

PENTAIR INC  
Form 10-Q  
October 26, 2010

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

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended October 2, 2010**

**OR**

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

**Commission file number 000-04689**

**Pentair, Inc.**

**(Exact name of Registrant as specified in its charter)**

**Minnesota**

**41-0907434**

**(State or other jurisdiction of incorporation or  
organization)**

**(I.R.S. Employer Identification number)**

**5500 Wayzata Blvd, Suite 800, Golden Valley,  
Minnesota**

**55416**

**(Address of principal executive offices)**

**(Zip code)**

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

On October 2, 2010, 98,690,604 shares of Registrant's common stock were outstanding.



**Pentair, Inc. and Subsidiaries**

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

|                                                                                   | <b>Three months ended</b> |                  | <b>Nine months ended</b> |                  |
|-----------------------------------------------------------------------------------|---------------------------|------------------|--------------------------|------------------|
|                                                                                   | <b>October</b>            | <b>September</b> | <b>October 2,</b>        | <b>September</b> |
|                                                                                   | <b>2,</b>                 | <b>26,</b>       | <b>2010</b>              | <b>26,</b>       |
|                                                                                   | <b>2010</b>               | <b>2009</b>      |                          | <b>2009</b>      |
| <i>In thousands, except per-share data</i>                                        |                           |                  |                          |                  |
| Net sales                                                                         | \$ 773,735                | \$ 662,665       | \$ 2,276,915             | \$ 1,990,217     |
| Cost of goods sold                                                                | 537,193                   | 455,698          | 1,578,503                | 1,417,539        |
| Gross profit                                                                      | 236,542                   | 206,967          | 698,412                  | 572,678          |
| Selling, general and administrative                                               | 128,854                   | 125,578          | 392,787                  | 361,957          |
| Research and development                                                          | 16,865                    | 14,707           | 51,075                   | 43,265           |
| Operating income                                                                  | 90,823                    | 66,682           | 254,550                  | 167,456          |
| Other (income) expense:                                                           |                           |                  |                          |                  |
| Equity (income) losses of unconsolidated subsidiaries                             | (347)                     | 135              | (1,806)                  | 691              |
| Loss on early extinguishment of debt                                              |                           |                  |                          | 4,804            |
| Net interest expense                                                              | 8,953                     | 9,711            | 27,049                   | 31,328           |
| Income from continuing operations before income taxes and noncontrolling interest | 82,217                    | 56,836           | 229,307                  | 130,633          |
| Provision for income taxes                                                        | 26,488                    | 18,159           | 75,937                   | 41,808           |
| Income from continuing operations                                                 | 55,729                    | 38,677           | 153,370                  | 88,825           |
| Gain (loss) on disposal of discontinued operations, net of tax                    | 549                       | (85)             | 1,666                    | (153)            |
| Net income before noncontrolling interest                                         | 56,278                    | 38,592           | 155,036                  | 88,672           |
| Noncontrolling interest                                                           | 1,228                     | 1,644            | 3,584                    | 2,531            |
| Net income attributable to Pentair, Inc.                                          | \$ 55,050                 | \$ 36,948        | \$ 151,452               | \$ 86,141        |
| Net income from continuing operations attributable to Pentair, Inc.               | \$ 54,501                 | \$ 37,033        | \$ 149,786               | \$ 86,294        |
| <b>Earnings per common share attributable to Pentair, Inc.</b>                    |                           |                  |                          |                  |
| <b>Basic</b>                                                                      |                           |                  |                          |                  |
| Continuing operations                                                             | \$ 0.55                   | \$ 0.38          | \$ 1.53                  | \$ 0.89          |
| Discontinued operations                                                           | 0.01                      |                  | 0.01                     |                  |

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|                                                   |         |         |         |         |
|---------------------------------------------------|---------|---------|---------|---------|
| Basic earnings per common share                   | \$ 0.56 | \$ 0.38 | \$ 1.54 | \$ 0.89 |
| <b><i>Diluted</i></b>                             |         |         |         |         |
| Continuing operations                             | \$ 0.55 | \$ 0.38 | \$ 1.51 | \$ 0.88 |
| Discontinued operations                           |         |         | 0.01    |         |
| Diluted earnings per common share                 | \$ 0.55 | \$ 0.38 | \$ 1.52 | \$ 0.88 |
| <b>Weighted average common shares outstanding</b> |         |         |         |         |
| Basic                                             | 98,298  | 97,496  | 98,105  | 97,495  |
| Diluted                                           | 99,514  | 98,641  | 99,326  | 98,329  |
| <b>Cash dividends declared per common share</b>   | \$ 0.19 | \$ 0.18 | \$ 0.57 | \$ 0.54 |

*See accompanying notes to condensed consolidated financial statements.*

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

|                                                      | <b>October 2,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> | <b>September<br/>26,<br/>2009</b> |
|------------------------------------------------------|----------------------------|----------------------------------|-----------------------------------|
| <i>In thousands, except share and per-share data</i> |                            |                                  |                                   |
| <b>Assets</b>                                        |                            |                                  |                                   |
| <b>Current assets</b>                                |                            |                                  |                                   |
| Cash and cash equivalents                            | \$ 56,995                  | \$ 33,396                        | \$ 50,214                         |
| Accounts and notes receivable, net                   | 490,221                    | 455,090                          | 423,125                           |
| Inventories                                          | 410,072                    | 360,627                          | 366,416                           |
| Deferred tax assets                                  | 50,991                     | 49,609                           | 52,997                            |
| Prepaid expenses and other current assets            | 48,555                     | 47,576                           | 48,446                            |
| Total current assets                                 | 1,056,834                  | 946,298                          | 941,198                           |
| <b>Property, plant and equipment, net</b>            | <b>327,602</b>             | <b>333,688</b>                   | <b>339,412</b>                    |
| <b>Other assets</b>                                  |                            |                                  |                                   |
| Goodwill                                             | 2,070,911                  | 2,088,797                        | 2,127,082                         |
| Intangibles, net                                     | 461,378                    | 486,407                          | 506,837                           |
| Other                                                | 56,033                     | 56,144                           | 67,723                            |
| Total other assets                                   | 2,588,322                  | 2,631,348                        | 2,701,642                         |
| <b>Total assets</b>                                  | <b>\$ 3,972,758</b>        | <b>\$ 3,911,334</b>              | <b>\$ 3,982,252</b>               |
| <b>Liabilities and Shareholders' Equity</b>          |                            |                                  |                                   |
| <b>Current liabilities</b>                           |                            |                                  |                                   |
| Short-term borrowings                                | \$ 4,180                   | \$ 2,205                         | \$ 16                             |
| Current maturities of long-term debt                 | 37                         | 81                               | 98                                |
| Accounts payable                                     | 266,416                    | 207,661                          | 199,002                           |
| Employee compensation and benefits                   | 100,626                    | 74,254                           | 78,225                            |
| Current pension and post-retirement benefits         | 8,948                      | 8,948                            | 8,890                             |
| Accrued product claims and warranties                | 40,783                     | 34,288                           | 33,179                            |
| Income taxes                                         | 22,202                     | 5,659                            | 24,302                            |
| Accrued rebates and sales incentives                 | 39,066                     | 27,554                           | 27,989                            |
| Other current liabilities                            | 90,286                     | 85,629                           | 95,367                            |
| Total current liabilities                            | 572,544                    | 446,279                          | 467,068                           |
| <b>Other liabilities</b>                             |                            |                                  |                                   |
| Long-term debt                                       | 673,265                    | 803,351                          | 814,857                           |
| Pension and other retirement compensation            | 219,463                    | 234,948                          | 264,472                           |
| Post-retirement medical and other benefits           | 28,506                     | 31,790                           | 32,019                            |
| Long-term income taxes payable                       | 23,857                     | 26,936                           | 27,792                            |
| Deferred tax liabilities                             | 147,772                    | 146,630                          | 153,984                           |

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|                                                                                                                          |                     |                     |                     |
|--------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Other non-current liabilities                                                                                            | 93,681              | 95,060              | 102,924             |
| Total liabilities                                                                                                        | 1,759,088           | 1,784,994           | 1,863,116           |
| Commitments and contingencies                                                                                            |                     |                     |                     |
| <b>Shareholders' equity</b>                                                                                              |                     |                     |                     |
| Common shares par value \$0.16 2/3; 98,960,604, 98,655,506<br>and 98,340,837 shares issued and outstanding, respectively | 16,493              | 16,442              | 16,389              |
| Additional paid-in capital                                                                                               | 489,028             | 472,807             | 462,069             |
| Retained earnings                                                                                                        | 1,597,110           | 1,502,242           | 1,490,655           |
| Accumulated other comprehensive income (loss)                                                                            | (4,955)             | 20,597              | 31,700              |
| Noncontrolling interest                                                                                                  | 115,994             | 114,252             | 118,323             |
| Total shareholders' equity                                                                                               | 2,213,670           | 2,126,340           | 2,119,136           |
| <b>Total liabilities and shareholders' equity</b>                                                                        | <b>\$ 3,972,758</b> | <b>\$ 3,911,334</b> | <b>\$ 3,982,252</b> |

*See accompanying notes to condensed consolidated financial statements.*

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

|                                                                                                    | Nine months ended     |                          |
|----------------------------------------------------------------------------------------------------|-----------------------|--------------------------|
|                                                                                                    | October<br>2,<br>2010 | September<br>26,<br>2009 |
| <i>In thousands</i>                                                                                |                       |                          |
| <b>Operating activities</b>                                                                        |                       |                          |
| Net income before noncontrolling interest                                                          | \$ 155,036            | \$ 88,672                |
| <b>Adjustments to reconcile net income to net cash provided by (used for) operating activities</b> |                       |                          |
| Gain (loss) on disposal of discontinued operations                                                 | (1,666)               | 153                      |
| Equity (income) losses of unconsolidated subsidiaries                                              | (1,806)               | 691                      |
| Depreciation                                                                                       | 43,141                | 44,186                   |
| Amortization                                                                                       | 19,742                | 22,054                   |
| Deferred income taxes                                                                              | 4,866                 | 170                      |
| Stock compensation                                                                                 | 16,598                | 13,092                   |
| Excess tax benefits from stock-based compensation                                                  | (2,193)               | (754)                    |
| Gain on sale of assets                                                                             | 166                   | (177)                    |
| <b>Changes in assets and liabilities, net of effects of business acquisitions and dispositions</b> |                       |                          |
| Accounts and notes receivable                                                                      | (36,216)              | 46,718                   |
| Inventories                                                                                        | (49,822)              | 56,459                   |
| Prepaid expenses and other current assets                                                          | (1,476)               | 16,061                   |
| Accounts payable                                                                                   | 60,162                | (18,659)                 |
| Employee compensation and benefits                                                                 | 21,600                | (17,883)                 |
| Accrued product claims and warranties                                                              | 6,556                 | (8,565)                  |
| Income taxes                                                                                       | 18,013                | 19,166                   |
| Other current liabilities                                                                          | 15,493                | (9,699)                  |
| Pension and post-retirement benefits                                                               | (15,197)              | (12,251)                 |
| Other assets and liabilities                                                                       | (3,754)               | 747                      |
| Net cash provided by (used for) continuing operations                                              | 249,243               | 240,181                  |
| Net cash provided by (used for) operating activities of discontinued operations                    |                       | (1,531)                  |
| Net cash provided by (used for) operating activities                                               | 249,243               | 238,650                  |
| <b>Investing activities</b>                                                                        |                       |                          |
| Capital expenditures                                                                               | (42,981)              | (39,306)                 |
| Proceeds from sale of property and equipment                                                       | 340                   | 817                      |
| Divestitures                                                                                       |                       | 1,506                    |
| Other                                                                                              | (1,232)               | (3,272)                  |
| Net cash provided by (used for) investing activities                                               | (43,873)              | (40,255)                 |
| <b>Financing activities</b>                                                                        |                       |                          |
| Net short-term borrowings                                                                          | 1,975                 | (16)                     |
| Proceeds from long-term debt                                                                       | 493,821               | 490,000                  |
| Repayment of long-term debt                                                                        | (624,007)             | (628,776)                |
| Debt issuance costs                                                                                | (50)                  | (50)                     |

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|                                                                     |                  |                  |
|---------------------------------------------------------------------|------------------|------------------|
| Excess tax benefits from stock-based compensation                   | 2,193            | 754              |
| Stock issued to employees, net of shares withheld                   | 7,861            | 1,729            |
| Repurchases of common stock                                         | (2,786)          |                  |
| Dividends paid                                                      | (56,584)         | (53,162)         |
| Net cash provided by (used for) financing activities                | (177,577)        | (189,521)        |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> | <b>(4,194)</b>   | <b>1,996</b>     |
| <b>Change in cash and cash equivalents</b>                          | <b>23,599</b>    | <b>10,870</b>    |
| <b>Cash and cash equivalents, beginning of period</b>               | <b>33,396</b>    | <b>39,344</b>    |
| <b>Cash and cash equivalents, end of period</b>                     | <b>\$ 56,995</b> | <b>\$ 50,214</b> |

*See accompanying notes to condensed consolidated financial statements.*

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

|                                                                                 |               |           |                 |              | Accumulated         |               |                |              | Comprehensive                              |
|---------------------------------------------------------------------------------|---------------|-----------|-----------------|--------------|---------------------|---------------|----------------|--------------|--------------------------------------------|
|                                                                                 | Common shares |           | Additional      | Retained     | other comprehensive | Total         | Noncontrolling | Total        | income (loss) attributable to Pentair Inc. |
| <i>in thousands, except share and per-share data</i>                            | Number        | Amount    | paid-in capital | earnings     | income (loss)       | Pentair, Inc. | interest       | Total        | Inc.                                       |
| <b>Balance December 31, 2009</b>                                                | 98,655,506    | \$ 16,442 | \$ 472,807      | \$ 1,502,242 | \$ 20,597           | \$ 2,012,088  | \$ 114,252     | \$ 2,126,340 |                                            |
| Net income                                                                      |               |           |                 | 151,452      |                     | 151,452       | 3,584          | 155,036      | \$ 151,452                                 |
| Change in cumulative translation adjustment                                     |               |           |                 |              | (24,185)            | (24,185)      | (1,842)        | (26,027)     | (24,185)                                   |
| Changes in market value of derivative financial instruments, net of (\$851) tax |               |           |                 |              | (1,367)             | (1,367)       |                | (1,367)      | (1,367)                                    |
| Comprehensive income (loss)                                                     |               |           |                 |              |                     |               |                |              | \$ 125,900                                 |
| Cash dividends \$0.57 per common share                                          |               |           |                 | (56,584)     |                     | (56,584)      |                | (56,584)     |                                            |
| Share repurchase                                                                | (84,500)      | (14)      | (2,772)         |              |                     | (2,786)       |                | (2,786)      |                                            |
| Exercise of stock options, net of 27,177 shares tendered for payment            | 535,767       | 89        | 11,811          |              |                     | 11,900        |                | 11,900       |                                            |
| Issuance of restricted shares, net of cancellations                             | (7,689)       | (1)       | 625             |              |                     | 624           |                | 624          |                                            |
| Amortization of restricted shares                                               |               |           | 2,878           |              |                     | 2,878         |                | 2,878        |                                            |
| Shares surrendered by employees to pay taxes                                    | (138,480)     | (23)      | (4,639)         |              |                     | (4,662)       |                | (4,662)      |                                            |
| Stock compensation                                                              |               |           | 8,318           |              |                     | 8,318         |                | 8,318        |                                            |
| <b>Balance October 2, 2010</b>                                                  | 98,960,604    | \$ 16,493 | \$ 489,028      | \$ 1,597,110 | \$ (4,955)          | \$ 2,097,676  | \$ 115,994     | \$ 2,213,670 |                                            |

|                                                      |               |        |                 |          | Accumulated         |               |                |       | Comprehensive                              |
|------------------------------------------------------|---------------|--------|-----------------|----------|---------------------|---------------|----------------|-------|--------------------------------------------|
|                                                      | Common shares |        | Additional      | Retained | other comprehensive | Total         | Noncontrolling | Total | income (loss) attributable to Pentair Inc. |
| <i>in thousands, except share and per-share data</i> | Number        | Amount | paid-in capital | earnings | income (loss)       | Pentair, Inc. | interest       | Total | Inc.                                       |

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| 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                                                                  |            |           |            | 86,141       |             | 86,141       | 2,531      | 88,672       | \$ 86,141  |
| Change in cumulative translation adjustment                                 |            |           |            |              | 55,883      | 55,883       | (5,596)    | 50,287       | 55,883     |
| Changes in market value of derivative financial instruments, net of \$(578) |            |           |            |              |             |              |            |              |            |
| Net income                                                                  |            |           |            |              | 2,432       | 2,432        |            | 2,432        | 2,432      |
| Comprehensive income                                                        |            |           |            |              |             |              |            |              | \$ 144,455 |
| Cash dividends \$0.54 per common share                                      |            |           |            | (53,162)     |             | (53,162)     |            | (53,162)     |            |
| Exercise of stock options, net of 104,554 shares                            |            |           |            |              |             |              |            |              |            |
| Granted for payment                                                         | 110,612    | 18        | 1,295      |              |             | 1,313        |            | 1,313        |            |
| Issuance of restricted shares, net of cancellations                         | 28,987     | 4         | 509        |              |             | 513          |            | 513          |            |
| Amortization of restricted shares                                           |            |           | 5,385      |              |             | 5,385        |            | 5,385        |            |
| Shares surrendered by employees to pay taxes                                | (75,681)   | (12)      | (1,751)    |              |             | (1,763)      |            | (1,763)      |            |
| Stock compensation                                                          |            |           | 5,390      |              |             | 5,390        |            | 5,390        |            |
| Balance September 26, 2009                                                  | 98,340,837 | \$ 16,389 | \$ 462,069 | \$ 1,490,655 | \$ 31,700   | \$ 2,000,813 | \$ 118,323 | \$ 2,119,136 |            |

*See accompanying notes to condensed consolidated financial statements.*

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

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

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto, which are included in our 2009 Annual Report on Form 10-K for the year ended December 31, 2009.

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

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

In connection with preparing the unaudited condensed consolidated financial statements for the nine months ended October 2, 2010, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing.

**2. New Accounting Standards**

In June 2009, the Financial Accounting Standards Board issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. The guidance affects the overall consolidation analysis and requires enhanced disclosures on involvement with variable interest entities. The guidance is effective for fiscal years beginning after November 15, 2009. We adopted the new guidance as of January 1, 2010, which did not have a material effect on our condensed consolidated financial statements.

No other new accounting pronouncements issued or effective during the first nine months of 2010 have had or are expected to have a material impact on the Condensed Consolidated Financial Statements.

**3. Stock-based Compensation**

Total stock-based compensation expense was \$4.2 million and \$4.0 million for the three months ended October 2, 2010 and September 26, 2009, respectively, and was \$16.6 million and \$13.1 million for the nine months ended October 2, 2010 and September 26, 2009, respectively.

During the first nine months of 2010, restricted shares and restricted stock units of our common stock were granted under the 2008 Omnibus Stock Incentive Plan to eligible employees with a vesting period of three to four years after issuance. Restricted share awards and restricted stock units are valued at market value on the date of grant and are typically expensed over the vesting period. Total compensation expense for restricted share awards and restricted stock units was \$1.8 million and \$2.4 million for the three months ended October 2, 2010 and September 26, 2009, respectively, and was \$8.3 million and \$7.7 million for the nine months ended October 2, 2010 and September 26, 2009, respectively.

During the first nine months of 2010, option awards were granted under the 2008 Omnibus Stock Incentive Plan with an exercise price equal to the market price of our common stock on the date of grant. Option awards are typically expensed over the vesting period. Total compensation expense for stock option awards was \$2.4 million and \$1.6 million for the three months ended October 2, 2010 and September 26, 2009, respectively, and \$8.3 million and \$5.4 million for the nine months ended October 2, 2010 and September 26, 2009, respectively.

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

|            | September |
|------------|-----------|
|            | 26,       |
| October 2, | 2009      |
| 2010       |           |

|                                 |         |         |
|---------------------------------|---------|---------|
| Expected stock price volatility | 35.0%   | 32.5%   |
| Expected life                   | 5.5 yrs | 5.2 yrs |
| Risk-free interest rate         | 1.54%   | 2.47%   |
| Dividend yield                  | 2.33%   | 2.60%   |

The weighted-average fair value of options granted during the third quarter of 2010 was \$8.74. There were no options granted during third quarter of 2009.

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

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

**4. Earnings Per Common Share**

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

|                                                           | <b>Three months ended</b> |                  | <b>Nine months ended</b> |                  |
|-----------------------------------------------------------|---------------------------|------------------|--------------------------|------------------|
|                                                           | <b>October 2,</b>         | <b>September</b> | <b>October 2,</b>        | <b>September</b> |
| <i>In thousands</i>                                       | <b>2010</b>               | <b>26,</b>       | <b>2010</b>              | <b>26,</b>       |
|                                                           |                           | <b>2009</b>      |                          | <b>2009</b>      |
| <b>Weighted average common shares outstanding basic</b>   | 98,298                    | 97,496           | 98,105                   | 97,495           |
| Dilutive impact of stock options and restricted stock     | 1,216                     | 1,145            | 1,221                    | 834              |
| <b>Weighted average common shares outstanding diluted</b> | 99,514                    | 98,641           | 99,326                   | 98,329           |

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

|  |       |       |       |       |
|--|-------|-------|-------|-------|
|  | 4,088 | 6,424 | 3,761 | 6,188 |
|--|-------|-------|-------|-------|

**5. Restructuring**

During 2009 and 2008, we announced and initiated certain business restructuring initiatives aimed at reducing our fixed cost structure and rationalizing our manufacturing footprint. These initiatives included the closure of certain manufacturing facilities as well as the reduction in hourly and salaried headcount. These actions were generally completed by the end of 2009.

Restructuring-related costs included in *Selling, general and administrative* expenses on the Condensed Consolidated Statements of Income include costs for severance and related benefits of \$10.4 million and \$2.7 million for asset impairment charges in the nine months ended September 26, 2009 and \$13.2 million of costs for severance and related benefits for the period ending December 31, 2009.

Restructuring accrual activity recorded on the Condensed Consolidated Balance Sheets is summarized as follows for the periods ended October 2, 2010, December 31, 2009 and September 26, 2009.

| <i>In thousands</i>     | <b>October 2,</b> | <b>December 31,</b> | <b>September 26,</b> |
|-------------------------|-------------------|---------------------|----------------------|
|                         | <b>2010</b>       | <b>2009</b>         | <b>2009</b>          |
| Beginning balance       | \$ 14,509         | \$ 34,174           | \$ 34,174            |
| Costs incurred          |                   | 13,190              | 10,363               |
| Cash payments and other | (7,524)           | (32,855)            | (27,808)             |
| Ending balance          | \$ 6,985          | \$ 14,509           | \$ 16,729            |

**6. Inventories**

Inventories were comprised of:

| <i>In thousands</i>        | <b>October 2,<br/>2010</b> | <b>December 31,<br/>2009</b> | <b>September<br/>26,<br/>2009</b> |
|----------------------------|----------------------------|------------------------------|-----------------------------------|
| Raw materials and supplies | \$222,964                  | \$200,931                    | \$188,741                         |
| Work-in-process            | 42,780                     | 38,338                       | 42,380                            |
| Finished goods             | 144,328                    | 121,358                      | 135,295                           |
| Total inventories          | \$410,072                  | \$360,627                    | \$366,416                         |

**Table of Contents*****Pentair, Inc. and Subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****7. Goodwill and Other Identifiable Intangible Assets**

The changes in the carrying amount of goodwill for the nine months ended October 2, 2010 and September 26, 2009 by segment were as follows:

| <i>In thousands</i>      | <b>December 31,<br/>2009</b> | <b>Acquisitions/<br/>Divestitures</b> | <b>Foreign<br/>Currency<br/>Translation/Other</b> | <b>October 2,<br/>2010</b> |
|--------------------------|------------------------------|---------------------------------------|---------------------------------------------------|----------------------------|
| Water Group              | \$ 1,802,913                 | \$                                    | \$ (14,754)                                       | \$1,788,159                |
| Technical Products Group | 285,884                      |                                       | (3,132)                                           | 282,752                    |
| Consolidated Total       | \$ 2,088,797                 | \$                                    | \$ (17,886)                                       | \$2,070,911                |

| <i>In thousands</i>      | <b>December 31,<br/>2008</b> | <b>Acquisitions/<br/>Divestitures</b> | <b>Foreign<br/>Currency<br/>Translation/Other</b> | <b>September 26,<br/>2009</b> |
|--------------------------|------------------------------|---------------------------------------|---------------------------------------------------|-------------------------------|
| Water Group              | \$ 1,818,470                 | \$ 890                                | \$ 19,437                                         | \$ 1,838,797                  |
| Technical Products Group | 283,381                      |                                       | 4,904                                             | 288,285                       |
| Consolidated Total       | \$ 2,101,851                 | \$ 890                                | \$ 24,341                                         | \$ 2,127,082                  |

The detail of acquired intangible assets consisted of the following:

| <i>In thousands</i>                 | <b>October 2, 2010</b>               |                                     |            | <b>December 31, 2009</b>             |                                     |            | <b>September 26, 2009</b>            |                                     |            |
|-------------------------------------|--------------------------------------|-------------------------------------|------------|--------------------------------------|-------------------------------------|------------|--------------------------------------|-------------------------------------|------------|
|                                     | <b>Gross<br/>carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net</b> | <b>Gross<br/>carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net</b> | <b>Gross<br/>carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> | <b>Net</b> |
| <b>Finite-life<br/>intangibles</b>  |                                      |                                     |            |                                      |                                     |            |                                      |                                     |            |
| Patents                             | \$ 15,462                            | \$ (12,400)                         | \$ 3,062   | \$ 15,458                            | \$ (11,502)                         | \$ 3,956   | \$ 15,457                            | \$(11,205)                          | \$ 4,252   |
| Proprietary<br>technology           | 74,102                               | (28,306)                            | 45,796     | 73,244                               | (23,855)                            | 49,389     | 73,325                               | (22,382)                            | 50,943     |
| Customer<br>relationships           | 283,313                              | (78,461)                            | 204,852    | 288,122                              | (66,091)                            | 222,031    | 289,490                              | (61,749)                            | 227,741    |
| Trade names                         | 1,538                                | (345)                               | 1,193      | 1,562                                | (235)                               | 1,327      | 1,574                                | (197)                               | 1,377      |
| Total<br>finite-life<br>intangibles | \$374,415                            | \$(119,512)                         | \$254,903  | \$378,386                            | \$(101,683)                         | \$276,703  | \$379,846                            | \$(95,533)                          | \$284,313  |

**Indefinite-life  
intangibles**

|             |         |         |         |         |         |         |
|-------------|---------|---------|---------|---------|---------|---------|
| Trade names | 206,475 | 206,475 | 209,704 | 209,704 | 222,524 | 222,524 |
|-------------|---------|---------|---------|---------|---------|---------|

|                              |           |             |           |           |             |           |           |            |           |
|------------------------------|-----------|-------------|-----------|-----------|-------------|-----------|-----------|------------|-----------|
| Total<br>intangibles,<br>net | \$580,890 | \$(119,512) | \$461,378 | \$588,090 | \$(101,683) | \$486,407 | \$602,370 | \$(95,533) | \$506,837 |
|------------------------------|-----------|-------------|-----------|-----------|-------------|-----------|-----------|------------|-----------|

Intangible asset amortization expense was approximately \$6.3 million and \$7.7 million for the three months ended October 2, 2010 and September 26, 2009, respectively, and was approximately \$18.1 million and \$21.1 million for the nine months ended October 2, 2010 and September 26, 2009, respectively.

The estimated future amortization expense for identifiable intangible assets during the remainder of 2010 and the next five years is as follows:

| <i>In thousands</i>               | <b>2010 Q4</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |
|-----------------------------------|----------------|-------------|-------------|-------------|-------------|-------------|
| Estimated amortization<br>expense | \$6,157        | \$25,140    | \$24,379    | \$23,956    | \$23,630    | \$23,333    |

**Table of Contents*****Pentair, Inc. and Subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****8. Debt**

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

| <i>In thousands</i>                                     | <b>Average<br/>interest rate<br/>October 2,<br/>2010</b> | <b>Maturity<br/>(Year)</b> | <b>October 2,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> | <b>September<br/>26,<br/>2009</b> |
|---------------------------------------------------------|----------------------------------------------------------|----------------------------|----------------------------|----------------------------------|-----------------------------------|
| Commercial paper                                        |                                                          |                            | \$                         | \$                               | \$ \$1,999                        |
| Revolving credit facilities                             | 0.88%                                                    | 2012                       | 68,200                     | 198,300                          | 207,800                           |
| Private placement fixed rate                            | 5.65%                                                    | 2013-2017                  | 400,000                    | 400,000                          | 400,000                           |
| Private placement floating rate                         | 0.98%                                                    | 2012-2013                  | 205,000                    | 205,000                          | 205,000                           |
| Other                                                   | 1.88%                                                    | 2010-2016                  | 4,282                      | 2,337                            | 172                               |
| Total contractual debt obligations                      |                                                          |                            | 677,482                    | 805,637                          | 814,971                           |
| Total debt, including current portion per balance sheet |                                                          |                            | 677,482                    | 805,637                          | 814,971                           |
| Less: Current maturities                                |                                                          |                            | (37)                       | (81)                             | (98)                              |
| Short-term borrowings                                   |                                                          |                            | (4,180)                    | (2,205)                          | (16)                              |
| Long-term debt                                          |                                                          |                            | \$673,265                  | \$803,351                        | \$814,857                         |

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

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. We use the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. Our use of commercial paper as a funding vehicle depends upon the relative interest rates for our paper compared to the cost of borrowing under our Credit Facility. As of October 2, 2010, we had no commercial paper outstanding.

Total availability under our existing Credit Facility was \$731.8 million as of October 2, 2010, which was not limited by the credit agreement's leverage ratio covenant as of that date.

In addition to the Credit Facility, we have \$40.0 million of uncommitted credit facilities, under which we had \$4.2 million of borrowings as of October 2, 2010.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio (total consolidated indebtedness, as defined, over consolidated EBITDA, as defined) that may not exceed 3.5 to 1.0. We were in compliance with all financial covenants in our debt agreements as of October 2, 2010.

On March 16, 2009, we announced the redemption of all of our remaining outstanding \$133.9 million aggregate principal 7.85% Senior Notes due 2009 (the Notes ). The 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 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 October 2, 2010 matures on a calendar year basis as follows:

| <i>In thousands</i>                    | <b>2010 Q4</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Thereafter</b> | <b>Total</b> |
|----------------------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Contractual debt obligation maturities | \$4,200        | \$27        | \$173,225   | \$200,007   | \$8         | \$8         | \$300,007         | \$677,482    |

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***Pentair, Inc. and Subsidiaries***

***Notes to condensed consolidated financial statements (unaudited)***

**9. Derivatives and Financial Instruments**

***Fair value measurements***

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

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

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

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

***Cash-flow Hedges***

In August 2007, we entered into a \$105 million interest rate swap agreement with a major financial institution to exchange variable rate interest payment obligations for a fixed rate obligation without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the swap was August 30, 2007. The swap agreement has a fixed interest rate of 4.89% and expires in May 2012. The fixed interest rate of 4.89% plus the .50% interest rate spread over LIBOR results in an effective fixed interest rate of 5.39%. The fair value of the swap was a liability of \$7.6 million, \$8.1 million and \$9.0 million at October 2, 2010, December 31, 2009 and September 26, 2009, respectively, and was recorded in *Other non-current liabilities* on the Condensed Consolidated Balance Sheets.

In September 2005, we entered into a \$100 million interest rate swap agreement with several major financial institutions to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the fixed rate swap was April 25, 2006. The swap agreement has a fixed interest rate of 4.68% and expires in July 2013. The fixed interest rate of 4.68% plus the .60% interest rate spread over LIBOR results in an effective fixed interest rate of 5.28%. The fair value of the swap was a liability of \$11.0 million, \$8.3 million and \$9.3 million at October 2, 2010, December 31, 2009 and September 26, 2009, respectively, and was recorded in *Other non-current liabilities* on the Condensed Consolidated Balance Sheets.

The variable to fixed interest rate swaps are designated as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Condensed Consolidated Balance Sheets. Unrealized income/expense is included in *Accumulated other comprehensive income* ( OCI ) and realized income/expense and amounts due to/from swap counterparties, are included in earnings. We realized incremental expense resulting from the swaps of \$6.9 million and \$5.5 million for the nine months ended October 2, 2010 and September 26, 2009, respectively. The variable to fixed interest rate swaps are designated as and are effective as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Condensed Consolidated Balance Sheets, with changes in their fair value included in OCI. Derivative gains and losses included in OCI are reclassified into earnings at the time the related interest expense is recognized or the settlement of the related commitment occurs.

Failure of one or more of our swap counterparties would result in the loss of any benefit to us of the swap agreement. In this case, we would continue to be obligated to pay the variable interest payments per the underlying debt agreements which are at variable interest rates of 3 month LIBOR plus .50% for \$105 million of debt and 3 month

LIBOR plus .60% for \$100 million of debt. Additionally, failure of one or all of our swap counterparties would not eliminate our obligation to continue to make payments under our existing swap agreements if we continue to be in a net pay position.

At October 2, 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 defined by the accounting guidance.

#### **10. Income Taxes**

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

The effective income tax rate for the nine months ended October 2, 2010 was 33.1% compared to 32.0% for the nine months ended September 26, 2009. We expect the effective tax rate for the remainder of 2010 to be between 32% and 33%, resulting in a full year effective income tax rate of between 32.5% and 33.5%. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

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The total gross liability for uncertain tax positions was \$24.6 million, \$30.0 million and \$29.1 million at October 2, 2010, December 31, 2009 and September 26, 2009, respectively. We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, on the Condensed Consolidated Statements of Income, which is consistent with our past practices.

**11. Benefit Plans**

Components of net periodic benefit cost for the three and nine months ended October 2, 2010 and September 26, 2009 were as follows:

| <i>In thousands</i>                               | <b>Three months ended</b>  |                                   |                                |                                   |
|---------------------------------------------------|----------------------------|-----------------------------------|--------------------------------|-----------------------------------|
|                                                   | <b>Pension benefits</b>    |                                   | <b>Post-retirement</b>         |                                   |
|                                                   | <b>October 2,<br/>2010</b> | <b>September<br/>26,<br/>2009</b> | <b>October<br/>2,<br/>2010</b> | <b>September<br/>26,<br/>2009</b> |
| Service cost                                      | \$ 2,886                   | \$ 3,067                          | \$ 50                          | \$ 54                             |
| Interest cost                                     | 7,887                      | 8,115                             | 503                            | 594                               |
| Expected return on plan assets                    | (7,710)                    | (7,563)                           |                                |                                   |
| Amortization of transition obligation             | 6                          | 14                                |                                |                                   |
| Amortization of prior year service cost (benefit) | 8                          | 6                                 | (7)                            | (10)                              |
| Recognized net actuarial loss (gains)             | 406                        | 18                                | (823)                          | (832)                             |
| Net periodic benefit cost                         | \$ 3,483                   | \$ 3,657                          | \$ (277)                       | \$ (194)                          |

| <i>In thousands</i>                               | <b>Nine months ended</b>   |                                   |                            |                                   |
|---------------------------------------------------|----------------------------|-----------------------------------|----------------------------|-----------------------------------|
|                                                   | <b>Pension benefits</b>    |                                   | <b>Post-retirement</b>     |                                   |
|                                                   | <b>October 2,<br/>2010</b> | <b>September<br/>26,<br/>2009</b> | <b>October 2,<br/>2010</b> | <b>September<br/>26,<br/>2009</b> |
| Service cost                                      | \$ 8,658                   | \$ 9,200                          | \$ 150                     | \$ 161                            |
| Interest cost                                     | 23,661                     | 24,346                            | 1,509                      | 1,783                             |
| Expected return on plan assets                    | (23,130)                   | (22,689)                          |                            |                                   |
| Amortization of transition obligation             | 18                         | 42                                |                            |                                   |
| Amortization of prior year service cost (benefit) | 24                         | 17                                | (21)                       | (31)                              |
| Recognized net actuarial loss (gains)             | 1,218                      | 53                                | (2,469)                    | (2,494)                           |
| Net periodic benefit cost                         | \$ 10,449                  | \$ 10,969                         | \$ (831)                   | \$ (581)                          |

**Table of Contents*****Pentair, Inc. and Subsidiaries******Notes to condensed consolidated financial statements (unaudited)*****12. Business Segments**

Financial information by reportable segment for the three and nine months ended October 2, 2010 and September 26, 2009 is shown below:

| <i>In thousands</i>                                          | <b>Three months ended</b>  |                                   | <b>Nine months ended</b>   |                               |
|--------------------------------------------------------------|----------------------------|-----------------------------------|----------------------------|-------------------------------|
|                                                              | <b>October 2,<br/>2010</b> | <b>September<br/>26,<br/>2009</b> | <b>October 2,<br/>2010</b> | <b>September 26,<br/>2009</b> |
| <b><i>Net sales to external customers</i></b>                |                            |                                   |                            |                               |
| Water Group                                                  | \$512,587                  | \$461,570                         | \$1,539,943                | \$1,372,492                   |
| Technical Products Group                                     | 261,148                    | 201,095                           | 736,972                    | 617,725                       |
| <b>Consolidated</b>                                          | <b>\$773,735</b>           | <b>\$662,665</b>                  | <b>\$2,276,915</b>         | <b>\$1,990,217</b>            |
| <b><i>Intersegment sales</i></b>                             |                            |                                   |                            |                               |
| Water Group                                                  | \$ 442                     | \$ 284                            | \$ 1,386                   | \$ 771                        |
| Technical Products Group                                     | 1,154                      | 544                               | 2,904                      | 1,377                         |
| Intercompany sales eliminations                              | (1,596)                    | (828)                             | (4,290)                    | (2,148)                       |
| <b>Consolidated</b>                                          | <b>\$</b>                  | <b>\$</b>                         | <b>\$</b>                  | <b>\$</b>                     |
| <b><i>Operating income (loss)</i></b>                        |                            |                                   |                            |                               |
| Water Group                                                  | \$ 58,457                  | \$ 53,085                         | \$ 176,549                 | \$ 129,842                    |
| Technical Products Group                                     | 42,605                     | 24,356                            | 113,693                    | 68,396                        |
| Unallocated corporate expenses and intercompany eliminations | (10,239)                   | (10,759)                          | (35,692)                   | (30,782)                      |
| <b>Consolidated</b>                                          | <b>\$ 90,823</b>           | <b>\$ 66,682</b>                  | <b>\$ 254,550</b>          | <b>\$ 167,456</b>             |

**13. Warranty**

The changes in the carrying amount of service and product warranties as of October 2, 2010, December 31, 2009 and September 26, 2009 were as follows:

| <i>In thousands</i>                    | <b>October 2,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> | <b>September<br/>26,<br/>2009</b> |
|----------------------------------------|----------------------------|----------------------------------|-----------------------------------|
| Balance at beginning of the year       | \$ 24,288                  | \$ 31,559                        | \$ 31,559                         |
| Service and product warranty provision | 46,401                     | 55,232                           | 43,625                            |
| Payments                               | (39,843)                   | (62,672)                         | (52,190)                          |
| Acquired                               |                            | 23                               |                                   |
| Translation                            | (63)                       | 146                              | 185                               |
| Balance at end of the period           | \$ 30,783                  | \$ 24,288                        | \$ 23,179                         |

**14. Commitments and Contingencies**

There have been no further material developments from the disclosures contained in our 2009 Annual Report on Form 10-K.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Forward-Looking-Statements***

This report contains statements that we believe to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe, project, or continue, or similar words or their derivatives. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Any or all of our forward-looking statements in this report and in any public statements we make could be materially different from actual results. They can be affected by assumptions we might make or by known or unknown risks or uncertainties. Consequently, we cannot guarantee any forward-looking statements. Investors are cautioned not to place undue reliance on any forward-looking statements. Investors should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties.

The following factors and those discussed in ITEM 1A, Risk Factors, included in our 2009 Annual Report on Form 10-K, may impact the achievement of forward-looking statements:

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

- changes in general economic and industry conditions in markets in which we participate, such as:
  - magnitude, timing and scope of global economic recovery;

- further instability of the North American and Western European housing markets;

- the strength of product demand and the markets we serve;

- the intensity of competition, including that from foreign competitors;

- pricing pressures;

- the financial condition of our customers;

- market acceptance of our new product introductions and enhancements;

- the introduction of new products and enhancements by competitors;

- our ability to maintain and expand relationships with large customers;

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

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

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

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

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

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

domestic and foreign governmental and regulatory policies;

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

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

our ability to generate benefits from our restructuring and other cost actions;

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

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

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

#### ***Overview***

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

Our Water Group has progressively become a more important part of our business portfolio with sales increasing from approximately \$125 million in 1995 to approximately \$1.8 billion in 2009. We believe the water industry is structurally attractive as a result of a growing demand for clean water and the large global market size (of which we have identified a target market totaling \$60 billion). Our vision is to be a leading global provider of innovative products and systems used in the movement, storage, treatment and enjoyment of water. In the later part of 2008 and in 2009, sales revenues in water significantly declined due to the impact of the global recession. We have seen some improvement in the Water Group markets in 2010.

Our Technical Products Group operates in a large global market with significant potential for growth in industry segments such as energy, medical and security and defense. We believe we have the largest industrial and commercial distribution network in North America for enclosures and the highest brand recognition in the industry in North America. From mid-2001 through 2003, the Technical Products Group experienced significantly lower sales volumes as a result of severely reduced capital spending in the industrial and commercial markets and over-capacity and weak demand in the data communication and telecommunication markets. From 2004 through 2008, sales volumes increased due to the addition of new distributors, new products, price increases and higher demand in targeted markets. In 2009, sales revenues in our Technical Products Group declined significantly due to the impact of the global recession. We have seen some improvement in the Technical Products Group markets in 2010.

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

The following trends and uncertainties affected our financial performance in 2009 and the first nine months of 2010 and will likely impact our results in the future:

Most markets we serve slowed dramatically in late 2008 and throughout 2009 as a result of the global recession.

We believe these markets are stabilizing and we saw signs of a recovery in some markets during the first nine

months of 2010 from the first nine months of 2009. In response to market conditions during the recession, we significantly restructured our operations to both reduce cost and reduce or relocate capacity.

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Because our businesses are significantly affected by general economic trends, further deterioration in our most important markets described below would likely have an adverse impact on our results of operations for 2010 and beyond.

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

New home building and new pool starts have contracted for each of the past four years in the United States and have slowed significantly in Europe as well. Overall, we believe approximately 55% of sales by our water businesses (flow, filtration and pool equipment) are used in residential applications for replacement and refurbishment, new construction, remodeling and repair. We have seen stabilization of order rates for residential applications since the end of 2009 and anticipate continuing stability for the remainder of 2010. We saw modest improvement in the first nine months of 2010 from historically low levels in 2009. We believe our participation in these trends lags approximately six months from inception.

Industrial, communications and commercial markets for all of our businesses, including commercial and industrial construction, also slowed significantly in 2009. Order rates and sales stabilized in our industrial and communications businesses somewhat in the fourth quarter of 2009 and first nine months of 2010, although commercial and industrial construction markets are still shrinking. We believe that the outlook for most of these markets is mixed, and we expect that overall commercial and industrial construction will continue to decline over 10% year-over-year in 2010.

We experienced material cost and other deflation in a number of our businesses during the second half of 2009. In the first nine months of 2010, we have seen material and other cost inflation. We expect the current economic environment will result in continuing price volatility for many of our raw materials. We believe that the impact of higher commodity prices will impact us unfavorably for the remainder of 2010, but we are uncertain on the timing and impact of this cost inflation.

Our unfunded pension liability increased from \$147 million at year end 2007 to \$257 million at year end 2008, primarily reflecting our reduced investment return and significantly lower asset values in our U.S. defined benefit plans at the end of that year. Primarily as a result of better investment returns and higher contributions in 2009, our unfunded pension liabilities declined to approximately \$223 million as of the end of 2009. The contributions included a discretionary contribution of \$25 million in December 2009 to improve plan balances and reduce future contributions. Additionally, in the second quarter of 2010 we made a discretionary contribution of \$10 million.

We have a long-term goal to consistently generate free cash flow that equals or exceeds 100% conversion of our net income. We define free cash flow as cash flow from continuing operating activities less capital expenditures plus proceeds from sale of property and equipment. Our target for free cash flow in 2010 is \$225 million. Free cash flow for the first nine months of 2010 was approximately \$207 million, or conversion of 138% of net income compared to \$202 million in the first nine months of 2009. See our discussion of *Other financial measures* under the caption Liquidity and Capital Resources in this report.

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

We experienced year over year unfavorable foreign currency effects on net sales and operating results in 2009 and the second and third quarters of 2010, as a result of the strengthening of the U.S. dollar in relation to other foreign currencies. Our currency effect is primarily for the U.S. dollar against the euro, which may or may not trend favorably in the future.

The effective income tax rate for the nine months ended October 2, 2010 was 33.1% compared to 32.0% for the nine months ended September 26, 2009. We expect the effective tax rate for the remainder of 2010 to be between 32% and 33%. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

***Outlook***

In 2010, our operating objectives include the following:

Increasing our vertical market and emerging market focus within each of our Global Business Units to grow in those markets in which we have competitive advantages and market growth opportunities;

Leveraging our technological capabilities to increasingly generate innovative new products;

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

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

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On October 26, 2010, we announced our earnings for the third quarter of 2010 of \$0.55 per share from continuing operations on a diluted basis. As further noted below, our revenue increased 17% in the quarter from the year-earlier period, with higher growth in our Technical Products segment.

At the same time, we provided earnings guidance for the fourth quarter and full year 2010. We anticipate that fourth quarter sales growth will be in the mid-single digits, compared to the prior year quarter and reported earnings per share on a diluted basis will range from \$0.42 to \$0.47 in the fourth quarter.

On February 2, 2010, we initiated earnings guidance for the full year 2010 of a range of \$1.75 to \$1.90 per share from continuing operations on a diluted basis, which we adjusted on July 29, 2010 to \$1.86 to \$1.96 per share from continuing operations on a diluted basis and further adjusted on October 26, 2010 to \$1.93 to \$1.98 per share from continuing operations on a diluted basis.

Our full year 2010 outlook is based on several variables. First, our guidance anticipates revenue growth of approximately 12 percent as a result of improvements in overall market conditions, as well as the benefit from our growth initiatives, which we expect to bring our total revenue to approximately \$3 billion for the full year. Second, based upon that revenue expectation, we project net earnings of \$1.93 to \$1.98 per share as a result of higher operating margins due to carryover of productivity gains from our restructuring projects in 2009 and ongoing productivity, offset partly by higher costs for certain raw materials, reinstatement of certain employee benefits and wage increases and increased investments on research and development and sales and marketing resources. Third, we expect a reduction in interest expense as a result of lower borrowing levels and lower interest rates. As noted previously, however, deterioration in general economic conditions in our primary markets and geographies would adversely impact our anticipated annual revenues and financial performance.

Our guidance assumes an absence of significant acquisitions or divestitures in 2010. We continue to look for acquisitions to expand our geographic reach internationally, expand our presence in our various channels to market and acquire technologies and products to broaden our businesses' capabilities to serve additional markets. We may also consider the divestiture or closure of discrete business units to further focus our businesses on their most attractive markets.

The ability to achieve our operating objectives will depend, to a certain extent, on factors outside our control. See

Forward-Looking Statements in this report and Risk Factors under ITEM 1A in our 2009 Annual Report on Form 10-K.

**RESULTS OF OPERATIONS****Net Sales**

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

|                     | Three months ended<br>September |             |           |             | Nine months ended<br>September |             |           |             |
|---------------------|---------------------------------|-------------|-----------|-------------|--------------------------------|-------------|-----------|-------------|
|                     | October 2,<br>2010              | 26,<br>2009 | \$ change | %<br>change | October 2,<br>2010             | 26,<br>2009 | \$ change | %<br>change |
| <i>In thousands</i> |                                 |             |           |             |                                |             |           |             |
| Net sales           | \$773,735                       | \$662,665   | \$111,070 | 16.8%       | \$2,276,915                    | \$1,990,217 | \$286,698 | 14.4%       |

*The components of the net sales change in 2010 from 2009 were as follows:*

| <i>Percentages</i> | % Change from 2009 |                   |
|--------------------|--------------------|-------------------|
|                    | Three months ended | Nine months ended |
| Volume             | 18.5               | 14.3              |
| Price              | (0.4)              | (0.1)             |
| Currency           | (1.3)              | 0.2               |

|       |      |      |
|-------|------|------|
| Total | 16.8 | 14.4 |
|-------|------|------|

***Consolidated net sales***

*The 16.8 and 14.4 percentage point increases in consolidated net sales in the third quarter and first nine months, respectively, of 2010 from 2009 were primarily driven by:*

higher sales volumes in the Technical Products Group;

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

increased sales resulting from the Gulf Intracoastal Waterway Project;

favorable foreign currency effects in the first quarter of 2010; and

selective increases in selling prices to mitigate inflationary cost increases.

*These increases were partially offset by:*

unfavorable foreign currency effects in the second and third quarters of 2010 primarily related to the euro; and

lower prices due in part to growth rebates.

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

|                         | Three months ended<br>September |           |           |          | Nine months ended<br>September |             |           |          |
|-------------------------|---------------------------------|-----------|-----------|----------|--------------------------------|-------------|-----------|----------|
|                         | October 2,                      | 26,       |           |          | October 2,                     | 26,         |           |          |
| <i>In thousands</i>     | 2010                            | 2009      | \$ change | % change | 2010                           | 2009        | \$ change | % change |
| Water Group             | \$512,587                       | \$461,570 | \$ 51,017 | 11.1%    | \$1,539,943                    | \$1,372,492 | \$167,451 | 12.2%    |
| Technical Product Group | 261,148                         | 201,095   | 60,053    | 29.9%    | 736,972                        | 617,725     | 119,247   | 19.3%    |
| Net sales               | \$773,735                       | \$662,665 | \$111,070 | 16.8%    | \$2,276,915                    | \$1,990,217 | \$286,698 | 14.4%    |

**Water Group**

*The 11.1 and 12.2 percentage point increase in Water Group net sales in each of the third quarter and first nine months of 2010 from 2009 was primarily driven by:*

organic sales growth of approximately 11.9 percent and 12.8 percent for the third quarter and first nine months, respectively, of 2010 (excluding foreign currency exchange) primarily due to higher sales of certain pump, pool and filtration products primarily related to the stabilization in the North American and Western European residential housing markets and other global markets following the global recession in 2009;

increased sales resulting from the Gulf Intracoastal Waterway Project; and

continued sales growth in India, China and other emerging markets in the Asia-Pacific region as well as Eastern Europe.

*These increases were partially offset by:*

unfavorable foreign currency effects in the second and third quarters of 2010 primarily related to the euro; and

lower prices due in part to growth rebates.

**Technical Products Group**

*The 29.9 and 19.3 percentage point increases in Technical Product Group net sales in the third quarter and first nine months, respectively, of 2010 from 2009 were primarily driven by:*

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

selective increases in selling prices to mitigate inflationary cost increases.

*These increases were partially offset by:*

unfavorable foreign currency effects in the second and third quarters of 2010 primarily related to the euro.

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

| <i>In thousands</i> | Three months ended |       |           |       | Nine months ended |       |           |       |
|---------------------|--------------------|-------|-----------|-------|-------------------|-------|-----------|-------|
|                     | October 2,         | % of  | September | % of  | October 2,        | % of  | September | % of  |
|                     | 2010               | sales | 26, 2009  | sales | 2010              | sales | 26, 2009  | sales |
| Gross Profit        | \$236,542          | 30.6% | \$206,967 | 31.2% | \$698,412         | 30.7% | \$572,678 | 28.8% |

Percentage point  
change

(0.6) pts

1.9 pts

*The 0.6 percentage point decrease in gross profit as a percentage of sales in the third quarter of 2010 from 2009 was primarily the result of:*

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

lower prices due in part to growth rebates.

*These decreases were partially offset by:*

the effect of certain fixed costs spread over higher sales volumes;

savings generated from our Pentair Integrated Management System ( PIMS ) initiatives including lean and supply management practices across both the Water and Technical Products Groups; and

selective increases in selling prices primarily in the Technical Products Group to mitigate inflationary cost increases.

*The 1.9 percentage point increase in gross profit as a percentage of sales in the first nine months of 2010 from 2009 was primarily the result of:*

the effect of certain fixed costs spread over higher sales volumes;

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

savings generated from our PIMS initiatives including lean and supply management practices across both the Water and Technical Products Groups; and

selective increases in selling prices primarily in the Technical Products Group to mitigate inflationary cost increases.

*These increases were partially offset by:*

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

lower prices due in part to growth rebates.

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

| <i>In thousands</i> | Three months ended |       |           |       | Nine months ended |       |           |       |
|---------------------|--------------------|-------|-----------|-------|-------------------|-------|-----------|-------|
|                     | October 2,         | % of  | September | % of  | October 2,        | % of  | September | % of  |
|                     | 2010               | sales | 26, 2009  | sales | 2010              | sales | 26, 2009  | sales |
| SG&A                | \$128,854          | 16.7% | \$125,578 | 19.0% | \$392,787         | 17.3% | \$361,957 | 18.2% |

(2.3) pts

(0.9) pts

Percentage point  
change

*The 2.3 and 0.9 percentage point decreases in SG&A expense as a percentage of sales in the third quarter and first nine months, respectively, of 2010 from 2009 were primarily due to:*

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

higher sales volumes which resulted in increased leverage on the fixed operating expenses; and

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

*These decreases were partially offset by:*

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

increases for labor and related costs.

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

| <i>In thousands</i> | Three months ended |       |           |       | Nine months ended |       |           |       |
|---------------------|--------------------|-------|-----------|-------|-------------------|-------|-----------|-------|
|                     | October 2,         | % of  | September | % of  | October 2,        | % of  | September | % of  |
|                     | 2010               | sales | 26,       | sales | 2010              | sales | 26,       | sales |
|                     |                    |       | 2009      |       |                   |       | 2009      |       |
| R&D                 | \$16,865           | 2.2%  | \$ 14,707 | 2.2%  | \$51,075          | 2.2%  | \$ 43,265 | 2.2%  |

*R&D expense as a percentage of sales in the third quarter and first nine months, respectively, of 2010 was flat compared to 2009 due to:*

higher sales volume and the resultant leverage on the R&D expense spending offset by continued investments in the development of new products to generate growth.

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

| <i>In thousands</i> | Three months ended |       |           |       | Nine months ended |       |           |       |
|---------------------|--------------------|-------|-----------|-------|-------------------|-------|-----------|-------|
|                     | October            | % of  | September | % of  | October 2,        | % of  | September | % of  |
|                     | 2,                 | sales | 26,       | sales | 2010              | sales | 26,       | sales |
|                     | 2010               |       | 2009      |       |                   |       | 2009      |       |
| Operating Income    | \$58,457           | 11.4% | \$ 53,085 | 11.5% | \$176,549         | 11.5% | \$129,842 | 9.5%  |

Percentage point  
change

(0.1) pts

2.0 pts

*The 0.1 percentage point decrease in Water segment operating income as a percentage of net sales in the third quarter of 2010 as compared to 2009 was primarily the result of:*

cost increases for certain raw materials and labor and related costs;

continued investment in future growth with emphasis on international markets; and

lower prices due in part to growth rebates.

*These decreases were offset by:*

leveraging the fixed cost base over increased sales into global markets following the global recession in 2009;

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

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

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

*The 2.0 percentage point increase in Water segment operating income as a percentage of net sales in the first nine months of 2010 as compared to 2009 was primarily the result of:*

leveraging the fixed cost base over increased sales to increased sales into global markets following the global recession in 2009;

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

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

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

*These increases were offset by:*

cost increases for certain raw materials and labor and related costs;

continued investment in future growth with emphasis on growth in international markets; and

lower prices due in part to growth rebates.

**Technical Products Group**

| <i>In thousands</i> | Three months ended |               |                          |               | Nine months ended  |               |                          |               |
|---------------------|--------------------|---------------|--------------------------|---------------|--------------------|---------------|--------------------------|---------------|
|                     | October 2,<br>2010 | % of<br>sales | September<br>26,<br>2009 | % of<br>sales | October 2,<br>2010 | % of<br>sales | September<br>26,<br>2009 | % of<br>sales |
| Operating<br>Income | \$42,605           | 16.3%         | \$ 24,356                | 12.1%         | \$113,693          | 15.4%         | \$ 68,396                | 11.1%         |

Percentage point  
change

4.2 pts

4.3 pts

*The 4.2 and 4.3 percentage point increases in Technical Products Group operating income as a percentage of sales in the third quarter and first nine months, respectively, of 2010 from 2009 were primarily the result of:*

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

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

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

selective increases in selling prices to mitigate inflationary cost increases.

*These increases were partially offset by:*

cost increases for labor and related costs;

period expenses associated with the consolidation of two manufacturing facilities in the first quarter of 2010; and

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

**Net interest expense**

| <i>In thousands</i>     | Three months ended    |                          |          |         | Nine months ended  |                          |           |         |
|-------------------------|-----------------------|--------------------------|----------|---------|--------------------|--------------------------|-----------|---------|
|                         | October<br>2,<br>2010 | September<br>26,<br>2009 | \$change | %change | October 2,<br>2010 | September<br>26,<br>2009 | \$change  | %change |
| Net interest<br>expense | \$8,953               | \$ 9,711                 | \$(758)  | -7.8%   | \$27,049           | \$ 31,328                | \$(4,279) | -13.7%  |

*The 7.8 and 13.7 percentage point decreases in interest expense in the third quarter and first nine months, respectively, of 2010 from 2009 were primarily the result of:*

the favorable impact of lower debt levels in the third quarter and first nine months, respectively, of 2010.

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**Table of Contents****Provision for income taxes**

| <i>In thousands</i>                                                               | Three months ended |                          | Nine months ended  |                          |
|-----------------------------------------------------------------------------------|--------------------|--------------------------|--------------------|--------------------------|
|                                                                                   | October 2,<br>2010 | September<br>26,<br>2009 | October 2,<br>2010 | September<br>26,<br>2009 |
| Income from continuing operations before income taxes and noncontrolling interest | \$82,217           | \$ 56,836                | \$229,307          | \$130,633                |
| Provision for income taxes                                                        | 26,488             | 18,159                   | 75,937             | 41,808                   |
| Effective tax rate                                                                | 32.2%              | 31.9%                    | 33.1%              | 32.0%                    |

*The 0.3 and 1.1 percentage point increases in the effective tax rate in the third quarter and first nine months, respectively, of 2010 from 2009 were primarily the result of:*

certain discrete items in the first nine months of 2009 that did not recur in 2010; and

the mix of global earnings.

We estimate our effective income tax rate for the remaining quarters of this year will be between 32% and 33% resulting in a full year effective income tax rate of between 32.5% and 33.5%.

**LIQUIDITY AND CAPITAL RESOURCES**

We generally fund cash requirements for working capital, capital expenditures, equity investments, acquisitions, debt repayments, dividend payments and share repurchases from cash generated from operations, availability under existing committed revolving credit facilities, and in certain instances, public and private debt and equity offerings.

We have grown our businesses in significant part in the past through acquisitions financed by credit provided under our revolving credit facilities and, from time to time, by private or public debt issuance. Our primary revolving credit facilities have generally been adequate for these purposes, although we have negotiated additional credit facilities as needed to allow us to complete acquisitions; these are temporary loans that have in the past been repaid within less than a year.

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

Our current \$800 million multi-currency revolving credit facility (the Credit Facility) expires on June 4, 2012. The agent banks under the Credit Facility are J. P. Morgan, Bank of America, Wells Fargo, U. S. Bank and Bank of Tokyo-Mitsubishi. We have ample borrowing capacity for our currently projected operating needs (our capacity was \$731.8 million at October 2, 2010, which was not limited by the credit agreement's leverage ratio covenant as of that date).

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

**Operating activities**

Cash provided by operating activities was \$249.2 million in the first nine months of 2010 compared to \$238.7 million in the prior year comparable period. The increase in cash provided by operating activities was due primarily to an increase in net income in 2010, partially offset by an increase in working capital.

**Investing activities**

Capital expenditures in the first nine months of 2010 were \$43.0 million compared with \$39.3 million in the prior year period. We currently anticipate capital expenditures for fiscal 2010 will be approximately \$55 million to \$65 million, primarily for capacity expansions in our low cost country manufacturing facilities, new product development and replacement equipment.

***Financing activities***

Net cash used for financing activities was \$177.6 million in the first nine months of 2010 compared with \$189.5 million in the prior year period. The decrease primarily relates to fluctuations in liquidity. Financing activities included draw downs and repayments on our revolving credit facilities to fund our operations in the normal course of business, payments of dividends, cash received/used for stock issued to employees, repurchase of common stock and tax benefits related to stock-based compensation.

The Credit Facility creates an unsecured, committed revolving credit facility of up to \$800 million, with multi-currency sub facilities to support investments outside the U.S. Borrowings under the Credit Facility bear interest at the rate of LIBOR plus 0.625%. Interest rates and fees on the Credit Facility vary based on our credit ratings. We believe that internally generated funds and funds available under our Credit Facility will be sufficient to support our normal operations, dividend payments, stock repurchases and debt maturities over the life of the Credit Facility. As of October 2, 2010, we had no commercial paper outstanding.

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

In addition to the Credit Facility, we have \$40.0 million of uncommitted credit facilities, under which we had \$4.2 million of borrowings as of October 2, 2010.

Our debt agreements contain certain financial covenants, the most restrictive of which is a leverage ratio (total consolidated indebtedness, as defined, over consolidated EBITDA, as defined) that may not exceed 3.5 to 1.0. We were in compliance with all financial covenants in our debt agreements as of October 2, 2010.

On March 16, 2009, we announced the redemption of all of our remaining outstanding \$133.9 million aggregate principal of the 7.85% Senior Notes due 2009 (the "Notes") to take advantage of lower interest rates available under the Credit Facility. The 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 utilizing funds on hand and drawings under our Credit Facility. No other significant debt obligations mature until 2012. As a result of this transaction, we recognized a loss of \$4.8 million on early extinguishment of debt in 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.

Our current credit ratings are as follows:

| <b>Rating Agency</b> | <b>Long-Term Debt Rating</b> | <b>Current Rating Outlook</b> |
|----------------------|------------------------------|-------------------------------|
| Standard & Poor's    | BBB-                         | Stable                        |
| Moody's              | Baa3                         | Stable                        |

Our long-term debt rating is an investment grade rating. Investment grade is a credit rating of BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's.

On March 28, 2010, Standard & Poor's ("S&P") affirmed our BBB- rating with a stable outlook. On April 6, 2010, Moody's affirmed our Baa3 rating and changed our current rating outlook from negative to stable.

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

From time to time, we issue short-term commercial paper notes that have not been rated by S&P or Moody's. Even though our short-term commercial paper is unrated, we believe a downgrade in our long-term debt rating could have a negative impact on our ability to issue unrated commercial paper in the future.

We do not expect that a one rating downgrade of our long-term debt by either S&P or Moody's would substantially affect our ability to access the long-term debt capital markets. However, depending upon market conditions, the amount, timing and pricing of new borrowings could be adversely affected. If both of our long-term debt ratings were downgraded to below BBB-/Baa3, our flexibility to access the term debt capital markets would be reduced.

We expect to continue to have cash requirements to support working capital needs and capital expenditures, to pay interest and service debt, and to pay dividends to shareholders annually and to repurchase shares of our common stock. We have the ability and sufficient capacity to meet these cash requirements for at least 12 months, by using available cash and internally generated funds, and to borrow under our committed and uncommitted credit facilities. Dividends paid in the first nine months of 2010 were \$56.6 million, or \$0.57 per common share, compared with \$53.2 million, or \$0.54 per common share, in the prior year period. We have increased dividends every year for the last 34 years and expect to continue paying dividends on a quarterly basis.

On July 27, 2010 the Board of Directors authorized the repurchase of shares of our common stock up to a maximum dollar limit of \$25 million. As of October 2, 2010 we had repurchased 84,500 shares for \$2.8 million pursuant to this plan and accordingly, we have the authority to repurchase additional shares up to a maximum dollar limit of \$22.2 million for the remainder of the authorization period which expires in July 2011.

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The total gross liability for uncertain tax positions was \$24.6 million, \$30.0 million and \$29.1 million at October 2, 2010, December 31, 2009 and September 26, 2009, respectively. We are not able to reasonably estimate the amount by which the estimate will increase or decrease over time; however, at this time, we do not expect a significant payment related to these obligations within the next twelve months.

***Other financial measures***

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

|                                                                                   | <b>Nine months ended</b>       |                                   |
|-----------------------------------------------------------------------------------|--------------------------------|-----------------------------------|
|                                                                                   | <b>October<br/>2,<br/>2010</b> | <b>September<br/>26,<br/>2009</b> |
| <i>In thousands</i>                                                               |                                |                                   |
| Net cash provided by (used for) continuing operations                             | \$ 249,243                     | \$ 240,181                        |
| Capital expenditures                                                              | (42,981)                       | (39,306)                          |
| Proceeds from sale of property and equipment                                      | 340                            | 817                               |
| Free cash flow                                                                    | 206,602                        | 201,692                           |
| Net income from continuing operations attributable to Pentair, Inc.               | 149,786                        | 86,294                            |
| Conversion of net income from continuing operations attributable to Pentair, Inc. | 138%                           | 234%                              |

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**NEW ACCOUNTING STANDARDS**

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

**CRITICAL ACCOUNTING POLICIES**

In our 2009 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not changed these policies from those previously disclosed in our Annual Report.

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

There have been no material changes in our market risk during the quarter ended October 2, 2010. For additional information, refer to Item 7A of our 2009 Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended October 2, 2010 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarter ended October 2, 2010 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

**(b) Changes in Internal Controls**

There was no change in our internal control over financial reporting that occurred during the quarter ended October 2, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Pentair, Inc.:

Golden Valley, Minnesota

We have reviewed the accompanying condensed consolidated balance sheets of Pentair, Inc. and subsidiaries (the Company ) as of October 2, 2010 and September 26, 2009, and the related condensed consolidated statements of income for the three-month and nine-month periods ended October 2, 2010 and September 26, 2009, and of cash flows and changes in shareholders' equity for the nine-month periods ended October 2, 2010 and September 26, 2009. These interim condensed consolidated financial statements are the responsibility of the Company's management. We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Pentair, Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 23, 2010, we expressed an unqualified opinion, and included an explanatory paragraph related to the Company's change in its method of accounting for noncontrolling interest, on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Minneapolis, Minnesota

October 26, 2010

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. Legal Proceedings**

There have been no further material developments from the disclosures contained in our 2009 Annual Report on Form 10-K.

**ITEM 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in ITEM 1A. of our 2009 Annual Report on Form 10-K.

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

The following table provides information with respect to purchases we made of our common stock during the third quarter of 2010:

| <b>Period</b>                | <b>(a)<br/>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>(b)<br/>Average<br/>Price Paid<br/>per Share</b> | <b>(c)<br/>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>(d)<br/>Dollar Value of<br/>Shares that May<br/>Yet<br/>Be Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|------------------------------|-------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| July 4    July 31, 2010      | 1,128                                                       | \$     33.02                                        |                                                                                                                                 | \$             0                                                                                                    |
| August 1    August 28, 2010  | 8,766                                                       | \$     33.17                                        |                                                                                                                                 | \$             0                                                                                                    |
| August 29    October 2, 2010 | 85,583                                                      | \$     32.96                                        | 84,500                                                                                                                          | \$    22,214,383                                                                                                    |
| <b>Total</b>                 | 95,477                                                      |                                                     | 84,500                                                                                                                          |                                                                                                                     |

(a) Includes 1,128 shares for the period July 3 July 31, 2010, 8,766 shares for the period August 1 August 28, 2010 and 1,083 shares for the period August 29 October 2, 2010 deemed surrendered to us by participants in our Omnibus Stock Incentive Plan and the Outside

Directors  
Nonqualified  
Stock Option  
Plan (the Plans )  
to satisfy the  
exercise price or  
withholding of  
tax obligations  
related to the  
exercise of  
stock options  
and vesting of  
restricted  
shares.

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

(c) The number of  
shares in this  
column  
represents the  
number of  
shares  
repurchased as  
part of our  
publicly

announced plan  
to repurchase  
shares of our  
common stock  
up to a  
maximum dollar  
limit of  
\$25 million.

- (d) On July 27,  
2010 the Board  
of Directors  
authorized the  
repurchase of  
shares of our  
common stock  
up to a  
maximum dollar  
limit of  
\$25 million. As  
of October 2,  
2010, we had  
repurchased  
84,500 shares  
for \$2.8 million  
pursuant to this  
plan and  
accordingly, we  
have the  
authority to  
repurchase  
additional  
shares up to a  
maximum dollar  
limit of  
\$22.2 million  
for the  
remainder of the  
authorization  
period which  
expires in  
July 2011.

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**ITEM 6. Exhibits**

**(a) Exhibits**

- 15** Letter Regarding Unaudited Interim Financial Information.
- 31.1** Certification of Chief Executive Officer.
- 31.2** Certification of Chief Financial Officer.
- 32.1** Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101** The following materials from Pentair, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 2, 2010 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income for the three and nine months ended October 2, 2010 and September 26, 2009, (ii) the Condensed Consolidated Balance Sheets as October 2, 2010, December 31, 2009 and September 26, 2009, (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 2, 2010 and September 26, 2009, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended October 2, 2010 and September 26, 2009, and (v) Notes to Condensed Consolidated Financial Statements.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on October 26, 2010.

PENTAIR, INC.  
Registrant

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

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

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**Exhibit Index to Form 10-Q for the Period Ended October 2, 2010**

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- 101** The following materials from Pentair, Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 3, 2010 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income for the three and nine months ended October 2, 2010 and September 26, 2009, (ii) the Condensed Consolidated Balance Sheets as October 2, 2010, December 31, 2009 and September 26, 2009, (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 2, 2010 and September 26, 2009, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended October 2, 2010 and September 26, 2009, and (v) Notes to Condensed Consolidated Financial Statements.