment	200,520		
Excess tax benefits from stock-based compensation	(3,310)	(2,686)	(1,746)
Loss on sale of assets	933	466	985
Changes in assets and liabilities, net of effects of business acquisitions and dispositions			
Accounts and notes receivable	1,348	(62,344)	11,307
Inventories	18,263	(44,495)	66,684
Prepaid expenses and other current assets	10,032	2,777	16,202
Accounts payable	(24,330)	55,321	(13,822)
Employee compensation and benefits	(20,486)	27,252	(22,431)
Accrued product claims and warranties	(1,984)	8,068	(7,440)
Income taxes	10,084	1,791	1,972
Other current liabilities	10,921	561	(21,081)
Pension and post-retirement benefits	(24,596)	(43,024)	(39,607)
Other assets and liabilities	(15,830)	(9,250)	(2,141)
Net cash provided by (used for) continuing operations	320,226	270,376	259,900
Net cash provided by (used for) operating activities of discontinued operations			(1,531)
Net cash provided by (used for) operating activities	320,226	270,376	258,369
Investing activities			
Capital expenditures	(73,348)	(59,523)	(54,137)
Proceeds from sale of property and equipment	1,310	358	1,208
Acquisitions, net of cash acquired	(733,105)		
Divestitures			1,567
Other	(2,943)	(1,148)	(3,224)
Net cash provided by (used for) investing activities	(808,086)	(60,313)	(54,586)
Financing activities			
Net short-term borrowings	(1,239)	2,728	2,205
Proceeds from long-term debt	1,421,602	703,641	580,000
Repayment of long-term debt	(832,147)	(804,713)	(730,304)
Debt issuance costs	(8,973)	(50)	(50)
Excess tax benefits from stock-based compensation	3,310	2,686	1,746
Stock issued to employees, net of shares withheld	13,322	9,941	8,247
Repurchases of common stock	(12,785)	(24,712)	
Dividends paid	(79,537)	(75,465)	(70,927)
Distribution to noncontrolling interest		(4,647)	

Net cash provided by (used for) financing activities		503,553		(190,591)		(209,083)
Effect of exchange rate changes on cash and cash equivalents		(11,672)		(6,812)		(648)
Change in cash and cash equivalents		4,021		12,660		(5,948)
Cash and cash equivalents, beginning of period		46,056		33,396		39,344
Cash and cash equivalents, end of period	$	50,077	$	46,056	$	33,396

See accompanying notes to consolidated financial statements.

Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc.

Consolidated Statements of Changes in Shareholders Equity

In thousands, except share and per-share data	**Common shares**		**Additional paid-in**	**Retained**	**Accumulated other comprehensive income (loss)**	**Total**	**Noncontrolling**		**Comprehensive income (loss) attributable to**
	Number	**Amount**	**capital**	**earnings**		**Pentair, Inc.**	**interest**	**Total**	**Pentair, Inc.**
Balance - December 31, 2008	98,276,919	$ 16,379	$ 451,241	$ 1,457,676	$ (26,615)	$ 1,898,681	$ 121,388	$ 2,020,069	
Net income				115,493		115,493	707	116,200	$ 115,493
Change in cumulative translation adjustment					43,371	43,371	(7,843)	35,528	43,371
Adjustment in retirement liability, net of $164 tax					256	256		256	256
Changes in market value of derivative financial instruments, net of ($2,323) tax					3,585	3,585		3,585	3,585
Comprehensive income (loss)									$ 162,705
Cash dividends - $0.72 per common share				(70,927)		(70,927)		(70,927)	
Tax benefit of stock compensation			1,025			1,025		1,025	
Exercise of stock options, net of 124613 shares tendered for payment	433,533	72	7,639			7,711		7,711	
Issuance of restricted shares, net of cancellations	24,531	4	516			520		520	
Amortization of restricted shares			7,190			7,190		7,190	
Shares surrendered by employees to pay taxes	(79,477)	(13)	(1,867)			(1,880)		(1,880)	
Stock compensation			7,063			7,063		7,063	
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				197,828		197,828	4,493	202,321	$ 197,828
Change in cumulative translation adjustment					(30,487)	(30,487)	(2,219)	(32,706)	(30,487)
Adjustment in retirement liability, net of $(8,159) tax					(12,762)	(12,762)		(12,762)	(12,762)
Changes in market value of derivative financial instruments, net of $229 tax					310	310		310	310
Comprehensive income (loss)									$ 154,889

Cash dividends - $0.76 per common share				(75,465)		(75,465)		(75,465)	
Tax benefit of stock compensation			2,171			2,171		2,171	
Distribution to noncontrolling interest							(4,647)	(4,647)	
Share repurchase	(726,777)	(121)	(24,591)			(24,712)		(24,712)	
Exercise of stock options, net of 27,177 shares tendered for payment	651,331	109	14,817			14,926		14,926	
Issuance of restricted shares, net of cancellations	(4,122)	(1)	707			706		706	
Amortization of restricted shares			3,538			3,538		3,538	
Shares surrendered by employees to pay taxes	(166,746)	(28)	(5,663)			(5,691)		(5,691)	
Stock compensation			10,703			10,703		10,703	
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				34,222		34,222	4,299	38,521	$ 34,222
Change in cumulative translation adjustment					(91,591)	(91,591)	(2,115)	(93,706)	(91,591)
Adjustment in retirement liability, net of ($26,650) tax					(41,683)	(41,683)		(41,683)	(41,683)
Changes in market value of derivative financial instruments, net of $2,884 tax					4,375	4,375		4,375	4,375
Comprehensive income (loss)									$ (94,677)
Tax benefit of stock compensation			3,868			3,868		3,868	
Cash dividends - $0.80 per common share				(79,537)		(79,537)		(79,537)	
Share repurchase	(397,126)	(66)	(12,719)			(12,785)		(12,785)	
Exercise of stock options, net of 182,270 shares tendered for payment	657,616	110	14,598			14,708		14,708	
Issuance of restricted shares, net of cancellations	28,603	5	1,470			1,475		1,475	
Amortization of restricted shares			1,006			1,006		1,006	
Shares surrendered by employees to pay taxes	(75,721)	(13)	(2,785)			(2,798)		(2,798)	
Stock compensation			8,916			8,916		8,916	
Balance - December 31, 2011	98,622,564	$ 16,437	$ 488,843	$ 1,579,290	$ (151,241)	$ 1,933,329	$ 114,063	$ 2,047,392	

Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Fiscal year

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

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Pentair and all subsidiaries, both U.S. and non-U.S., that we control. Intercompany accounts and transactions have been eliminated. Investments in companies of which we own 20% to 50% of the voting stock or have the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting and as a result, our share of the earnings or losses of such equity affiliates is included in the Consolidated Statements of Income.

Use of estimates

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

- the assessment of recoverability of long-lived assets, including goodwill and indefinite-life intangibles; and

- accounting for pension benefits, because of the importance in making the estimates necessary to apply these policies.

Revenue recognition

Generally, we recognize revenue when it is realized or realizable and has been earned. Revenue is recognized when persuasive evidence of an arrangement exists; shipment or delivery has occurred (depending on the terms of the sale); our price to the buyer is fixed or determinable; and collectability is reasonably assured.

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

Percentage of completion

Revenue from certain long-term contracts is recognized over the contractual period under the percentage-of-completion (POC) method of accounting. Under this method, sales and gross profit are recognized as work is performed based on the relationship between the actual costs incurred and the total estimated costs at completion. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed on a regular basis. Sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs and contract values. These reviews have not resulted in adjustments that were significant to our results of operations. Estimated losses are recorded when identified. Claims against customers are recognized as revenue upon settlement.

We record costs and earnings in excess of billings on uncompleted contracts within *Prepaid expenses and other current assets* and billings in excess of costs and earnings on uncompleted contracts within *Other current*

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

liabilities in the Consolidated Balance Sheets. Amounts included in *Prepaid expenses and other current assets* related to these contracts were $54.7 million and $0 at December 31, 2011 and 2010, respectively. Amounts included in *Other current liabilities* related to these contracts were $17.7 million and $0 at December 31, 2011 and 2010, respectively.

Sales returns

The right of return may exist explicitly or implicitly with our customers. Generally, our return policy allows for customer returns only upon our authorization. Goods returned must be product we continue to market and must be in salable condition. Returns of custom or modified goods are normally not allowed. At the time of sale, we reduce revenue for the estimated effect of returns. Estimated sales returns include consideration of historical sales levels, the timing and magnitude of historical sales return levels as a percent of sales, type of product, type of customer and a projection of this experience into the future.

Pricing and sales incentives

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

Pricing arrangements

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

Promotions

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

Volume-based incentives

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

Shipping and handling costs

Amounts billed to customers for shipping and handling are recorded in *Net sales* in the accompanying Consolidated Statements of Income. Shipping and handling costs incurred by Pentair for the delivery of goods to customers are included in *Cost of goods sold* in the accompanying Consolidated Statements of Income.

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Research and development

We conduct research and development (R&D) activities in our own facilities, which consist primarily of the development of new products, product applications and manufacturing processes. We expense R&D costs as incurred. R&D expenditures during 2011, 2010 and 2009 were $78.2 million, $67.2 million and $57.9 million, respectively.

Cash equivalents

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

Trade receivables and concentration of credit risk

We record an allowance for doubtful accounts, reducing our receivables balance to an amount we estimate is collectible from our customers. Estimates used in determining the allowance for doubtful accounts are based on historical collection experience, current trends, aging of accounts receivable and periodic credit evaluations of our customers financial condition. We generally do not require collateral. No customer receivable balances exceeded 10% of total net receivable balances as of December 31, 2011 and December 31, 2010.

Inventories

Inventories are stated at the lower of cost or market with substantially all costed using the first-in, first-out (FIFO) method and with an insignificant amount of inventories located outside the United States costed using a moving average method which approximates FIFO.

Property, plant and equipment

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

	Years
Land improvements	5 to 20
Buildings and leasehold improvements	5 to 50
Machinery and equipment	3 to 15

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

We review the recoverability of long-lived assets to be held and used, such as property, plant and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset or asset group, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. The measurement of impairment requires us to estimate future cash flows and the fair value of long-lived assets. There was no impairment charge recorded related to long-lived assets.

Goodwill and identifiable intangible assets

Goodwill

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

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Goodwill is tested at least annually for impairment and is tested for impairment more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is performed using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. If the estimated fair value is less than the carrying amount of the reporting unit there is an indication that goodwill impairment exists and a second step must be completed in order to determine the amount of the goodwill impairment, if any, that should be recorded. In the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation.

The fair value of each reporting unit is determined using a discounted cash flow analysis and market approach. Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate. Use of the market approach consists of comparisons to comparable publicly-traded companies that are similar in size and industry. Actual results may differ from those used in our valuations. This non-recurring fair value measurement is a Level 3 measurement under the fair value hierarchy described below.

In developing our discounted cash flow analysis, assumptions about future revenues and expenses, capital expenditures and changes in working capital, are based on our annual operating plan and long-term business plan for each of our reporting units. These plans take into consideration numerous factors including historical experience, anticipated future economic conditions, changes in raw material prices and growth expectations for the industries and end markets we participate in. These assumptions are determined over a five year long-term planning period. The five year growth rates for revenues and operating profits vary for each reporting unit being evaluated. Revenues and operating profit beyond 2018 are projected to grow at a perpetual growth rate between 3.0% and 3.5%.

Discount rate assumptions for each reporting unit take into consideration our assessment of risks inherent in the future cash flows of the respective reporting unit and our weighted-average cost of capital. We utilized discount rates ranging from 12.6% to 14% in determining the discounted cash flows in our fair value analysis.

In estimating fair value using the market approach, we identify a group of comparable publicly-traded companies for each operating segment that are similar in terms of size and product offering. These groups of comparable companies are used to develop multiples based on total market-based invested capital as a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA). We determine our estimated values by applying these comparable EBITDA multiples to the operating results of our reporting units. The ultimate fair value of each reporting unit is determined considering the results of both valuation methods.

Impairment charge

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

Identifiable intangible assets

Our primary identifiable intangible assets include trade marks and trade names, patents, non-compete agreements, proprietary technology and customer relationships. Identifiable intangibles with finite lives are amortized and those identifiable intangibles with indefinite lives are not amortized. Identifiable intangible assets that are subject to amortization are evaluated for impairment whenever events or changes in circumstances

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indicate that the carrying amount may not be recoverable. Identifiable intangible assets not subject to amortization are tested for impairment annually or more frequently if events warrant. We completed our annual impairment test during the fourth quarter for those identifiable assets not subject to amortization. There was no impairment charge recorded in 2011 or 2010 for identifiable intangible assets. An impairment charge of $11.3 million was recorded in 2009, related to trade names. These charges were recorded in *Selling, general and administrative* in our Consolidated Statements of Income.

The impairment test consists of a comparison of the fair value of the trade name with its carrying value. Fair value is measured using the relief-from-royalty method. This method assumes the trade name has value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital. This non-recurring fair value measurement is a Level 3 measurement under the fair value hierarchy described below.

At December 31, 2011 our goodwill and intangible assets were approximately $2,866 million and represented approximately 62.5% of our total assets. If we experience further declines in sales and operating profit or do not meet our operating forecasts, we may be subject to future impairments. Additionally, changes in assumptions regarding the future performance of our businesses, increases in the discount rate used to determine the discounted cash flows of our businesses or significant declines in our stock price or the market as a whole could result in additional impairment indicators. 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.

Equity and cost method investments

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

We have a 50% investment in FARADYNE Motors LLC (FARADYNE), a joint venture with Xylem, Inc. (fka ITT Water Technologies, Inc) that designs, develops and manufactures submersible pump motors. We do not consolidate the investment in our consolidated financial statements as we do not have a controlling interest over the investment. There were investments in and loans to FARADYNE of $6.0 million and $6.1 million at December 31, 2011 and December 31, 2010, respectively, which is net of our proportionate share of the results of their operations.

Investments for which we do not have significant influence are accounted for under the cost method. At December 31, 2011 and 2010 the aggregate balance of these investments was $6.9 million and $3.8 million, respectively.

Income taxes

We use the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation

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allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in our tax provision in the period of change. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Environmental

We recognize environmental clean-up liabilities on an undiscounted basis when a loss is probable and can be reasonably estimated. Such liabilities generally are not subject to insurance coverage. The cost of each environmental clean-up is estimated by engineering, financial and legal specialists based on current law. Such estimates are based primarily upon the estimated cost of investigation and remediation required and the likelihood that, where applicable, other potentially responsible parties (PRPs) will be able to fulfill their commitments at the sites where Pentair may be jointly and severally liable. The process of estimating environmental clean-up liabilities is complex and dependent primarily on the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, the uncertainty as to what remedy and technology will be required and the outcome of discussions with regulatory agencies and other PRPs at multi-party sites. In future periods, new laws or regulations, advances in clean-up technologies and additional information about the ultimate clean-up remedy that is used could significantly change our estimates. Accruals for environmental liabilities are included in *Other current liabilities* and *Other non-current liabilities* in the Consolidated Balance Sheets.

Insurance subsidiary

We insure certain general and product liability, property, workers compensation and automobile liability risks through our regulated wholly-owned captive insurance subsidiary, Penwald Insurance Company (Penwald). Reserves for policy claims are established based on actuarial projections of ultimate losses. As of December 31, 2011 and 2010, reserves for policy claims were $44.3 million ($13.3 million included in *Accrued product claims and warranties* and $31.0 million included in *Other non-current liabilities*) and $49.0 million ($12.0 million included in *Accrued product claims and warranties* and $37.0 million included in *Other non-current liabilities*), respectively.

Stock-based compensation

We account for stock-based compensation awards on a fair value basis. The estimated grant date fair value of each option award is recognized in income on an accelerated basis over the requisite service period (generally the vesting period). The estimated fair value of each option award is calculated using the Black-Scholes option-pricing model. From time to time, we have elected to modify the terms of the original grant. These modified grants are accounted for as a new award and measured using the fair value method, resulting in the inclusion of additional compensation expense in our Consolidated Statements of Income. Restricted share awards and units are recorded as compensation cost on a straight-line basis over the requisite service periods based on the market value on the date of grant.

Earnings per common share

Basic earnings per share are computed by dividing net income attributable to Pentair, Inc., by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income attributable to Pentair, Inc., by the weighted-average number of common shares outstanding including the dilutive effects of common stock equivalents. The dilutive effects of stock options and restricted stock awards and units increased weighted average common shares outstanding by 1,519 thousand, 1,257 thousand and 1,107 thousand in 2011, 2010 and 2009, respectively.

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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 were 2,140 thousand, 3,711 thousand and 5,283 thousand in 2011, 2010 and 2009, respectively.

Derivative financial instruments

We recognize all derivatives, including those embedded in other contracts, as either assets or liabilities at fair value in our Consolidated Balance Sheets. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the hedged item are recognized in earnings. If the derivative is designated and is effective as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the Consolidated Statements of Income when the hedged item affects earnings. If the underlying hedged transaction ceases to exist or if the hedge becomes ineffective, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. For a derivative that is not designated as or does not qualify as a hedge, changes in fair value are reported in earnings immediately.

We use derivative instruments for the purpose of hedging interest rate and currency exposures, which exist as part of ongoing business operations. We do not hold or issue derivative financial instruments for trading or speculative purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of and have been designated as, normal purchases or sales. Our policy is not to enter into contracts with terms that cannot be designated as normal purchases or sales. From time to time, we may enter in to short duration foreign currency contracts to hedge foreign currency risks.

Fair value measurements

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

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

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

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

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

Foreign currency translation

The financial statements of subsidiaries located outside of the U.S. are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resultant translation adjustments are included in *Accumulated other comprehensive income (loss)* (AOCI), a separate component of shareholders equity.

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New accounting standards

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

In June 2011, the FASB issued authoritative guidance surrounding the presentation of comprehensive income, with an objective of increasing the prominence of items reported in OCI. This guidance provides entities with the option to present the total of comprehensive income, the components of net income and the components of OCI in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, entities must present on the face of the financial statement, items reclassified from OCI to net income in the section of the financial statement where the components of net income and OCI are presented, regardless of the option selected to present comprehensive income. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The FASB subsequently deferred the effective date of certain provisions of this standard pertaining to the reclassification of items out of accumulated other comprehensive income, pending the issuance of further guidance on that matter. We believe that the adoption of this guidance will not have a material impact on our financial condition or results of operations.

In September 2011, the FASB issued an amendment to an existing accounting standard, which provides entities an option to perform a qualitative assessment to determine whether further impairment testing on goodwill is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We believe that the adoption of this guidance will not have a material impact on our financial condition or results of operations.

Subsequent events

In connection with preparing the audited consolidated financial statements for the year ended December 31, 2011, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing.

2. Acquisitions

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

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

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 income from continuing operations for the period from the acquisition date to December 31, 2011 were $234.1 million and $2.4 million, respectively, and include $13.2 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 the comparable period:

	Years ended December 31	
In thousands, except share and per-share data	**2011**	**2010**
Pro forma net sales	$ 3,578,462	$ 3,329,812
Pro forma income from continuing operations	49,363	177,867
Loss on disposal of discontinued operations, net of tax		(626)
Pro forma net income from continuing operations attributable to Pentair, Inc.	45,064	173,375
Pro forma earnings per common share - continuing operations		
Basic	$ 0.46	$ 1.77
Diluted	$ 0.45	$ 1.75
Weighted average common shares outstanding		
Basic	98,233	98,037
Diluted	99,753	99,294

The 2010 unaudited pro forma net income was adjusted to include the impact of approximately $12.9 million 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 $8.0 million associated with the CPT acquisition were excluded from the pro forma net income in the 2011 period presented and included in the 2010 period presented.

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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.

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

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

Total transaction costs related to acquisition activities for the year ended December 31, 2011 were $8.2 million, which were expensed as incurred and recorded in *Selling, general and administrative* in our Consolidated Statements of Income.

3. Discontinued Operations

In 2010, we were notified of a product recall required by our former Tools Group (which was sold to Black and Decker Corporation in 2004 and treated as a discontinued operation). Under the terms of the sale agreement we are liable for a portion of the product recall costs. We recorded a liability of $3.2 million ($2.0 million net of tax) in 2010 representing our estimate of the potential cost for products sold prior to the date of sale of the Tools Group associated with this recall. In addition, we received the remaining escrow balances from our sale of Lincoln Industrial of approximately $0.5 million, and we reversed tax reserves of approximately $1.0 million due to the expiration of various statues of limitations.

4. Restructuring

During 2011, we announced and initiated certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business. These initiatives included the reduction in hourly and salaried headcount of approximately 210 employees, which included 160 in Water & Fluid Solutions and 50 in Technical Products.

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Restructuring related costs included in *Selling, general and administrative* expenses on the Consolidated Statements of Income include costs for severance and other restructuring costs as follows:

	Years Ended December 31		
In thousands	**2011**	**2010**	**2009**
Severance and related costs	$ 11,500	$	$ 11,160
Contract termination costs			2,030
Asset impairment and other restructuring costs	1,500		4,050
Total restructuring costs	$ 13,000	$	$ 17,240

Total restructuring costs related to Water & Fluid Solutions and Technical Products were $11.0 million and $2.0 million, respectively, for year ended December 31, 2011.

Restructuring accrual activity recorded on the Consolidated Balance Sheets is summarized as follows:

	Years Ended December 31	
In thousands	**2011**	**2010**
Beginning balance	$ 3,994	$ 14,509
Costs incurred	11,500	
Cash payments and other	(2,689)	(10,515)
Ending balance	$ 12,805	$ 3,994

5. Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2011 and December 31, 2010 by segment were as follows:

In thousands	**December 31, 2010**	**Acquisitions/ divestitures**	**Foreign currency translation/other**	**December 31, 2011**
Water & Fluid Solutions	$ 1,784,100	$ 466,182	$ (255,501)	$ 1,994,781
Technical Products	281,944		(2,807)	279,137
Consolidated Total	$ 2,066,044	$ 466,182	$ (258,308)	$ 2,273,918

In thousands	**December 31, 2009**	**Acquisitions/ divestitures**	**Foreign currency translation/other**	**December 31, 2010**
Water & Fluid Solutions	$ 1,802,913	$	$ (18,813)	$ 1,784,100

Technical Products	285,884		(3,940)	281,944
Consolidated Total	$ 2,088,797	$	$ (22,753)	$ 2,066,044

In 2011, the acquired goodwill in Water & Fluid Solutions is primarily related to the acquisition of CPT. In 2011, we recorded an impairment charge of $200.5 million in Water & Fluid Solutions which is included in Foreign Currency Translation/Other above. Accumulated goodwill impairment losses were $200.5 million and $0 as of December 31, 2011 and December 31, 2010, respectively.

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The detail of intangible assets consisted of the following:

	2011			2010		
In thousands	**Gross carrying amount**	**Accumulated amortization**	**Net**	**Gross carrying amount**	**Accumulated amortization**	**Net**
Finite-life intangibles						
Patents	$ 5,896	$ (4,038)	$ 1,858	$ 15,469	$ (12,695)	$ 2,774
Proprietary technology	128,841	(39,956)	88,885	74,176	(29,862)	44,314
Customer relationships	358,410	(109,887)	248,523	282,479	(82,901)	199,578
Trade names	1,515	(530)	985	1,532	(383)	1,149
Total finite-life intangibles	$ 494,662	$ (154,411)	$ 340,251	$ 373,656	$ (125,841)	$ 247,815
Indefinite-life intangibles						
Trade names	252,034		252,034	205,755		205,755
Total intangibles, net	$ 746,696	$ (154,411)	$ 592,285	$ 579,411	$ (125,841)	$ 453,570

Intangible asset amortization expense in 2011, 2010 and 2009 was approximately $41.9 million, $24.5 million and $27.3 million, respectively.

In 2009 we recorded an impairment charge to write down trade name intangible assets of $11.3 million in Water & Fluid Solutions.

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

In thousands	**2012**	**2013**	**2014**	**2015**	**2016**
Estimated amortization expense	$ 38,828	$ 38,663	$ 38,296	$ 38,018	$ 37,079

6. Supplemental Balance Sheet Information

In thousands	**2011**	**2010**
Inventories		
Raw materials and supplies	$ 219,487	$ 223,482
Work-in-process	47,707	37,748
Finished goods	182,669	144,126
Total inventories	$ 449,863	$ 405,356
Property, plant and equipment		
Land and land improvements	$ 41,111	$ 36,484
Buildings and leasehold improvements	244,246	212,168
Machinery and equipment	692,930	598,554
Construction in progress	40,251	33,841

Total property, plant and equipment		1,018,538		881,047
Less accumulated depreciation and amortization		631,013		551,612
Property, plant and equipment, net	$	387,525	$	329,435

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7. Supplemental Cash Flow Information

The following table summarizes supplemental cash flow information:

In thousands	2011	2010	2009
Interest payments	$ 54,516	$ 37,083	$ 43,010
Income tax payments	64,389	55,991	8,719

8. Accumulated Other Comprehensive Income (Loss)

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

In thousands	2011	2010
Retirement liability adjustments, net of tax	$ (112,893)	$ (71,210)
Cumulative translation adjustments	(33,407)	58,184
Market value of derivative financial instruments, net of tax	(4,941)	(9,316)
Accumulated other comprehensive income (loss)	$ (151,241)	$ (22,342)

9. Debt

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

In thousands	Average interest rate December 31, 2011	Maturity (Year)	December 31, 2011	December 31, 2010
Commercial paper	1.26%	2016	$ 3,497	$
Revolving credit facilities	2.04%	2016	168,500	97,500
Private placement - fixed rate	5.65%	2013 - 2017	400,000	400,000
Private placement - floating rate	0.99%	2012 - 2016	205,000	205,000
Public - fixed rate	5.00%	2021	500,000	
Capital lease obligations	3.72%	2025	15,788	
Other	3.04%	2012 -2021	16,302	4,972
Total debt, including current portion			1,309,087	707,472
Less: Current maturities			(1,168)	(18)
Short-term borrowings			(3,694)	(4,933)
Long-term debt			$ 1,304,225	$ 702,521

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

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

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Total availability under our existing Credit Facility was $528.0 million as of December 31, 2011, which was limited to $480.3 million by the leverage ratio financial covenant in the credit agreement.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio (total consolidated indebtedness, as defined, over consolidated net income before interest, taxes, depreciation, amortization and non-cash compensation expense, as defined) that may not exceed 3.5 to 1.0 as of the last date of each of our fiscal quarters thereafter. We were in compliance with all financial covenants in our debt agreements as of December 31, 2011.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $74.2 million, of which $14.1 million was outstanding at December 31, 2011. Borrowings under these credit facilities bear interest at variable rates.

We have $105 million of outstanding private placement debt maturing in May 2012. We classified this debt as long-term as of December 31, 2011 as we have the intent and ability to refinance such obligation on a long-term basis under the Credit Facility.

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

Debt outstanding at December 31, 2011 matures on a calendar year basis as follows:

In thousands	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Contractual debt obligation maturities	$ 3,694	$ 200,620	$	$	$ 288,985	$ 800,000	$ 1,293,299
Capital lease obligations	1,168	1,168	1,168	1,168	1,168	9,948	15,788
Total maturities	$ 4,862	$ 201,788	$ 1,168	$ 1,168	$ 290,153	$ 809,948	$ 1,309,087

As part of the CPT acquisition, we assumed a capital lease obligation related to land and buildings. As of December 31, 2011 we had a cost of $22.7 million, and accumulated amortization of $5.1 million, all of which are included in *Property, plant and equipment* on the Consolidated Balance Sheets.

The present value of future minimum lease payments is the total future minimum lease payments of $17.9 million less the imputed interest of $2.1 million.

10. Derivatives and Financial Instruments

Cash-flow hedges

In August 2007, we entered into a $105 million interest rate swap agreement with a major financial institution to exchange variable rate interest payment obligations for a fixed rate obligation without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the swap was August 30, 2007. The swap agreement has a fixed interest rate of 4.89% and expires in May 2012. The fixed interest rate of 4.89% plus the .50% interest rate spread over LIBOR results in an effective fixed interest rate of 5.39%. The fair value of the swap was a liability of $1.7 million and $6.4 million at December 31, 2011 and December 31, 2010, respectively and was recorded in AOCI on the Consolidated Balance Sheets.

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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 $6.3 million and $9.4 million at December 31, 2011 and December 31, 2010, respectively and was recorded in AOCI on the 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 Consolidated Balance Sheets. Unrealized income/expense is included in AOCI and realized income/expense and amounts due to/from swap counterparties, are included in earnings. We realized incremental interest expense resulting from the swaps of $9.3 million and $9.2 million at December 31, 2011 and December 31, 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 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.

At December 31, 2011 and 2010, 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.

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. 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 Consolidated Statements on Income.

At December 31, 2010 we had a euro to U.S. dollar contract that expired on January 7, 2011 with a notional amount of $132.5 million. The fair value of the contract was an asset of $1.2 million.

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.

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Fair value of financial instruments

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 Consolidated Balance Sheets and will be amortized as interest exposure over the life of the Notes.

The recorded amounts and estimated fair values of long-term debt, excluding the effects of derivative financial instruments and the recorded amounts and estimated fair value of those derivative financial instruments were as follows:

	2011		2010	
In thousands	**Recorded amount**	**Fair value**	**Recorded amount**	**Fair value**
Total debt, including current portion				
Variable rate	$ 406,978	$ 406,978	$ 307,433	$ 307,433
Fixed rate	902,109	954,053	400,039	438,492
Total	$ 1,309,087	$ 1,361,031	$ 707,472	$ 745,925

The following methods were used to estimate the fair values of each class of financial instrument measured on a recurring basis:

- short-term financial instruments (cash and cash equivalents, accounts and notes receivable, accounts and notes payable and variable-rate debt) recorded amount approximates fair value because of the short maturity period;

- long-term fixed-rate debt, including current maturities fair value is based on market quotes available for issuance of debt with similar terms, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance; and

- interest rate swaps and foreign currency contract agreements 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.

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

In thousands	**Fair value December 31, 2011**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash-flow hedges	$ (8,034)	$	$ (8,034)	$
Foreign currency contract	(99)		(99)	
Deferred compensation plan (1)	22,987	22,987		

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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		

(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

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

In thousands	**2011**	**2010**	**2009**
U.S.	$ 36,832	$ 217,213	$ 111,530
International	74,748	82,934	61,117
Income from continuing operations before taxes and noncontrolling interest	$ 111,580	$ 300,147	$ 172,647

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

In thousands	**2011**	**2010**	**2009**
Currently payable			
Federal	$ 51,158	$ 44,766	$ 10,502
State	6,980	6,591	2,456
International	24,005	17,877	13,947
Total current taxes	82,143	69,234	26,905
Deferred			
Federal and state	419	26,445	26,733
International	(9,503)	1,521	2,790
Total deferred taxes	(9,084)	27,966	29,523
Total provision for income taxes	$ 73,059	$ 97,200	$ 56,428

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

Percentages	**2011**	**2010**	**2009**

U.S. statutory income tax rate	35.0	35.0	35.0
State income taxes, net of federal tax benefit	3.3	2.1	2.6
Tax effect of stock-based compensation	0.4	0.2	0.2
Tax effect of international operations	(9.8)	(3.8)	(3.5)
Tax credits	(0.9)	(0.3)	(1.4)
Domestic manufacturing deduction	(3.3)	(1.4)	(0.4)
ESOP dividend benefit	(0.6)	(0.2)	(0.4)
Goodwill	40.4		
All other, net	1.0	0.8	0.6
Effective tax rate on continuing operations	65.5	32.4	32.7

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Reconciliation of the beginning and ending gross unrecognized tax benefits follows:

In thousands	2011	2010	2009
Gross unrecognized tax benefits beginning balance	$ 24,260	$ 29,962	$ 28,139
Gross increases for tax positions in prior periods	2,042	286	3,191
Gross decreases for tax positions in prior periods	(192)	(2,490)	(2,433)
Gross increases based on tax positions related to the current year	3,201	1,431	1,789
Gross decreases related to settlements with taxing authorities	(2,465)	(4,182)	(209)
Reductions due to statute expiration	(377)	(747)	(515)
Gross unrecognized tax benefits at December 31	$ 26,469	$ 24,260	$ 29,962

Included in the $26.5 million of total gross unrecognized tax benefits as of December 31, 2011 was $24.5 million of tax benefits that, if recognized, would impact the effective tax rate. It is reasonably possible that the gross unrecognized tax benefits as of December 31, 2011 may decrease by a range of $0 to $18.7 million during the next twelve months primarily as a result of the resolution of federal, state and foreign examinations and the expiration of various statutes of limitations.

The determination of annual income tax expense takes into consideration amounts which may be needed to cover exposures for open tax years. The Internal Revenue Service (IRS) has examined our U.S. federal income tax returns through 2003 with no material adjustments. The IRS has also completed a survey of our 2004 U.S. federal income tax return with no material findings. The IRS is currently examining our federal tax returns for years 2005 through 2009. No material adjustments have been proposed, however, actual settlements may differ from amounts accrued.

We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Interest expense*, respectively, which is consistent with our past practices. As of December 31, 2011, we had recorded approximately $0.9 million for the possible payment of penalties and $5.9 million related to the possible payment of interest expense.

U.S. income taxes have not been provided on undistributed earnings of international subsidiaries. It is our intention to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so. As of December 31, 2011, approximately $261.1 million of unremitted earnings attributable to international subsidiaries were considered to be indefinitely invested. It is not practicable to estimate the amount of tax that might be payable if such earnings were to be remitted.

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

Deferred taxes were classified in the Consolidated Balance Sheets as follows:

In thousands	2011	2010
Deferred tax assets	$ 60,899	$ 56,349
Other noncurrent assets		1,647
Other current liabilities		(547)
Deferred tax liabilities	(188,957)	(169,198)

Net deferred tax liability	$ (128,058)	$ (111,749)

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

	2011 Deferred tax		2010 Deferred tax	
In thousands	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Accounts receivable allowances	$ 3,726	$	$ 4,490	$
Inventory valuation	18,891		17,381	
Accelerated depreciation/amortization		13,270		11,436
Accrued product claims and warranties	22,430		25,753	
Employee benefit accruals	129,642		110,547	
Goodwill and other intangibles		191,067		187,103
Other, net		98,410		71,381
Total deferred taxes	$ 174,689	$ 302,747	$ 158,171	$ 269,920
Net deferred tax liability		$ (128,058)		$ (111,749)

Included in Other, net in the table above are deferred tax assets of $3.3 million and $2.3 million as of December 31, 2011 and 2010, respectively, related to a foreign tax credit carryover from the tax period ended December 31, 2006 and related to state net operating losses. The foreign tax credit is eligible for carryforward until the tax period ending December 31, 2016.

Non-U.S. tax losses of $82.3 million and $49.6 million were available for carryforward at December 31, 2011 and 2010, respectively. A valuation allowance reflected above in Other, net of $11.7 million and $9.4 million exists for deferred income tax benefits related to the non-U.S. loss carryforwards available as of December 31, 2011 and 2010, respectively that may not be realized. We believe that sufficient taxable income will be generated in the respective countries to allow us to fully recover the remainder of the tax losses. The non-U.S. operating losses are subject to varying expiration periods and will begin to expire in 2012. State tax losses of $69.2 million and $69.3 million were available for carryforward at December 31, 2011 and 2010, respectively. A valuation allowance reflected above in Other, net of $1.5 million and $2.4 million exists for deferred income tax benefits related to the carryforwards available at December 31, 2011 and 2010, respectively. Certain state tax losses will expire in 2012, while others are subject to carryforward periods of up to twenty years.

12. Benefit Plans

Pension and post-retirement benefits

We sponsor domestic and foreign defined-benefit pension and other post-retirement plans. Pension benefits are based principally on an employee s years of service and/or compensation levels near retirement. In addition, we also provide certain post-retirement health care and life insurance benefits. Generally, the post-retirement health care and life insurance plans require contributions from retirees. We use a December 31 measurement date each year. In December 2007, we announced that we will be freezing certain pension plans as of December 31, 2017.

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Obligations and funded status

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

	Pension benefits		Post-retirement	
In thousands	**2011**	**2010**	**2011**	**2010**
Change in benefit obligation				
Benefit obligation beginning of year	$ 586,808	$ 552,309	$ 33,715	$ 35,301
Service cost	12,466	11,588	180	200
Interest cost	32,768	31,671	1,889	2,013
Amendments		(281)		
Settlements	(257)	(104)		
Actuarial (gain) loss	62,751	24,677	2,494	(647)
Translation (gain) loss	(2,477)	(4,208)		
Benefits paid	(30,488)	(28,844)	(3,197)	(3,152)
Benefit obligation end of year	$ 661,571	$ 586,808	$ 35,081	$ 33,715
Change in plan assets				
Fair value of plan assets beginning of year	$ 385,483	$ 329,188	$	$
Actual gain (loss) return on plan assets	27,971	35,495		
Company contributions	37,097	49,840	3,197	3,152
Settlements	(257)	(104)		
Translation gain (loss)	(35)	(92)		
Benefits paid	(30,488)	(28,844)	(3,197)	(3,152)
Fair value of plan assets end of year	$ 419,771	$ 385,483	$	$
Funded status				
Plan assets less than benefit obligation	$ (241,800)	$ (201,325)	$ (35,081)	$ (33,715)
Net amount recognized	$ (241,800)	$ (201,325)	$ (35,081)	$ (33,715)

Of the $241.8 million under funding at December 31, 2011, $137.9 million relates to foreign pension plans and our supplemental executive retirement plans which are not commonly funded.

Amounts recognized in the Consolidated Balance Sheets are as follows:

	Pension benefits		Post-retirement	
In thousands	**2011**	**2010**	**2011**	**2010**
Current liabilities	$ (5,745)	$ (5,343)	$ (3,307)	$ (3,390)
Noncurrent liabilities	(236,055)	(195,982)	(31,774)	(30,325)
Net amount recognized	$ (241,800)	$ (201,325)	$ (35,081)	$ (33,715)

The accumulated benefit obligation for all defined benefit plans was $625.9 million and $557.7 million at December 31, 2011 and 2010, respectively.

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

In thousands	**2011**	**2010**
Pension plans with an accumulated benefit obligation in excess of plan assets:		
Fair value of plan assets	$ 419,771	$ 385,483
Accumulated benefit obligation	625,884	557,712
Pension plans with a projected benefit obligation in excess of plan assets:		
Fair value of plan assets	$ 419,771	$ 385,483
Accumulated benefit obligation	661,571	586,808

Components of net periodic benefit cost are as follows:

	Pension benefits			**Post-retirement**		
In thousands	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
Service cost	$ 12,466	$ 11,588	$ 12,334	$ 180	$ 200	$ 214
Interest cost	32,768	31,671	32,612	1,889	2,013	2,377
Expected return on plan assets	(31,849)	(30,910)	(30,286)			
Amortization of transition obligation		13	25			
Amortization of prior year service cost (benefit)		7	23	(27)	(27)	(41)
Recognized net actuarial (gain) loss	3,887	1,674	82	(3,306)	(3,295)	(3,326)
Settlement gain	23	(8)	(9)			
Net periodic benefit cost	$ 17,295	$ 14,035	$ 14,781	$ (1,264)	$ (1,109)	$ (776)

Amounts not yet recognized in net periodic benefit cost and included in accumulated other comprehensive income (pre-tax):

	Pension benefits		**Post-retirement**	
In thousands	**2011**	**2010**	**2011**	**2010**
Prior service cost (benefit)	(171)	(162)	(850)	(878)
Net actuarial (gain) loss	201,093	138,558	(14,982)	(20,781)
Accumulated other comprehensive (income) loss	$ 200,922	$ 138,396	$ (15,832)	$ (21,659)

The estimated amount that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2012 is as follows:

In thousands	**Pension benefits**	**Post-retirement**
Prior service cost (benefit)	$	$ (27)
Net actuarial (gain) loss	10,308	(3,306)
Total estimated 2012 amortization	$ 10,308	$ (3,333)

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Additional information

Change in accumulated other comprehensive income, net of tax:

In thousands	2011	2010
Beginning of the year	$ (71,210)	$ (58,448)
Additional prior service cost incurred during the year		171
Actuarial gains (losses) incurred during the year	(42,139)	(11,861)
Translation gains (losses) incurred during the year	118	(75)
Amortization during the year:		
Transition obligation		8
Unrecognized prior service cost (benefit)	(16)	(12)
Actuarial gains	354	(993)
End of the year	$ (112,893)	$ (71,210)

Assumptions

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

	Pension benefits			Post-retirement		
Percentages	2011	2010	2009	2011	2010	2009
Discount rate	5.05	5.90	6.00	5.05	5.90	6.00
Rate of compensation increase	4.00	4.00	4.00			

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

	Pension benefits			Post-retirement		
Percentages	2011	2010	2009	2011	2010	2009
Discount rate	5.90	6.00	6.50	5.90	6.00	6.50
Expected long-term return on plan assets	8.00	8.50	8.50			
Rate of compensation increase	4.00	4.00	4.00			

Discount rate

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year based on our December 31 measurement date. The discount rate was determined by matching our expected benefit payments to payments from a stream of AA or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions. This produced a discount rate for our U.S. plans of 5.05% in 2011, 5.90% in 2010 and 6.00% in 2009. The discount rates on our foreign plans ranged from 0.75% to 5.00% in 2011, 0.75% to 5.40% in 2010 and 2.00% to 6.00% in 2009. There are no other known or anticipated changes in our discount rate assumption that will impact our pension expense in 2012.

Expected rate of return

Our expected rate of return on plan assets was 8.0% for 2011 and 8.5%, 2010 and 2009. The expected rate of return is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical returns, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer-term market indices. In 2011, the pension plan assets yielded returns of 7.8% and returns of 11.2% and 19.5% in 2010 and 2009. Our expected rate of return on plan assets assumption is 7.5% for 2012.

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

Unrecognized pension and post-retirement losses

As of our December 31, 2011 measurement date, our plans have $186.1 million of cumulative unrecognized losses. To the extent the unrecognized losses, when adjusted for the difference between market and market related values of assets, exceeds 10% of the projected benefit obligation, it will be amortized into expense each year on a straight-line basis over the remaining expected future-working lifetime of active participants (currently approximating 12 years).

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

	2011	**2010**
Health care cost trend rate assumed for next year	7.50 %	7.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate	2027	2027

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

In thousands	**1-Percentage-point increase**	**1-Percentage-point decrease**
Effect on total annual service and interest cost	$ 45	$ (40)
Effect on post-retirement benefit obligation	905	(801)

Plan assets

Objective

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

Asset allocation

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

	Plan assets		**Target allocation**	
Asset class	**2011**	**2010**	**2011**	**2010**

Equity securities	42 %	47 %	40 %	50 %
Fixed income investments	50 %	37 %	50 %	40 %
Alternative investments	5 %	12 %	10 %	10 %
Cash	3 %	4 %	- %	- %

While the target allocations do not have a percentage allocated to cash, the plan assets will always include some cash due to cash flow requirements.

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As part of our strategy to reduce U.S. pension plan funded status volatility, we plan to increase the allocation to long duration fixed income securities in future years as the funded status of our U.S. pension plans improve. In 2011 we increased our fixed income investments from 40% to 50% and from 30% to 40% in 2010.

Fair value measurement

The following table presents our plan assets using the fair value hierarchy as of December 31, 2011 and December 31, 2010.

in thousands	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash equivalents	$	$ 13,084	$	$ 13,084
Fixed income:				
Corporate and non U.S. government		76,046	150	76,196
U.S. treasuries		82,989		82,989
Mortgage-backed securities		40,286	629	40,915
Other		7,958	219	8,177
Global equity securities:				
Small cap equity	7,094			7,094
Mid cap equity	7,528	4		7,532
Large cap equity		47,398		47,398
International equity	19,942	19,652		39,594
Long/short equity		56,575		56,575
Pentair company stock	16,645			16,645
Other investments		4,563	19,009	23,572
Total as of December 31, 2011	$ 51,209	$ 348,555	$ 20,007	$ 419,771

in thousands	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash equivalents	$	$ 13,803	$	$ 13,803
Fixed income:				
Corporate and non U.S. government		42,544	284	42,828
U.S. treasuries		60,710		60,710
Mortgage-backed securities		30,052	1,368	31,420
Other		6,818	125	6,943
Global equity securities:				
Small cap equity	7,982			7,982
Mid cap equity	8,811			8,811
Large cap equity		45,700		45,700
International equity	23,964	21,895		45,859
Long/short equity		56,639		56,639
Pentair company stock	18,255			18,255
Other investments		33,542	12,991	46,533
Total as of December 31, 2010	$ 59,012	$ 311,703	$ 14,768	$ 385,483

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Pentair, Inc. and Subsidiaries

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Valuation methodologies used for investments measured at fair value are as follows:

Cash equivalents: Consist of investments in commingled funds valued based on observable market data. Such investments are classified as Level 2.

Fixed income: Investments in corporate bonds, government securities, mortgages and asset backed securities are value based upon quoted market prices for identical or similar securities and other observable market data. Investments in commingled funds are generally valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service. Such investments are classified as Level 2. Certain investments in commingled funds are valued based on unobservable inputs due to liquidation restrictions. These investments are classified as Level 3.

Global equity securities: Equity securities and Pentair common stock are valued based on the closing market price in an active market and are classified as Level 1. Investments in commingled funds are valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service. Such investments are classified as Level 2.

Other investments: Other investments include investments in commingled funds with diversified investment strategies. Investments in commingled funds that are valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service are classified as Level 2. Investments in commingled funds that are valued based on unobservable inputs due to liquidation restrictions are classified as Level 3.

The following tables present a reconciliation of Level 3 assets held during the years ended December 31, 2011 and December 31, 2010, respectively.

	Balance January 1, 2011	Net realized and unrealized gains (losses)	Net purchases, issuances and settlements	Net transfers into (out of) level 3	Balance December 31, 2011
Other investments	$ 12,991	$ 251	$ 5,767	$	$ 19,009
Fixed income investments	1,777	87	(866)		998
	$ 14,768	$ 338	$ 4,901	$	$ 20,007

	Balance January 1, 2010	Net realized and unrealized gains (losses)	Net purchases, issuances and settlements	Net transfers into (out of) level 3	Balance December 31, 2010
Other investments	$ 14,427	$ 678	$ (2,114)	$	$ 12,991
Fixed income investments	2,739	334	(1,296)		1,777
	$ 17,166	$ 1,012	$ (3,410)	$	$ 14,768

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Cash flows

Contributions

Pension contributions totaled $37.1 million and $49.8 million in 2011 and 2010, respectively. Our 2012 required pension contributions are expected to be in the range of $40 million to $45 million. The 2012 expected contributions will equal or exceed our minimum funding requirements.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans as follows:

In millions	**Pension benefits**	**Post-retirement**
2012	$ 31.8	$ 3.3
2013	32.6	3.2
2014	33.5	3.1
2015	35.9	3.0
2016	38.7	2.9
2017-2021	221.4	13.1

Savings plan

We have a 401(k) plan (the plan) with an employee stock ownership (ESOP) bonus component, which covers certain union and nearly all non-union U.S. employees who meet certain age requirements. Under the plan, eligible U.S. employees may voluntarily contribute a percentage of their eligible compensation. We match contributions made by employees who meet certain eligibility and service requirements. Our matching contribution is 100% of eligible employee contributions for the first 1% of eligible compensation and 50% of the next 5% of eligible compensation. In June 2009, we temporarily suspended the company match of the plan and ESOP. We reinstated the company match in 2010.

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

Our combined expense for the plan and ESOP was approximately $15.8 million, $11.0 million and $6.7 million, in 2011, 2010 and 2009, respectively.

Other retirement compensation

Total other accrued retirement compensation was $12.6 million and $13.9 million in 2011 and 2010, respectively and is included in the *Pension and other retirement compensation* line of our Consolidated Balance Sheet.

13. Shareholders Equity

Authorized shares

We may issue up to 250 million shares of common stock. Our Board of Directors may designate up to 15 million of those shares as preferred stock. On December 10, 2004, the Board of Directors designated a new series of preferred stock with authorization to issue up to 2.5 million shares, Series A Junior Participating Preferred Stock, par value $0.10 per share. No shares of preferred stock were issued or outstanding as of December 31, 2011 or December 31, 2010.

Purchase rights

On December 10, 2004, our Board of Directors declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock. The dividend was payable upon the close of business on January 28, 2005 to the shareholders of record upon the close of business on January 28, 2005. Each Right

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entitles the registered holder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, at a price of $240.00 per one one-hundredth of a share, subject to adjustment. However, the Rights are not exercisable unless certain change in control events occur, such as a person acquiring or obtaining the right to acquire beneficial ownership of 15% or more of our outstanding common stock. The description and terms of the Rights are set forth in a Rights Agreement, dated December 10, 2004. The Rights will expire on January 28, 2015, unless the Rights are earlier redeemed or exchanged in accordance with the terms of the Rights Agreement. On January 28, 2005, the common share purchase rights issued pursuant to the Rights Agreement dated July 31, 1995 were redeemed in their entirety for an amount equal to $0.0025 per right.

Share repurchases

In July 2010, the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of $25 million. As of December 31, 2010 we had repurchased 734,603 shares for $25 million pursuant to this plan. In December 2010, the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of $25 million. As of December 31, 2011, we had repurchased 389,300 shares for $12.5 million pursuant to this authorization, which expired in December 2011. In December 2011, the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of $25 million. This authorization expires in December 2012.

14. Stock Plans

Total stock-based compensation expense in 2011, 2010 and 2009 was $19.5 million, $21.5 million and $17.3 million, respectively.

Omnibus stock incentive plans

In May 2008, the 2008 Omnibus Stock Incentive Plan as Amended and Restated (the 2008 Plan or the Plan) was approved by shareholders. The 2008 Plan authorizes the issuance of additional shares of our common stock and extends through February 2018. The 2008 Plan allows for the granting of nonqualified stock options; incentive stock options; restricted shares; restricted stock units; dividend equivalent units; stock appreciation rights; performance shares; performance units; and other stock based awards.

The Plan is administered by our Compensation Committee (the Committee), which is made up of independent members of our Board of Directors. Employees eligible to receive awards under the Plan are managerial, administrative or other key employees who are in a position to make a material contribution to the continued profitable growth and long-term success of Pentair. The Committee has the authority to select the recipients of awards, determine the type and size of awards, establish certain terms and conditions of award grants and take certain other actions as permitted under the Plan. The Plan restricts the Committee s authority to reprice awards or to cancel and reissue awards at lower prices.

The Omnibus Stock Incentive Plan approved by the shareholders in 2004 (the 2004 Plan) expired upon approval of the 2008 Plan by shareholders. Prior grants made under the 2004 Plan and earlier stock incentive plans remained outstanding on the terms in effect at the time of grant.

Non-qualified and incentive stock options

Under the Plan, we may grant stock options to any eligible employee with an exercise price equal to the market value of the shares on the dates the options were granted. Options generally vest over a three-year period commencing on the grant date and expire ten years after the grant date. Annual expense for the fair value of stock options was $8.9 million in 2011, $10.7 million in 2010 and $7.1 million in 2009.

Pentair, Inc. and Subsidiaries

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Restricted shares and restricted stock units

Under the Plan, eligible employees are awarded restricted shares or restricted stock units (awards) of our common stock. Share awards generally vest from two to five years after issuance, subject to continuous employment and certain other conditions. Restricted share awards are valued at market value on the date of grant and are expensed over the vesting period. Annual expense for the fair value of restricted shares and restricted stock units was $10.6 million in 2011, $10.8 million in 2010 and $10.2 million in 2009.

Stock appreciation rights, performance shares and performance units

Under the Plan, the Committee is permitted to issue these awards which are generally earned over a three-year vesting period and are tied to specific financial metrics.

Outside directors nonqualified stock option plan

Nonqualified stock options were granted to outside directors under the Outside Directors Nonqualified Stock Option Plan (the Directors Plan) with an exercise price equal to the market value of the shares on the option grant dates. Options generally vest over a three-year period commencing on the grant date and expire ten years after the grant date. The Directors Plan expired in January 2008. Prior grants remain outstanding on the terms in effect at the time of grant.

Non-employee Directors are also eligible to receive awards under the 2008 Plan. Director awards are made by our Governance Committee, which is made up of independent members of our Board of Directors.

Stock options

The following table summarizes stock option activity under all plans:

Options outstanding	Shares	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Balance January 1, 2011	7,967,416	$ 31.34		
Granted	817,707	36.73		
Exercised	(839,886)	25.03		
Forfeited	(45,203)	32.86		
Expired	(62,338)	40.06		
Balance December 31, 2011	7,837,696	$ 32.50	5.6	$ 20,161,647
Options exercisable as of December 31, 2011	5,694,049	$ 32.38	4.6	$ 16,052,331
Options expected to vest as of December 31, 2011	2,107,848	$ 32.82	8.2	$ 4,109,316

The weighted-average grant date fair value of options granted in 2011, 2010 and 2009 was estimated to be $9.98, $9.47 and $5.09 per share, respectively. The total intrinsic value of options that were exercised during 2011, 2010 and 2009 was $10.9 million, $7.4 million and $5.2 million, respectively. At December 31, 2011, the total unrecognized compensation cost related to stock options was $5.3 million. This cost is expected to be recognized over a weighted average period of 1.4 years.

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We estimated the fair values using the Black-Scholes option-pricing model, modified for dividends and using the following assumptions:

	2011	2010	2009
Risk-free interest rate	1.51%	2.45%	1.77%
Expected dividend yield	2.32%	2.30%	3.20%
Expected stock price volatility	35.50%	35.00%	32.50%
Expected lives	5.5 yrs	5.5 yrs	5.2 yrs

Cash received from option exercises for the years ended December 31, 2011, 2010 and 2009 was $14.7 million, $14.9 million and $8.2 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $4.1 million, $2.8 million and $1.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Restricted share awards

The following table summarizes restricted share award activity under all plans:

Restricted shares outstanding	Shares	Weighted average grant date fair value
Balance January 1, 2011	1,309,403	$ 29.33
Granted	278,418	36.60
Vested	(276,956)	31.63
Forfeited	(60,783)	28.32
Balance December 31, 2011	1,250,082	$ 30.49

As of December 31, 2011, there was $16.4 million of unrecognized compensation cost related to restricted share compensation arrangements granted under the 2004 Plan and the 2008 Plan. That cost is expected to be recognized over a weighted-average period of 2.0 years. The total fair value of shares vested during the years ended December 31, 2011, 2010 and 2009, was $10.2 million, $12.7 million and $5.5 million, respectively. The actual tax benefit realized for the tax deductions from restricted share compensation arrangements totaled $3.6 million, $3.4 million and $2.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

15. Business Segments

We classify our continuing operations into the following business segments based primarily on types of products offered and markets served:

Water & Fluid Solutions manufactures and markets essential products and systems used in the movement, storage, treatment and enjoyment of water. Products include water and wastewater pumps; filtration and purification components and systems; storage tanks and pressure vessels; and pool and spa equipment and accessories.

Technical Products designs, manufactures and markets standard, modified and custom enclosures that house and protect sensitive electronics and electrical components and protect the people that use them. Applications served include industrial machinery, data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense and general electronics. Products include mild steel, stainless steel, aluminum and non-metallic enclosures, cabinets, cases, subracks, backplanes and associated thermal management systems.

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Other is primarily composed of unallocated corporate expenses, our captive insurance subsidiary, intermediate finance companies and divested operations.

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

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

In thousands	2011	2010	2009	2011	2010	2009
	Net sales to external customers			**Operating income (loss)**		
Water & Fluid Solutions	$ 2,369,804	$ 2,041,281	$ 1,847,764	$ 58,311	$ 231,588	$ 163,745
Technical Products	1,086,882	989,492	844,704	185,240	151,533	100,355
Other				(75,034)	(48,966)	(44,152)
Consolidated	$ 3,456,686	$ 3,030,773	$ 2,692,468	$ 168,517	$ 334,155	$ 219,948
	Identifiable assets [1]			**Depreciation**		
Water & Fluid Solutions	$ 3,792,188	$ 3,409,556	$ 3,205,774	$ 42,419	$ 37,449	$ 44,063
Technical Products	651,693	728,969	716,092	17,826	17,544	19,035
Other [1]	142,432	(164,992)	(10,532)	5,990	3,002	1,725
Consolidated	$ 4,586,313	$ 3,973,533	$ 3,911,334	$ 66,235	$ 57,995	$ 64,823
	Amortization			**Capital expenditures**		
Water & Fluid Solutions	$ 39,451	$ 22,981	$ 34,919	$ 49,241	$ 39,631	$ 36,513
Technical Products	2,446	2,610	2,687	15,806	8,336	15,388
Other		593	3,051	8,301	11,556	2,236
Consolidated	$ 41,897	$ 26,184	$ 40,657	$ 73,348	$ 59,523	$ 54,137

The following table presents certain geographic information:

In thousands	2011	2010	2009	2011	2010	2009
	Net sales to external customers			**Long-lived assets**		
U.S.	$ 2,336,845	$ 2,222,856	$ 1,964,138	$ 195,631	$ 196,440	$ 203,206
Europe	701,865	470,879	439,312	140,290	77,000	87,880
Asia and other	417,976	337,038	289,018	51,604	55,995	42,602
Consolidated	$ 3,456,686	$ 3,030,773	$ 2,692,468	$ 387,525	$ 329,435	$ 333,688

[1] All cash and cash equivalents are included in Other

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

We offer a broad array of products and systems to multiple markets and customers for which we do not have the information systems to track revenues by primary product category. However, our net sales by segment are representative of our sales by major product category.

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We sell our products through various distribution channels including wholesale and retail distributors, original equipment manufacturers and home centers. In Water & Fluid Solutions, one customer accounted for approximately 10% of segment sales in 2011 and 2010 and no single customer accounted for more than 10% of segment sales in 2009. In Technical Products, no single customer accounted for more than 10% of segment sales in 2011, 2010 or 2009.

16. Commitments and Contingencies

Operating lease commitments

Net rental expense under operating leases follows:

In thousands	2011	2010	2009
Gross rental expense	$ 39,808	$ 32,662	$ 32,799
Sublease rental income	(455)	(225)	(74)
Net rental expense	$ 39,353	$ 32,437	$ 32,725

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

In thousands	2012	2013	2014	2015	2016	Thereafter	Total
Minimum lease payments	$ 25,961	$ 19,343	$ 15,944	$ 12,689	$ 10,331	$ 16,794	$ 101,062
Minimum sublease rentals	(280)	(283)	(285)	(118)	(103)	(103)	(1,172)
Net future minimum lease commitments	$ 25,681	$ 19,060	$ 15,659	$ 12,571	$ 10,228	$ 16,691	$ 99,890

Environmental

We have been named as defendants, targets, or PRPs in a small number of environmental clean-ups, in which our current or former business units have generally been given *de minimis* status. To date, none of these claims have resulted in clean-up costs, fines, penalties, or damages in an amount material to our financial position or results of operations. We have disposed of a number of businesses in the past and in certain cases, such as the disposition of the Cross Pointe Paper Corporation uncoated paper business in 1995, the disposition of the Federal Cartridge Company ammunition business in 1997, the disposition of Lincoln Industrial in 2001 and the disposition of the Tools Group in 2004, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers of these businesses and have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities. We settled some of the claims in prior years; to date our recorded accruals have been adequate.

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

We may be named as a PRP at other sites in the future, for both divested and acquired businesses. When the outcome of the matter is probable and it is possible to provide reasonable estimates of our liability with respect to environmental sites, provisions have been made in accordance with GAAP. As of December 31, 2011 and 2010, our undiscounted reserves for such environmental liabilities were approximately $1.5 million and $1.3 million, respectively. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental clean-up costs and liabilities will not exceed the amount of our current reserves.

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Litigation

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

We record liabilities for an estimated loss from a loss contingency where the outcome of the matter is probable and can be reasonably estimated. Factors that are considered when determining whether the conditions for accrual have been met include the (a) nature of the litigation, claim, or assessment, (b) progress of the case, including progress after the date of the financial statements but before the issuance date of the financial statements, (c) opinions of legal counsel and (d) management s intended response to the litigation, claim, or assessment. Where the reasonable estimate of the probable loss is a range, we record the most likely estimate of the loss. When no amount within the range is a better estimate than any other amount, however, the minimum amount in the range is accrued. Gain contingencies are not recorded until realized.

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

Product liability claims

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

Warranties and guarantees

In connection with the disposition of our businesses or product lines, we may agree to indemnify purchasers for various potential liabilities relating to the sold business, such as pre-closing tax, product liability, warranty, environmental, or other obligations. The subject matter, amounts and duration of any such indemnification obligations vary for each type of liability indemnified and may vary widely from transaction to transaction. Generally, the maximum obligation under such indemnifications is not explicitly stated and as a result, the overall amount of these obligations cannot be reasonably estimated. Historically, we have not made significant payments for these indemnifications. We believe that if we were to incur a loss in any of these matters, the loss would not have a material effect on our financial condition or results of operations.

We recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

We provide service and warranty policies on our products. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant.

Pentair, Inc. and Subsidiaries

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The changes in the carrying amount of service and product warranties for the years ended December 31, 2011 and 2010 were as follows:

In thousands	2011	2010
Balance at beginning of the year	$ 30,050	$ 24,288
Service and product warranty provision	50,096	56,553
Payments	(53,937)	(50,729)
Acquired	3,575	
Translation	(429)	(62)
Balance at end of the period	$ 29,355	$ 30,050

Stand-by letters of credit and bonds

In the ordinary course of business, we are required to commit to bonds that require payments to our customers for any non-performance. The outstanding face value of the bonds fluctuates with the value of our projects in process and in our backlog. In addition, we issue financial stand-by letters of credit primarily to secure our performance to third parties under self-insurance programs. As of December 31, 2011 and December 31, 2010, the outstanding value of these instruments totaled $136.2 million and $116.5 million, respectively.

17. Selected Quarterly Financial Data (Unaudited)

The following table represents the 2011 quarterly financial information:

			2011		
In thousands, except per-share data	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	$ 790,273	$ 910,175	$ 890,546	$ 865,692	$ 3,456,686
Gross profit	249,059	287,736	272,062	264,865	1,073,722
Operating income	86,177	109,422	92,903	(119,985)	168,517
Income from continuing operations	52,034	68,137	52,054	(133,704)	38,521
Net income from continuing operations attributable to Pentair, Inc.	50,541	66,712	51,092	(134,123)	34,222
Earnings per common share attributable to Pentair, Inc. [1]					
Basic					
Continuing operations	$ 0.52	$ 0.68	$ 0.52	$ (1.36)	$ 0.35
Basic earnings per common share	$ 0.52	$ 0.68	$ 0.52	$ (1.36)	$ 0.35
Diluted					
Continuing operations	$ 0.51	$ 0.67	$ 0.51	$ (1.36)	$ 0.34
Diluted earnings per common share	$ 0.51	$ 0.67	$ 0.51	$ (1.36)	$ 0.34

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

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Notes to consolidated financial statements

The following table represents the 2010 quarterly financial information:

			2010		
In thousands, except per-share data	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	$ 707,013	$ 796,167	$ 773,735	$ 753,858	$ 3,030,773
Gross profit	213,702	248,168	236,542	232,228	930,640
Operating income	63,601	100,126	90,823	79,605	334,155
Income from continuing operations	36,029	61,612	55,729	49,577	202,947
Gain (loss) on disposal of discontinued operations, net of tax	524	593	549	(2,292)	(626)
Net income from continuing operations attributable to to Pentair, Inc.	34,797	60,488	54,501	48,668	198,454
Earnings per common share attributable to Pentair, Inc. [(1)]					
Basic					
Continuing operations	$ 0.35	$ 0.61	$ 0.55	$ 0.50	$ 2.02
Discontinued operations	0.01	0.01	0.01	(0.02)	(0.01)
Basic earnings per common share	$ 0.36	$ 0.62	$ 0.56	$ 0.48	$ 2.01
Diluted					
Continuing operations	$ 0.35	$ 0.61	$ 0.55	$ 0.49	$ 2.00
Discontinued operations	0.01			(0.02)	(0.01)
Diluted earnings per common share	$ 0.36	$ 0.61	$ 0.55	$ 0.47	$ 1.99

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

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18. 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.

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Condensed Consolidated Statements of Income

For the year ended December 31, 2011

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 2,243,362	$ 1,437,242	$ (223,918)	$ 3,456,686
Cost of goods sold	4,000	1,562,298	1,039,362	(222,696)	2,382,964
Gross profit	(4,000)	681,064	397,880	(1,222)	1,073,722
Selling, general and administrative	18,967	338,830	269,952	(1,222)	626,527
Research and development	1,032	41,860	35,266		78,158
Goodwill impairment			200,520		200,520
Operating (loss) income	(23,999)	300,374	(107,858)		168,517
Loss (earnings) from investment in subsidiaries	18,792	(27,419)	(1,321)	9,948	
Other (income) expense:					
Equity income of unconsolidated subsidiaries		(1,654)	(244)		(1,898)
Net interest (income) expense	(107,743)	152,264	14,314		58,835
Income (loss) from continuing operations before income taxes and noncontrolling interest	64,952	177,183	(120,607)	(9,948)	111,580
Provision for income taxes	30,730	45,156	(2,827)		73,059
Net income before noncontrolling interest	34,222	132,027	(117,780)	(9,948)	38,521
Noncontrolling interest			4,299		4,299
Net income attributable to Pentair, Inc.	$ 34,222	$ 132,027	$ (122,079)	$ (9,948)	$ 34,222

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

For the year ended December 31, 2010

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 2,092,487	$ 1,189,597	$ (251,311)	$ 3,030,773
Cost of goods sold	3,167	1,453,786	893,570	(250,390)	2,100,133
Gross profit	(3,167)	638,701	296,027	(921)	930,640
Selling, general and administrative	(3,713)	337,408	196,555	(921)	529,329
Research and development	393	42,386	24,377		67,156
Operating income	153	258,907	75,095		334,155
Earnings from investment in subsidiaries	(129,872)			129,872	
Other (income) expense:					
Equity income of unconsolidated subsidiaries		(1,551)	(557)		(2,108)
Net interest (income) expense	(111,034)	153,904	(6,754)		36,116
Income (loss) from continuing operations before income taxes and noncontrolling interest	241,059	106,554	82,406	(129,872)	300,147
Provision for income taxes	42,605	36,447	18,148		97,200
Income from continuing operations	198,454	70,107	64,258	(129,872)	202,947
Loss on disposal of discontinued operations, net of tax	(626)				(626)
Net income before noncontrolling interest	197,828	70,107	64,258	(129,872)	202,321
Noncontrolling interest			4,493		4,493
Net income attributable to Pentair, Inc.	$ 197,828	$ 70,107	$ 59,765	$ (129,872)	$ 197,828
Net income from continuing operations attributable to Pentair, Inc.	$ 198,454	$ 70,107	$ 59,765	$ (129,872)	$ 198,454

Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

For the year ended December 31, 2009

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 1,827,463	$ 1,050,381	$ (185,376)	$ 2,692,468
Cost of goods sold	7,024	1,310,011	775,116	(184,818)	1,907,333
Gross profit	(7,024)	517,452	275,265	(558)	785,135
Selling, general and administrative	10,074	312,079	185,708	(558)	507,303
Research and development	306	34,844	22,734		57,884
Operating (loss) income	(17,404)	170,529	66,823		219,948
Earnings from investment in subsidiaries	(60,528)			60,528	
Other (income) expense:					
Equity losses of unconsolidated subsidiaries		1,379			1,379
Loss on early extinguishment of debt	4,804				4,804
Net interest (income) expense	(106,586)	153,672	(5,968)		41,118
Income (loss) from continuing operations before income taxes and noncontrolling interest	144,906	15,478	72,791	(60,528)	172,647
Provision for income taxes	29,270	6,063	21,095		56,428
Income from continuing operations	115,636	9,415	51,696	(60,528)	116,219
(Loss) gain on disposal of discontinued operations, net of tax	(143)	551	(427)		(19)
Net income before noncontrolling interest	115,493	9,966	51,269	(60,528)	116,200
Noncontrolling interest			707		707
Net income attributable to Pentair, Inc.	$ 115,493	$ 9,966	$ 50,562	$ (60,528)	$ 115,493
Net income from continuing operations attributable to Pentair, Inc.	$ 115,636	$ 9,415	$ 50,989	$ (60,528)	$ 115,512

Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

December 31, 2011

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 3,097	$ 3,332	$ 43,648	$	$ 50,077
Accounts and notes receivable, net	828	360,027	263,201	(54,852)	569,204
Inventories		227,472	222,391		449,863
Deferred tax assets	134,240	40,698	13,382	(127,421)	60,899
Prepaid expenses and other current assets	28,937	(6,886)	107,121	(21,380)	107,792
Total current assets	167,102	624,643	649,743	(203,653)	1,237,835
Property, plant and equipment, net	19,693	136,102	231,730		387,525
Other assets					
Investments in/advances to subsidiaries	2,910,927	1,447,522	92,396	(4,450,845)	
Goodwill		1,330,265	943,653		2,273,918
Intangibles, net		250,792	341,493		592,285
Other	63,508	27,337	23,045	(19,140)	94,750
Total other assets	2,974,435	3,055,916	1,400,587	(4,469,985)	2,960,953
Total assets	$ 3,161,230	$ 3,816,661	$ 2,282,060	$ (4,673,638)	$ 4,586,313
Liabilities and Shareholders Equity					
Current liabilities					
Short-term borrowings	$	$	$ 3,694	$	$ 3,694
Current maturities of long-term debt	2,585		1,168	(2,585)	1,168
Accounts payable	5,036	189,355	152,065	(51,598)	294,858
Employee compensation and benefits	24,466	30,015	54,880		109,361
Current pension and post-retirement benefits	9,052				9,052
Accrued product claims and warranties	165	22,037	20,428		42,630
Income taxes	40,999	(28,717)	2,265		14,547
Accrued rebates and sales incentives		25,612	11,397		37,009
Other current liabilities	25,050	53,960	71,890	(21,378)	129,522
Total current liabilities	107,353	292,262	317,787	(75,561)	641,841
Other liabilities					
Long-term debt	1,312,053	2,417,922	542,411	(2,968,161)	1,304,225
Pension and other retirement compensation	182,556	(7,701)	73,760		248,615
Post-retirement medical and other benefits	17,024	33,890		(19,140)	31,774
Long-term income taxes payable	26,470				26,470
Deferred tax liabilities		229,962	86,416	(127,421)	188,957
Due to/ (from) affiliates	(479,943)	751,145	711,705	(982,907)	
Other non-current liabilities	62,388	1,508	33,143		97,039
Total liabilities	1,227,901	3,718,988	1,765,222	(4,173,190)	2,538,921
Noncontrolling interest			114,063		114,063
Shareholders equity attributable to Pentair, Inc.	1,933,329	97,673	402,775	(500,448)	1,933,329

Total liabilities and shareholders equity	$ 3,161,230	$ 3,816,661	$ 2,282,060	$ (4,673,638)	$ 4,586,313

Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

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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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the year ended December 31, 2011

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities					
Net income before noncontrolling interest	$ 34,222	$ 132,027	$ (117,780)	$ (9,948)	$ 38,521
Adjustments to reconcile net income to net cash provided by (used for) operating activities					
Equity income of unconsolidated subsidiaries		(1,654)	(244)		(1,898)
Depreciation	5,991	27,742	32,502		66,235
Amortization		15,195	26,702		41,897
Loss (earnings) from investments in subsidiaries	18,792	(27,419)	(1,321)	9,948	
Deferred income taxes	6,889	18,084	(30,556)		(5,583)
Stock compensation	19,489				19,489
Goodwill impairment			200,520		200,520
Excess tax benefits from stock-based compensation	(3,310)				(3,310)
Loss on sale of assets	933				933
Changes in assets and liabilities, net of effects of business acquisitions and dispositions					
Accounts and notes receivable	(53,661)	20,574	32,870	1,565	1,348
Inventories		7,589	10,674		18,263
Prepaid expenses and other current assets	(19,728)	17,041	(5,601)	18,320	10,032
Accounts payable	60,209	5,320	(78,308)	(11,551)	(24,330)
Employee compensation and benefits	(23,553)	(2,193)	5,260		(20,486)
Accrued product claims and warranties		(1,533)	(451)		(1,984)
Income taxes	48,947	(33,965)	(4,898)		10,084
Other current liabilities	10,539	22,568	(3,867)	(18,319)	10,921
Pension and post-retirement benefits	(17,662)	(10,910)	3,976		(24,596)
Other assets and liabilities	502	(18,485)	(7,832)	9,985	(15,830)
Net cash provided by (used for) operating activities	88,599	169,981	61,646		320,226
Investing activities					
Capital expenditures	(8,301)	(27,625)	(37,422)		(73,348)
Proceeds from sale of property and equipment		143	1,167		1,310
Acquisitions, net of cash acquired			(733,105)		(733,105)
Other	3,702	(4,604)	(2,041)		(2,943)
Net cash provided by (used for) investing activities	(4,599)	(32,086)	(771,401)		(808,086)
Financing activities					
Net short-term borrowings	(1,239)				(1,239)
Proceeds from long-term debt	1,421,602				1,421,602

Repayment of long-term debt	(832,147)				(832,147)
Debt issuance costs	(8,973)				(8,973)
Net change in advances to subsidiaries	(579,126)	(137,767)	716,893		
Excess tax benefits from stock-based compensation	3,310				3,310
Stock issued to employees, net of shares withheld	13,324		(2)		13,322
Repurchases of common stock	(12,785)				(12,785)
Dividends paid	(78,351)	(200)	(986)		(79,537)
Net cash provided by (used for) financing activities	(74,385)	(137,967)	715,905		503,553
Effect of exchange rate changes on cash and cash equivalents	(9,719)		(1,953)		(11,672)
Change in cash and cash equivalents	(104)	(72)	4,197		4,021
Cash and cash equivalents, beginning of period	3,201	3,404	39,451		46,056
Cash and cash equivalents, end of period	$ 3,097	$ 3,332	$ 43,648	$	$ 50,077

Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the year ended December 31, 2010

In thousands	**Parent Company**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Operating activities					
Net income before noncontrolling interest	$ 197,828	$ 70,107	$ 64,258	$ (129,872)	$ 202,321
Adjustments to reconcile net income to net cash provided by (used for) operating activities					
Loss on disposal of discontinued operations	626				626
Equity income of unconsolidated subsidiaries		(1,551)	(557)		(2,108)
Depreciation	3,002	29,902	25,091		57,995
Amortization	593	15,597	9,994		26,184
Earnings from investments in subsidiaries	(129,872)			129,872	
Deferred income taxes	18,075	9,679	1,699		29,453
Stock compensation	21,468				21,468
Excess tax benefits from stock-based compensation	(2,686)				(2,686)
Loss on sale of assets	466				466
Changes in assets and liabilities, net of effects of business acquisitions and dispositions					
Accounts and notes receivable	1,759	(61,042)	(14,222)	11,161	(62,344)
Inventories		(10,683)	(33,812)		(44,495)
Prepaid expenses and other current assets	(8,519)	(3,035)	6,993	7,338	2,777
Accounts payable	(1,431)	43,578	24,248	(11,074)	55,321
Employee compensation and benefits	14,630	4,840	7,782		27,252
Accrued product claims and warranties	12,245	5,695	(9,872)		8,068
Income taxes	(13,267)	15,813	(755)		1,791
Other current liabilities	3,314	(5,258)	9,921	(7,416)	561
Pension and post-retirement benefits	(33,762)	(11,798)	2,536		(43,024)
Other assets and liabilities	(2,191)	(12,731)	5,672		(9,250)
Net cash provided by (used for) operating activities	82,278	89,113	98,976	9	270,376
Investing activities					
Capital expenditures	(11,557)	(22,954)	(25,012)		(59,523)
Proceeds from sale of property and equipment		284	74		358
Other	525		(1,673)		(1,148)
Net cash provided by (used for) investing activities	(11,032)	(22,670)	(26,611)		(60,313)
Financing activities					
Net short-term borrowings	2,728	31	(31)		2,728
Proceeds from long-term debt	703,641				703,641
Repayment of long-term debt	(804,713)				(804,713)
Debt issuance costs	(50)				(50)
Net change in advances to subsidiaries	106,372	(59,269)	(47,090)	(13)	

Excess tax benefits from stock-based compensation	2,686				2,686
Stock issued to employees, net of shares withheld	9,941				9,941
Repurchases of common stock	(24,712)				(24,712)
Dividends paid	(73,014)	142	(2,593)		(75,465)
Distribution to noncontrolling interest			(4,647)		(4,647)
Net cash provided by (used for) financing activities	(77,121)	(59,096)	(54,361)	(13)	(190,591)
Effect of exchange rate changes on cash and cash equivalents	7,044	(5,756)	(8,104)	4	(6,812)
Change in cash and cash equivalents	1,169	1,591	9,900		12,660
Cash and cash equivalents, beginning of period	2,032	1,813	29,551		33,396
Cash and cash equivalents, end of period	$ 3,201	$ 3,404	$ 39,451	$	$ 46,056

Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the year end December 31, 2009

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities					
Net income before noncontrolling interest	$ 115,493	$ 9,966	$ 51,269	$ (60,528)	$ 116,200
Adjustments to reconcile net income to net cash provided by (used for) operating activities					
Loss (gain) on disposal of discontinued operations	143	(551)	427		19
Equity losses of unconsolidated subsidiaries		1,379			1,379
Depreciation	8,166	30,506	26,151		64,823
Amortization	14,332	15,752	10,573		40,657
Earnings from investments in subsidiaries	(60,528)			60,528	
Deferred income taxes	8,223	18,582	3,811		30,616
Stock compensation	17,324				17,324
Excess tax benefits from stock-based compensation	(1,746)				(1,746)
(Gain) loss on sale of assets	(1,389)		2,374		985
Changes in assets and liabilities, net of effects of business acquisitions and dispositions					
Accounts and notes receivable	(1,456)	10,492	7,484	(5,213)	11,307
Inventories		46,791	19,893		66,684
Prepaid expenses and other current assets	48,529	2,985	(37,221)	1,909	16,202
Accounts payable	5,615	(18,623)	(5,209)	4,395	(13,822)
Employee compensation and benefits	(1,385)	(13,968)	(7,078)		(22,431)
Accrued product claims and warranties		(7,645)	205		(7,440)
Income taxes	(10,921)	6,917	5,976		1,972
Other current liabilities	(29,030)	(15,312)	25,118	(1,857)	(21,081)
Pension and post-retirement benefits	(30,630)	(11,716)	2,739		(39,607)
Other assets and liabilities	(19,117)	39,226	(22,250)		(2,141)
Net cash provided by (used for) continuing operations	61,623	114,781	84,262	(766)	259,900
Net cash provided by (used for) operating activities of discontinued operations	(30)	(1,590)	89		(1,531)
Net cash provided by (used for) operating activities	61,593	113,191	84,351	(766)	258,369
Investing activities					
Capital expenditures	(2,237)	(19,676)	(32,224)		(54,137)
Proceeds from sale of property and equipment		446	762		1,208
Divestitures	404	1,002	161		1,567
Other	7		(3,231)		(3,224)
Net cash provided by (used for) investing activities	(1,826)	(18,228)	(34,532)		(54,586)
Financing activities					
Net short-term borrowings	2,205	115	(115)		2,205
Proceeds from long-term debt	580,000				580,000
Repayment of long-term debt	(730,304)				(730,304)
Debt issuance costs	(50)				(50)
Net change in advances to subsidiaries	152,482	(110,046)	(43,201)	765	
Excess tax benefits from stock-based compensation	1,746				1,746
Stock issued to employees, net of shares withheld	8,247				8,247
Dividends paid	(63,686)	5,313	(12,554)		(70,927)

Net cash provided by (used for) financing activities	(49,360)	(104,618)	(55,870)	765	(209,083)
Effect of exchange rate changes on cash and cash equivalents	(11,095)	8,123	2,323	1	(648)
Change in cash and cash equivalents	(688)	(1,532)	(3,728)		(5,948)
Cash and cash equivalents, beginning of period	2,720	3,345	33,279		39,344
Cash and cash equivalents, end of period	$ 2,032	$ 1,813	$ 29,551	$	$ 33,396

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

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

(1) Financial Statements

Consolidated Statements of Income for the Years Ended December 31, 2011, 2010 and 2009

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009

Consolidated Statements of Changes in Shareholders Equity for the Years Ended December 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts (Previously filed with the Annual Report on Form 10-K of Pentair, Inc. for the fiscal year ended December 31, 2011, as filed on February 21, 2012).

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

(3) Exhibits

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 13, 2012.

PENTAIR, INC.

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

Financial Officer

Exhibit Index

Exhibit Number	Exhibit
3.1	Third Restated Articles of Incorporation as amended through May 3, 2007 (Incorporated by reference to Exhibit 3.1 contained in Pentair s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007).
3.2	Fourth Amended and Superseding By-Laws as amended through May 3, 2007 (Incorporated by reference to Exhibit 3.2 contained in Pentair s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007).
3.3	Statement of Resolution of the Board of Directors Establishing the Series and Fixing the Relative Rights and Preferences of Series A Junior Participating Preferred Stock (Incorporated by reference to Exhibit 3.1 contained in Pentair s Current Report on Form 8-K dated December 10, 2004).
4.1	Rights Agreement dated as of December 10, 2004 between Pentair, Inc. and Wells Fargo Bank, N.A. (Incorporated by reference to Exhibit 4.1 contained in Pentair s Registration Statement on Form 8-A, dated as of December 31, 2004).
4.2	Fourth Amended and Restated Credit Agreement dated April 28, 2011, among Pentair, Inc., certain of its subsidiaries and the lenders and agents party thereto (Incorporated by reference to Exhibit 4.1 contained in Pentair s Current Report on Form 8-K dated April 28, 2011).
4.3	Note Purchase Agreement dated as of July 25, 2003 for $50,000,000 4.93% Senior Notes, Series A, due July 25, 2013, $100,000,000 Floating Rate Senior Notes, Series B, due July 25, 2013 and $50,000,000 5.03% Senior Notes, Series C, due October 15, 2013 (Incorporated by reference to Exhibit 10.22 contained in Pentair s Current Report on Form 8-K dated July 25, 2003).
4.4	First Amendment to Note Purchase agreement dated July 19, 2005 by and among Pentair, Inc. and the undersigned holders (Incorporated by reference to Exhibit 4 contained in Pentair s Quarterly Report on Form 10-Q for the quarterly period ended July 2, 2005).
4.5	Form of Note Purchase Agreement, dated May 17, 2007, by and among Pentair, Inc. and various institutional investors, for the sale of $300 million aggregate principal amount of Pentair s 5.87% Senior Notes, Series D, due May 17, 2017 and $105 million aggregate principal amount of Pentair s Floating Rate Senior Notes, Series E, due May 17, 2012 (Incorporated by reference to Exhibit 4.1 contained in Pentair s Current Report on Form 8-K dated May 17, 2007).
4.6	Senior Indenture, dated May 2, 2011 by and among Pentair, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.5 to Pentair, Inc. s Registration Statement on Form S-3 (Registration 333-173829)).
4.7	First Supplemental Indenture, dated as of May 9, 2011, among Pentair, Inc., the guarantors named therein and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 contained in Pentair s Current Report on Form 8-K dated May 9, 2011).
10.1	Pentair s 1999 Supplemental Executive Retirement Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.2 contained in Pentair s Current Report on Form 8-K filed September 21, 2000).*
10.2	Pentair s 1999 Supplemental Executive Retirement Plan as Amended and Restated effective January 1, 2009 (Incorporated by reference to Exhibit 10.2 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2008).*
10.3	Pentair s Restoration Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.3 contained in Pentair s Current Report on Form 8-K filed September 21, 2000).*

Exhibit Number	Exhibit
10.4	Pentair s Restoration Plan as Amended and Restated effective January 1, 2009 (Incorporated by reference to Exhibit 10.4 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2008).*
10.5	Pentair, Inc. Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.17 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2005).*
10.6	Trust Agreement for Pentair, Inc. Non-Qualified Deferred Compensation Plan between Pentair, Inc. and Fidelity Management Trust Company (Incorporated by reference to Exhibit 10.18 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 1995).*
10.7	Amendment effective August 23, 2000 to Pentair s Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.8 contained in Pentair s Current Report on Form 8-K filed September 21, 2000).*
10.8	Pentair, Inc. Non-Qualified Deferred Compensation Plan effective January 1, 2009, as Amended and Restated Through July 29, 2009 (Incorporated by reference to Exhibit 10.2 contained in Pentair s Quarterly Report on Form 10-Q for the year ended September 26, 2009).*
10.9	Pentair, Inc. Executive Officer Performance Plan as Amended and Restated, effective January 1, 2009 (Incorporated by reference to Appendix B contained in Pentair s Proxy Statement for its 2009 annual meeting of shareholders).*
10.10	Form of Key Executive Employment and Severance Agreement for Randall J. Hogan (Incorporated by reference to Exhibit 10.10 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2008).*
10.11	Form of Key Executive Employment and Severance Agreement for Michael V. Schrock, Frederick S. Koury and Michael G. Meyer (Incorporated by reference to Exhibit 10.11 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2008).*
10.12	Form of Key Executive Employment and Severance Agreement for John L. Stauch, Mark C. Borin and Angela D. Lageson (Incorporated by reference to Exhibit 10.12 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2008).*
10.13	Pentair, Inc. International Stock Purchase and Bonus Plan, as Amended and Restated, effective May 1, 2004 (Incorporated by reference to Appendix I contained in Pentair s Proxy Statement for its 2004 annual meeting of shareholders).*
10.14	Pentair, Inc. Compensation Plan for Non-Employee Directors, as Amended and Restated Through December 16, 2009 (Incorporated by reference to Exhibit 10.14 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2009).*
10.15	Pentair, Inc. Omnibus Stock Incentive Plan, as Amended and Restated, effective December 12, 2007 (Incorporated by reference to Exhibit 10.14 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2007).*
10.16	Pentair, Inc. Employee Stock Purchase and Bonus Plan, as Amended and Restated, effective May 1, 2004 (Incorporated by reference to Appendix H contained in Pentair s Proxy Statement for its 2004 annual meeting of shareholders).*
10.17	Letter Agreement, dated January 6, 2005, between Pentair, Inc. and Michael Schrock (Incorporated by reference to Exhibit 10.1 contained in Pentair s Current Report on Form 8-K dated January 6, 2005).*

Exhibit Number	Exhibit
10.18	Confidentiality and Non-Competition Agreement, dated January 6, 2005, between Pentair, Inc. and Michael Schrock (Incorporated by reference to Exhibit 10.2 contained in Pentair s Current Report on Form 8-K dated January 6, 2005).*
10.19	Pentair, Inc. 2008 Omnibus Stock Incentive Plan, as Amended and Restated (Incorporated by reference to Appendix A contained in Pentair s Proxy Statement for its 2010 annual meeting of shareholders filed on March 18, 2010).*
10.20	Form of award letter for executive officers under the Pentair, Inc. 2008 Omnibus Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 contained in Pentair s Current Report on Form 8-K filed January 8, 2009).*
10.21	Form of award letter for directors under the Pentair, Inc. 2008 Omnibus Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.21 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2009).*
10.22	Amended and Restated Pentair, Inc. Outside Directors Nonqualified Stock Option Plan as amended through February 27, 2002 (Incorporated by reference to Exhibit 10.7 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2001).*
21	List of Pentair subsidiaries.**
23	Consent of Independent Registered Public Accounting Firm Deloitte & Touche LLP.
24	Power of Attorney.**
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
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 Annual Report on Form 10-K/A for the year ended December 31, 2011 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income for the three years ended December 31, 2011, 2010 and 2009, (ii) the Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010, (iii) the Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009, (iv) the Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2011, 2010 and 2009 and (v) the Notes to the Consolidated Financial Statements.

* A management or compensatory contact.

** Previously filed with the Annual Report on Form 10-K of Pentair, Inc. for the fiscal year ended December 31, 2011, as filed on February 21, 2012.