PENTAIR INC
Form 10-K
February 23, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2009

OR

o **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 Boulevard, Suite 800, Golden Valley, Minnesota	**55416-1259**
(Address of principal executive offices)	*(Zip code)*

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

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

Title of each class	**Name of each exchange on which registered**
Common Shares, $0.162/3 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

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

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

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

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 Act). Yes o No þ

Aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of $25.34 per share as reported on the New York Stock Exchange on June 25, 2009 (the last business day of Registrant s most recently completed second quarter): $2,372,363,058

The number of shares outstanding of Registrant s only class of common stock on December 31, 2009 was 98,655,506.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant s definitive proxy statement for its annual meeting to be held on April 29, 2010, are incorporated by reference in this Form 10-K in response to Part III, ITEM 10, 11, 12, 13 and 14.

Pentair, Inc.

Annual Report on Form 10-K
For the Year Ended December 31, 2009

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PART I

ITEM 1. BUSINESS

GENERAL

Pentair, Inc. is 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.

Pentair Strategy

Our strategy is to achieve benchmark Return on Invested Capital (ROIC) performance for diversified industrial manufacturing companies by:

- building operational excellence through the Pentair Integrated Management System (PIMS) consisting of strategy deployment, lean enterprise, and IGNITE, which is our process to drive organic growth;
- driving long-term growth in sales, income and cash flows, through internal growth initiatives and acquisitions;
- developing new products and enhancing existing products;
- penetrating attractive growth markets, particularly international;
- expanding multi-channel distribution; and
- proactively managing our business portfolio, including consideration of new business platforms.

Pentair Financial Objectives

Our long-term financial objectives are to:

- Achieve 5%+ annual organic sales growth, plus acquisitions
- Achieve benchmark financial performance:

Earnings Before Interest and Taxes (EBIT) Margin	14%
ROIC (after-tax)	15%
Free Cash Flow (FCF)	100% conversion of net income
Earnings Per Share (EPS) Growth	10%+ (sales growth plus margin expansion)

- Achieve 5% annual productivity improvement on core business cost

Unless the context otherwise indicates, references herein to Pentair , the Company, and such words as we, us, and include Pentair, Inc. and its subsidiaries. Pentair is a Minnesota corporation that was incorporated in 1966.

BUSINESS AND PRODUCTS

Business segment and geographical financial information is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

WATER GROUP

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 Water Group offers a broad array of products and systems to multiple markets and customers. The core competencies of our Water Group center around flow and filtration. We have identified a target market totaling $60 billion, with our current primary focus on three markets: Flow Technologies (approximately 40% of group sales), Filtration (approximately 30% of group sales), and Pool (approximately 30% of group sales).

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Residential Flow Market

Our Residential Flow business is a leader in the global residential water pump market. Our primary markets are those serving residential well water installers, distributors and residential end users; waste water dealers and distributors and those participants in the agricultural irrigation and crop protection industries. We also have offerings into the RV / Marine and Mobile Fire markets. We address these markets with products ranging from light duty diaphragm pumps to submersible, sump and sewage pumps to pumps for agricultural irrigation and crop spraying. In addition to pumps, we offer pressure tanks for multiple residential applications. Application for our broad range of products includes pumps for fluid delivery, circulation, transfer, pressure boosting, and engine cooling.

Trade names for the Residential Flow markets include STA-RITE®, Myers®, Hydromatic®, Flotec®, Water Ace®, Berkeley®, Aermotor™, Simer®, Hypro®, FoamPro®, SHURflo®, Onga™, Nocchi™, and JUNG®.

Residential Filtration Market

Our Residential Filtration business competes in residential and commercial water softening and filtration markets globally. We address the market with control valves, pressure tanks, membranes, carbon products, point of entry and point of use systems, and other filter cartridges. Residential Filtration products are used in the manufacture of water softeners; filtration and deionization systems; and commercial and residential water filtration applications.

Trade names for the Residential Filtration market include Fleck®, Autotrol®, Structural™, Aquamatic®, Pentek®, SIATA™, WellMate™, American Plumber®, GE®, OMNIFILTER®, and Fibredyne™.

Our Residential Filtration business was formed by a transaction between GE Water & Process Technologies (a unit of General Electric Company) (GE) and Pentair.

Pool Market

We address the Pool equipment market with a complete line of commercial and residential pool equipment and accessories including pumps, filters, heaters, lights, automatic controls, automatic pool cleaners, commercial deck equipment, maintenance equipment, and pool accessories. Applications for our pool products include commercial and residential pool construction, maintenance, repair, and service.

Trade names for the Pool market include Pentair Pool Products®, Pentair Water Pool and Spa™, STA-RITE®, Paragon Aquatics®, Kreepy Krauly®, WhisperFlo®, Rainbow™, IntelliTouch™, IntelliFlo®, IntelliBrite®, IntelliChlor®, EasyTouch®, SunTouch®, EQ Series™ and Acu-Trol®.

Engineered Flow Market

Our Engineered Flow business is a global leader in municipal, commercial and industrial water and fluid handling markets. Our primary markets are those serving commercial end-users; waste water dealers and distributors; commercial and industrial operations; and municipal water treatment facilities. We address these markets with products ranging from light duty diaphragm pumps to high-flow turbine pumps and solid handling pumps designed for water, wastewater and a variety of industrial applications. Applications for our broad range of products include pumps for municipal wells, water treatment, wastewater solids handling, pressure boosting, engine cooling, fluid delivery, circulation, fire suppression and transfer.

Trade names for the Engineered Flow market include, Myers®, Aurora®, Hydromatic®, Fairbanks Morse™, Layne/Verti-line®, FoamPro®, Edwards®, Aplex and Delta Environmental.

Filtration Solutions

Our Filtration Solutions business competes in selected commercial and industrial markets for both water and other fluid filtration, largely in the United States; and for desalination and reverse osmosis projects globally. We address

these markets with filter systems, filter cartridges, pressure vessels, and specialty dispensing pumps providing flow solutions for specific end-user market applications including, commercial, foodservice, industrial, marine, and aviation. Filtration products are used in the manufacture of filtration, deionization, and

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desalination systems; industrial and commercial water filtration applications; and filtration and separation technologies for hydrocarbon, medical and hydraulic applications.

Trade names for the Filtration Solutions market include Everpure®, SHURflo®, CodeLine®, and Porous Media™.

Customers

Our Water Group distributes its products through wholesale distributors, retail distributors, original equipment manufacturers, home centers and home and pool builders. Information regarding significant customers in our Water Group is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Seasonality

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 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.

Competition

Our Water Group faces numerous domestic and international competitors, some of which have substantially greater resources directed to the markets in which we compete. Consolidation, globalization, and outsourcing are continuing trends in the water industry. Competition in commercial and residential flow technologies markets focuses on trade names, product performance, quality, and price. While home center and national retailers are important for residential lines of water and wastewater pumps, they are not important for commercial pumps. For municipal pumps, competition focuses on performance to meet required specifications, service, and price. Competition in water treatment and filtration components focuses on product performance and design, quality, delivery, and price. For pool equipment, competition focuses on trade names, product performance, quality, and price. We compete by offering a wide variety of innovative and high-quality products, which are competitively priced. We believe our distribution channels and reputation for quality also contribute to our continuing market penetration.

TECHNICAL PRODUCTS GROUP

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. We have identified a target market of $11 billion. Our Technical Products Group focuses its business portfolio on eight primary vertical markets: Industrial (35% of group sales), Communications (25% of group sales), General Electronics (10% of group sales), Energy (10% of group sales), and Commercial, Security and Defense, Infrastructure and Medical (these four vertical combined represent approximately 20% of group sales). The primary trade names for the Technical Products Group are: Hoffman®, Schroff®, McLean®, Taunus™, Birtcher®, Calmark® and Aspen Motion™. Products include metallic and composite enclosures, cabinets, cases, subracks, backplanes and associated thermal management systems. Applications served include industrial machinery, data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense, and general electronics.

Customers

Our Technical Products Group distributes its products through electrical and data contractors, electrical and electronic components distributors, and original equipment manufacturers. Information regarding significant customers in our Technical Products Group is contained in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Seasonality

Our Technical Products Group is not significantly affected by seasonal demand fluctuations.

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Competition

Competition in the technical products markets can be intense, particularly in the Communications market, where product design, prototyping, global supply, price competition, and customer service are significant factors. Our Technical Products Group has continued to focus on cost control and improving profitability. Recent sales decreases in the Technical Products Group are the result of market declines due to the global recession. The impact of these market declines has been partially offset by growth initiatives focused on product development, continued channel penetration, growth in targeted market segments, geographic expansion, and price increases. Consolidation, globalization, and outsourcing are visible trends in the technical products marketplace and typically play to the strengths of a large and globally positioned supplier. We believe our Technical Products Group has the global manufacturing capability and broad product portfolio to support the globalization and outsourcing trends.

RECENT DEVELOPMENTS

Growth of our business

We continually look at each of our businesses to determine whether they fit with our strategic vision. Our primary focus is on businesses with strong fundamentals and growth opportunities, including international markets. We seek growth through product and service innovation, market expansion, and acquisitions. Acquisitions have played an important part in the growth of our business, and we expect acquisitions to be an important part of our future growth. There were no material acquisitions or divestitures completed in 2009.

Also refer to ITEM 7, Management s Discussion and Analysis, and ITEM 8, Note 3 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

INFORMATION REGARDING ALL BUSINESS SEGMENTS

Backlog

Our backlog of orders as of December 31 by segment was:

In thousands	**2009**	**2008**	**$ change**	**% change**
Water Group	$ 304,449	$ 324,748	$ (20,299)	(6.3)%
Technical Products Group	94,503	111,678	(17,175)	(15.4)%
Total	$ 398,952	$ 436,426	$ (37,474)	(8.6)%

The $20.3 million decrease in Water Group backlog was primarily due to decreased backlog for the Filtration Solutions CodeLine product line, capacity constraints in 2008 led to above average backlogs, compounded by volume declines in Q4 2009. These decreases were partially offset by the timing of the early buy program shipments in residential pool markets. The $17.2 million decrease in the Technical Products Group backlog reflected declining market conditions, especially in our Electronics markets. Due to the relatively short manufacturing cycle and general industry practice for the majority of our businesses, backlog, which typically represents less than 60 days of shipments, is not deemed to be material. A substantial portion of our revenues result from orders received and product sold in the same month. We expect that most of our backlog at December 31, 2009 will be filled in 2010.

Research and development

We conduct research and development activities in our own facilities, which consist primarily of the development of new products, product applications, and manufacturing processes. Research and development expenditures during 2009, 2008, and 2007 were $57.9 million, $62.5 million, and $56.8 million, respectively.

Environmental

Environmental matters are discussed in ITEM 3, ITEM 7, and in ITEM 8, Note 16 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

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Raw materials

The principal materials used in the manufacturing of our products are electric motors, mild steel, stainless steel, electronic components, plastics (resins, fiberglass, epoxies), and paint (powder and liquid). In addition to the purchase of raw materials, we purchase some finished goods for distribution through our sales channels.

The materials used in the various manufacturing processes are purchased on the open market, and the majority are available through multiple sources and are in adequate supply. We have not experienced any significant work stoppages to-date due to shortages of materials. We have certain long-term commitments, principally price commitments, for the purchase of various component parts and raw materials and believe that it is unlikely that any of these agreements would be terminated prematurely. Alternate sources of supply at competitive prices are available for most materials for which long-term commitments exist, and we believe that the termination of any of these commitments would not have a material adverse effect on operations.

Certain commodities, such as metals and resin, are subject to market and duty-driven price fluctuations. We manage these fluctuations through several mechanisms, including long-term agreements with escalator / de-escalator clauses. Prices for raw materials, such as metals and resins, may trend higher in the future.

Intellectual property

Patents, non-compete agreements, proprietary technologies, customer relationships, trade marks and trade names are important to our business. However, we do not regard our business as being materially dependent upon any single patent, non-compete agreement, proprietary technology, customer relationship, trade mark and trade name.

Patents, patent applications, and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. We do not expect the termination of patents, patent applications, and license agreements to have a material adverse effect on our financial position, results of operations or cash flows.

Employees

As of December 31, 2009, we employed approximately 13,150 people worldwide. Total employees in the United States were approximately 6,600, of whom approximately 530 are represented by five different trade unions having collective bargaining agreements. Generally, labor relations have been satisfactory.

Captive Insurance Subsidiary

We insure certain general and product liability, property, workers compensation, and automobile liability risks through our regulated wholly-owned captive insurance subsidiary, Penwald Insurance Company (Penwald). Reserves for policy claims are established based on actuarial projections of ultimate losses. Accruals with respect to liabilities insured by third parties, such as liabilities arising from acquired businesses, pre-Penwald liabilities and those of certain foreign operations are established without regard to the availability of insurance.

Matters pertaining to Penwald are discussed in ITEM 3 and ITEM 8, Note 1 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

Available information

We make available free of charge (other than an investor s own Internet access charges) through our Internet website (http://www.pentair.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Reports of beneficial ownership filed by our directors and executive officers pursuant to Section 16(a) of the Securities Exchange Act of 1934 are also available on our website. We are not including the information contained on our website as part of, or incorporating it by reference into, this

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ITEM 1A. RISK FACTORS

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

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

We compete around the world in various geographic regions and product markets. Among these, the most significant are global industrial and commercial markets (for both the Water and Technical Products Groups) and residential markets (for the Water Group). The global recession adversely affected the robustness of our markets throughout 2009. Important factors that impact our businesses include the overall strength of the economy and our customers confidence in the economy; industrial and governmental capital spending; the strength of the residential and commercial real estate markets; unemployment rates; availability of consumer and commercial financing for our customers and end-users; and interest rates. New construction for residential housing and home improvement activity fell in each of the past three years, and particularly in 2009, which reduced revenue in each of the businesses within our Water Group over this period. We believe that weakness in the residential housing market and the recent dramatic slowdown in our industrial and commercial markets will likely continue to affect our revenues and margins into 2010. Any continuing weakness in these markets beyond 2009 will negatively affect our sales and financial performance in future periods.

Continuing market weakness is likely to limit recovery in our revenues and profitability from pre-recessionary levels.

Over the past four years, our organic growth has been generated in part from expanding international sales, entering new distribution channels, price increases and introducing new products. To grow more rapidly than our end markets, we would have to continue to expand our geographic reach, further diversify our distribution channels, continue to introduce new products, and increase sales of existing products to our customer base. Difficult economic and competitive factors in late 2008 and throughout 2009 adversely affected our ability to grow our revenues over this period. These economic conditions materially and adversely impacted our financial performance in 2009; we did not meet our projected revenue growth or earnings targets for the year 2009. We believe that these market weaknesses have started to stabilize in many of our end markets, but we can not assure you that these markets will continue to improve nor that we will be able to increase revenues and profitability to match our earlier financial performance. Rather than focus our sales efforts primarily on broad-based revenue growth, we have chosen to limit our growth initiatives to specific end markets and geographies. We cannot assure you that these growth initiatives will be sufficient to offset revenue declines in other markets.

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

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

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

In previous years, we have experienced material cost and other inflation in a number of our businesses. We are striving for greater productivity improvements and implementing selective increases in selling prices to help mitigate cost increases in raw materials (especially metals and resins), energy and other costs such as pension, health care and insurance. While these inflationary pressures dramatically weakened in late 2008 and early 2009 as a result of general economic conditions, the recent reversal of material cost inflation may not be sustainable once the economy begins to strengthen. We also are continuing to implement our excellence in operations initiatives in order to continuously reduce our costs. We cannot assure you, however, that these actions will be successful in managing our costs or increasing our productivity. Continued cost inflation or failure of our initiatives to generate cost savings or improve productivity would likely negatively impact our results of operations.

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

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

Intellectual property challenges may hinder product development and marketing.

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

Our results of operations may be negatively impacted by litigation.

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

Reductions in our acquisition activity will likely slow our revenue growth or otherwise adversely affect our financial performance.

Over the past four years, much of our growth has resulted from acquisitions of businesses within our current business segments. While we intend to continue to evaluate acquisitions in these segments, given the current financial and economic environment, we are uncertain whether we will be able to make major acquisitions until business conditions improve further. We cannot assure you that we would be able to continue to grow our revenue or to limit revenue declines without making acquisitions. Acquisitions we may undertake could have a material adverse effect on our operating results, particularly in the fiscal quarters immediately following the acquisitions, while we attempt to integrate operations of the acquired businesses into our operations. Once integrated, acquired operations may not

achieve the levels of profitability originally anticipated.

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

Our plans to vigorously compete in our chosen markets will require additional capital for future acquisitions, capital expenditures, growth of working capital, and continued international and regional expansion. In the past, we have financed growth of our businesses primarily through cash from operations and debt financing. While we refinanced our primary credit agreements in the second quarter of 2007 on what we believe to be favorable terms, future acquisitions or other uses of funds may require us to expand our debt financing resources or to issue equity securities. Our financial results may be adversely affected if new financing is not available on favorable terms or if interest costs under our debt financings are higher than the income generated by acquisitions or other internal growth. In addition, future share issuances could be dilutive to your equity investment if we sell shares into the market or issue additional stock as consideration in any acquisition. We cannot assure you that we will be able to issue equity securities or obtain future debt financing at favorable terms. Without sufficient financing, we will not be able to pursue our targeted growth strategy, and our acquisition program, which will limit our revenue growth and future financial performance.

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

Sales outside of the United States, including export sales from our domestic businesses, accounted for approximately 34% of our net sales in 2009, down from 35% in 2008. Further, most of our businesses obtain some products, components and raw materials from foreign suppliers. Accordingly, our business is subject to the political, economic and other risks that are inherent in operating in numerous countries. These risks include:

- changes in general economic and political conditions in countries where we operate, particularly in emerging markets;
- relatively more severe economic conditions in some international markets than in the United States;
- the difficulty of enforcing agreements and collecting receivables through foreign legal systems;
- trade protection measures and import or export licensing requirements;
- the possibility of terrorist action against us or our operations;
- the imposition of tariffs, exchange controls or other trade restrictions;
- difficulty in staffing and managing widespread operations in non-U.S. labor markets;
- changes in tax laws or rulings could have an adverse impact on our effective tax rate;
- the difficulty of protecting intellectual property in foreign countries; and
- required compliance with a variety of foreign laws and regulations.

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

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

We expect the percentage of our sales outside of North America to increase in the future. Over the past few years, the economies of some of the foreign countries in which we do business have had slower growth than the U.S. economy. The European Union currently accounts for the majority of our foreign sales and income, in which our most significant European market is Germany; each market area is currently experiencing similar economic difficulties to those in the United States, and sales in those markets slowed significantly through 2009. In addition, we have a significant and growing business in the Asia-Pacific area, but the economic conditions in countries in this region are subject to different growth expectations, market weaknesses and business practices. We cannot predict how changing market conditions in these regions will impact our financial results.

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We are also exposed to the risk of fluctuation of foreign currency exchange rates which may affect our financial results. In 2009, the weakness of the US dollar slightly benefited our financial results in foreign jurisdictions. We are uncertain whether weakness in the US dollar will continue, and if so, the extent to which it may hurt our financial results on a comparative basis. In addition, we source certain products, components and raw materials throughout the world, the import of which into the United States has raised the cost of these goods in US dollars and has impacted the results of our domestic businesses as well.

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

We test goodwill and indefinite-lived intangible assets for impairment on an annual basis as required by the accounting guidance, by comparing the estimated fair value of each of our reporting units to their respective carrying values on our balance sheet. Goodwill and indefinite-lived intangible assets are evaluated for impairment annually as of the first day of our third quarter using management s operating budget and internal five-year forecast to estimate expected future cash flows. Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate. The projections also take into account several factors including current and estimated economic trends and outlook, costs of raw materials, and consideration of our market capitalization in comparison to the estimated fair values of our reporting units. During the fourth quarter of 2009, we completed our annual impairment test for goodwill and indefinite-lived intangible assets and recorded an impairment charge of $11.3 million to write-down certain trade name intangible assets to their current estimated fair value.

At December 31, 2009 our goodwill and intangible assets were approximately $2,575.2 million, and represented approximately 65.8% of our total assets. If we experience further declines in sales and operating profit or do not meet our operating forecasts, we may be subject to future impairments. Additionally, changes in assumptions regarding the future performance of our businesses, increases in the discount rate used to determine the discounted cash flows of our businesses, or significant declines in our stock price could be indicators of impairment losses. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

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

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

We have been named as defendants, targets, or potentially responsible parties (PRP) in a number of environmental clean-ups relating to our current or former business units. We have disposed of a number of businesses in recent years and, in certain cases, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from certain purchasers. We may be named as a PRP at other sites in the future for existing business units, as well as both divested and acquired businesses. We have also made claims against third parties for indemnification against potential liabilities for environmental remediations or other obligations. We cannot assure you that we will be successful in obtaining indemnity or reimbursement for such costs.

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

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

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators and others attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. There are a number of pending legislative and regulatory proposals to address greenhouse gas emissions. For example, in June 2009 the U.S. House of Representatives passed the American Clean Energy and Security Act that would phase-in significant reductions in greenhouse gas emissions if enacted into law. The U.S. Senate is considering a different bill, and it is uncertain whether, when and in what form a federal mandatory carbon dioxide emissions reduction program may be adopted. Similarly, certain countries have adopted the Kyoto Protocol, and this and other international initiatives under consideration could affect our international operations. These actions could increase costs associated with our operations, including costs for raw materials and transportation. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our future consolidated financial condition, results of operations or cash flows.

Provisions of our Restated Articles of Incorporation, Bylaws and Minnesota law could deter takeover attempts.

Anti-takeover provisions in our charter documents, under Minnesota law, and in our shareholder rights plan could prevent or delay transactions that our shareholders may favor.

Our Restated Articles of Incorporation and Bylaws include provisions relating to the election, appointment and removal of directors, as well as shareholder notice and shareholder voting requirements which could delay, prevent or make more difficult a merger, tender offer, proxy contest or other change of control. In addition, our common share purchase rights could cause substantial dilution to a person or group that attempts to acquire us, which could deter some acquirers from making takeover proposals or tender offers. Also, the Minnesota Business Corporations Act contains control share acquisition and business combination provisions which could delay, prevent or make more difficult a merger, tender offer, proxy contest or other change of control. Our shareholders might view any such transaction as being in their best interests since the transaction could result in a higher stock price than the current market price for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive office is in leased premises located in Golden Valley, Minnesota. We carry out our Water Group manufacturing operations at 27 plants located throughout the United States and at 14 plants located in 10 other countries. In addition, our Water Group has 22 distribution facilities and 40 sales offices located in numerous countries throughout the world. We carry out our Technical Products Group manufacturing operations at 7 plants located throughout the United States and 10 plants located in 8 other countries. In addition, our Technical Products Group has 8 distribution facilities and 25 sales offices located in numerous countries throughout the world.

We believe that our production facilities are suitable for their purpose and are adequate to support our businesses.

ITEM 3. LEGAL PROCEEDINGS

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

and health, patent infringement, and employment matters.

We accrue for potential environmental losses in a manner consistent with accounting principles generally accepted in the United States; that is, we record liabilities for an estimated loss from a loss contingency where the outcome of the matter is probable and can be reasonably estimated. Factors that are considered when determining whether the conditions for accrual have been met include the (a) nature of the litigation, claim, or assessment, (b) progress

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of the case, including progress after the date of the financial statements but before the issuance date of the financial statements, (c) opinions of legal counsel, and (d) management s intended response to the litigation, claim, or assessment. Where the reasonable estimate of the probable loss is a range, we record the most likely estimate of the loss. When no amount within the range is a better estimate than any other amount, however, the minimum amount in the range is accrued. Gain contingencies are not recorded until realized.

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

Environmental

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

In addition, there are ongoing environmental issues at a limited number of sites relating to operations no longer carried out at the sites. We have established what we believe to be adequate accruals for remediation costs at these sites. We do not believe that projected response costs will result in a material liability. We have also made claims against third parties for indemnification against potential liabilities for environmental remediations or other obligations. We cannot assure you that we will be successful in obtaining indemnity or reimbursement for such costs.

We may be named as a PRP at other sites in the future, for both divested and acquired businesses. When the outcome of the matter is probable and it is possible to provide reasonable estimates of our liability with respect to environmental sites, provisions have been made in accordance with generally accepted accounting principles in the United States. As of December 31, 2009 and 2008, our undiscounted reserves for such environmental liabilities were approximately $2.3 million and $3.1 million, respectively. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental clean-up costs and liabilities will not exceed the amount of our current reserves.

Product liability claims

We are subject to various product liability lawsuits and personal injury claims. A substantial number of these lawsuits and claims are insured and accrued for by Penwald, our captive insurance subsidiary. See discussion in ITEM 1 and ITEM 8, Note 1 of the Notes to Consolidated Financial Statements Insurance subsidiary. Penwald records a liability for these claims based on actuarial projections of ultimate losses. For all other claims, accruals covering the claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. We have not experienced significant unfavorable trends in either the

severity or frequency of product liability lawsuits or personal injury claims.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Current executive officers of Pentair, their ages, current position, and their business experience during at least the past five years are as follows:

Name	Age	Current Position and Business Experience
Randall J. Hogan	54	Chief Executive Officer since January 2001 and Chairman of the Board effective May 1, 2002; President and Chief Operating Officer, December 1999 December 2000; Executive Vice President and President of Pentair s Electrical and Electronic Enclosures Group, March 1998 December 1999; United Technologies Carrier Transicold President 1995 1997; Pratt & Whitney Industrial Turbines Vice President and General Manager 1994 1995; General Electric various executive positions 1988 1994; McKinsey & Company consultant 1981 1987.
Michael V. Schrock	57	President and Chief Operating Officer since September 2006; President and Chief Operating Officer of Filtration and Technical Products, October 2005--September 2006; President and Chief Operating Officer of Enclosures, October 2001 September 2005; President, Pentair Water Technologies Americas, January 2001 -- October 2001; President, Pentair Pump and Pool Group, August 2000 January 2001; President, Pentair Pump Group, January 1999 August 2000; Vice President and General Manager, Aurora, Fairbanks Morse and Pentair Pump Group International, March 1998 December 1998; Divisional Vice President and General Manager, Honeywell Inc., 1994 1998.
John L. Stauch	45	Executive Vice President and Chief Financial Officer since February 2007; Chief Financial Officer of the Automation and Control Systems unit of Honeywell International Inc., July 2005 February 2007; Vice President, Finance and Chief Financial Officer of the Sensing and Controls unit of Honeywell International Inc., January 2004 July 2005; Vice President, Finance and Chief Financial Officer of the Automation & Control Products unit of Honeywell International Inc., July 2002 January 2004; Chief Financial Officer and IT Director of PerkinElmer Optoelectronics, a unit of PerkinElmer, Inc., April 2000 April 2002; Various executive, investor relations and managerial finance positions with Honeywell International Inc. and its predecessor AlliedSignal Inc., 1994 2000.
Louis L. Ainsworth	62	Senior Vice President, Legal Affairs and Assistant Secretary since February 2010; Senior Vice President and General Counsel, July 1997 February 2010 and Secretary, January 2002 February 2010; Shareholder and Officer of the law firm of Henson & Efron, P. A., November 1985 June 1997.
Frederick S. Koury	49	Senior Vice President, Human Resources, since August 2003; Vice President of Human Resources at Limited Brands, September 2000 August 2003; PepsiCo, Inc., various executive positions, June 1985 September 2000.
Michael G. Meyer	51	Vice President of Treasury and Tax since April 2004; Treasurer, January 2002 March 2004; Assistant Treasurer, September 1994 December 2001; Various executive positions with Federal-Hoffman, Inc. (former subsidiary of Pentair), August 1985 August 1994.
Mark C. Borin	42	Corporate Controller and Chief Accounting Officer since March 2008; Partner in the audit practice of the public accounting firm KPMG LLP, June 2000

		March 2008; Various positions in the audit practice of KPMG LLP, September 1989 June 2000.
Angela D. Lageson	41	Senior Vice President, General Counsel and Secretary since February 2010; Assistant General Counsel, November 2002 February 2010; Shareholder and Officer of the law firm of Henson & Efron, P.A., January 2000-2002; Associate Attorney in the law firm of Henson & Efron, October 1996 January 2000.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed for trading on the New York Stock Exchange and trades under the symbol PNR. As of December 31, 2009, there were 3,860 shareholders of record.

The high, low, and closing sales price for our common stock and the dividends declared for each of the quarterly periods for 2009 and 2008 were as follows:

	2009				2008			
	First	Second	Third	Fourth	First	Second	Third	Fourth
High	$ 26.38	$ 29.07	$ 31.69	$ 34.27	$ 34.98	$ 38.76	$ 41.00	$ 38.50
Low	$ 17.23	$ 20.91	$ 23.20	$ 28.18	$ 26.02	$ 31.14	$ 31.72	$ 18.42
Close	$ 22.05	$ 25.54	$ 29.26	$ 32.30	$ 31.48	$ 33.87	$ 38.52	$ 23.67
Dividends declared	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.17	$ 0.17	$ 0.17	$ 0.17

Pentair has paid 136 consecutive quarterly dividends and has increased dividends each year for 33 consecutive years.

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Stock Performance Graph

The following information under the caption Stock Performance Graph in this ITEM 5 of this Annual Report on Form 10-K is not deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following graph sets forth the cumulative total shareholder return on our common stock for the last five years, assuming the investment of $100 on December 31, 2004 and the reinvestment of all dividends since that date to December 31, 2009. The graph also contains for comparison purposes the S&P 500 Index and the S&P MidCap 400 Index, assuming the same investment level and reinvestment of dividends.

By virtue of our market capitalization, we are a component of the S&P MidCap 400 Index. On the basis of our size and diversity of businesses, we have not found a readily identifiable peer group. We believe the S&P MidCap 400 Index is an appropriate comparison. We have evaluated other published indices, but have determined that the results are skewed by significantly larger companies included in the indices. We believe such a comparison would not be meaningful.

	Base Period December	INDEXED RETURNS Years Ending December 31:				
Company/Index	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
PENTAIR INC	**100**	80.32	74.27	83.82	58.20	81.62
S&P 500 INDEX	**100**	104.91	121.48	128.16	80.74	102.11
S&P MIDCAP 400 INDEX	**100**	112.56	124.17	134.08	85.50	117.46

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Purchases of Equity Securities

The following table provides information with respect to purchases made by Pentair of common stock during the fourth quarter of 2009:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(c) Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
September 27 October 24, 2009	10,476	$ 28.61		$ 0
October 25 November 21, 2009	2,024	$ 30.07		$ 0
November 22 December 31, 2009	1,362	$ 32.05		$ 0
Total	13,862			

(a) The purchases in this column reflect shares 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 non-vested shares.

(b) The average price paid in this column reflects the per share value of shares deemed surrendered to us by participants in the Plans to satisfy the exercise price for the exercise of stock options and withholding tax obligations due upon stock option exercises and vesting of restricted shares.

(c) Our board of directors has not authorized a share repurchase plan for 2009.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical financial data from continuing operations for the five years ended December 31, 2009.

	Years Ended December 31,				
	2009	2008	2007	2006	2005
Statement of Operations Data:					
Net sales	$ 2,692,468	$ 3,351,976	$ 3,280,903	$ 3,022,602	$ 2,801,715
Operating income	219,948	324,685	379,049	312,943	313,320
Income from continuing operations	115,512	256,363	212,118	186,251	179,183
Per Share Data:					
Basic:					
EPS from continuing operations	$ 1.19	$ 2.62	$ 2.15	$ 1.87	$ 1.78
Weighted average shares	97,415	97,887	98,762	99,784	100,665
Diluted					
EPS from continuing operations	$ 1.17	$ 2.59	$ 2.12	$ 1.84	$ 1.75
Weighted average shares	98,522	99,068	100,205	101,371	102,618
Cash dividends declared per common share	$ 0.72	$ 0.68	$ 0.60	$ 0.56	$ 0.52
Balance Sheet Data:					
Total assets	$ 3,911,334	$ 4,053,213	$ 4,000,614	$ 3,364,979	$ 3,253,755
Total debt	805,637	954,092	1,060,586	743,552	752,614
Total shareholders equity	2,126,340	2,020,069	1,910,871	1,669,999	1,555,610

In December 2005, we acquired as part of our Technical Products Group the McLean Thermal Management, Aspen Motion Technologies and Electronic Solutions businesses. In February and April 2007, we acquired the outstanding shares of capital stock of Jung Pump and all of the capital interests of Porous Media, respectively, as part of our Water Group. In May 2007, we acquired as part of our Technical Products Group the assets of Calmark. In June 2008, we entered into a transaction with GE that was accounted for as an acquisition of an 80.1 percent ownership interest in GE s global water softener and residential water filtration business in exchange for a 19.9 percent interest in our global water softener and residential water filtration business.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 th . 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, of this 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:
  - continued deterioration in or stabilization of the global economy;
  - continued deterioration in or stabilization 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;

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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 savings from our restructuring 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.

On February 28, 2008, we sold our NPT business to Pool Corporation in a cash transaction. The results of NPT have been reported as discontinued operations for all periods presented. The assets and liabilities of NPT have been reclassified as discontinued operations for all periods presented.

On June 28, 2008, we entered into a transaction with GE that was accounted for as an acquisition of an 80.1 percent ownership interest in GE s global water softener and residential water filtration business in exchange for a 19.9 percent interest in our global water softener and residential water filtration business. The acquisition was effected through the formation of two new entities, a U.S. entity and an international entity, (collectively Pentair Residential Filtration or PRF) into which we and GE contributed certain assets, properties, liabilities and operations representing our respective global water softener and residential water filtration businesses. We are an 80.1 percent owner of the new entities and GE is a 19.9 percent owner.

With the formation of PRF, we believe we are better positioned to serve residential customers with industry-leading technical applications in the areas of water conditioning, whole house filtration, point of use water management and water sustainability and expect to accelerate revenue growth by selling GE s existing residential conditioning products through our sales channels.

On December 15, 2008, we sold our Spa/Bath business to Balboa Water Group in a cash transaction. The results of Spa/Bath have been reported as discontinued operations for all periods presented. The assets and liabilities of Spa/Bath have been reclassified as discontinued operations for all periods presented.

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

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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.

Key Trends and Uncertainties

Our sales revenue for the full year of 2009 was approximately $2.7 billion, decreasing 20% from sales in the prior year. Our Water Group sales declined 16% in the year to approximately $1.8 billion, compared to the same period in 2008. Our Technical Products Group sales decreased 26% to approximately $0.8 billion in 2009 compared to the same period in 2008.

The following trends and uncertainties affected our financial performance in 2009 and will likely impact our results in 2010 and beyond:

Most markets we serve slowed dramatically in late 2008 and throughout 2009 as a result of the global recession. These markets are showing signs of stabilizing, although at lower levels than we expected would be the case twelve months ago. In response to market conditions over the past year, we significantly restructured our operations to both reduce cost and reduce or relocate capacity. Because our businesses are significantly affected by general economic trends, further deterioration in our most important markets addressed below would likely have an adverse impact on our results of operation 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 due to continuing stagnation or slower growth in other markets.

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 new construction, remodeling and repair, replacement and refurbishment. We saw some stabilization of order rates in the second half of 2009 and anticipate continuing stability, but not significant volume increases, in 2010. We do believe that housing construction will improve in 2010 from historically low levels in 2009, and we anticipate a slightly stronger market will have a favorable impact on these businesses, but our participation in trends appears to lag approximately six months from inception.

Industrial, communications and commercial markets for all of our businesses, including commercial and industrial construction, also slowed significantly over the past year. Order rates and sales stabilized in our industrial and communications businesses somewhat in the fourth quarter, 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 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 2009. We expect the current economic environment will result in continuing price volatility for many of our raw materials. We believe that the impact of lower commodity prices will continue to impact us favorably in the first half of 2010, but we are uncertain on the timing and impact of a return of cost inflation as the economy improves over the next year.

Our unfunded pension liability increased in 2008 from $147 million to $257 million, 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 to improve plan balances and reduce future contributions. We anticipate that our future pension expense will increase over 2009 levels.

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

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expenditures plus proceeds from sale of property and equipment. Free cash flow for the full year 2009 was approximately $207 million, or 179% of our net income; this amount was below our target of $225 million. The shortfall reflects the discretionary contribution to our pension plan of $25 million in December 2009, which we undertook in large part because of our somewhat higher than anticipated free cash flow for the fourth quarter and full year. In addition, we did not sell customer receivables in 2009 as we have in prior years. Our target for free cash flow in 2010 continues to be greater than or equal to 100% conversion of our net income for the year. Last year, we instituted several measures internally to maintain our strong collection experience and to decrease working capital. We are continuing to target reductions in working capital, and particularly inventory, as a percentage of sales. See our discussion of *Other financial measures* under the caption Liquidity and Capital Resources in this report.

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 believe that this seasonality will continue in the second and third quarters of 2010, as it did modestly in 2009, but are uncertain of the size and impact of the seasonal spike for the year, and contemplate that any seasonal impact will likely be less than we have historically seen.

We experienced year over year unfavorable foreign currency effects on net sales and operating results in 2008 and 2009, as a result of the weakening of the U.S. dollar in relation to other foreign currencies. Due to recent strength in the US dollar, we anticipate some modest unfavorable foreign exchange impact, but believe longer-term that foreign exchange will be favorable. 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 2009 was 32.7%. We estimate our effective tax rate for the full year 2010 to be between 32% and 34%. 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 focus within each of our Global Business Units to grow in those markets in which we have competitive advantages;

Leveraging our technological capabilities to increasingly generate innovative new products;

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

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

On February 2, 2010, we announced our results of operations for fiscal year 2009 and our earnings guidance for the first quarter of 2010 of a range of $0.32 to $0.35 per share on a diluted basis for the full year 2010 of a range of $1.75 to $1.90 per share on a diluted basis. Prior full year guidance was to equal $1.70 per share or higher on a fully-diluted basis. We are uncertain of the trajectory of the economic recovery, both in the United States and globally, for the

balance of the year and on into 2011. As noted above, significant deterioration in general economic conditions in our primary markets and geographies would adversely impact our anticipated annual revenues and financial performance.

This outlook is based on several variables. First, our guidance anticipates modest organic revenue gains in our businesses as a whole in the low-to-mid single digit range as a result of overall market conditions, which we expect to bring our total revenue to approximately $2.8 billion for the full year. Second, based upon that

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revenue expectation, we project net earnings of $1.75 to $1.90 per share as a result of higher operating margins due to carryover of productivity gains from our restructuring projects in 2009 and favorable commodities pricing in the first half of 2010, offset somewhat by reinstatement of certain employee benefits and wage increases and higher spending on research and development, and sales and marketing resources. Third, we believe our tax rate and pension expense will be slightly higher than in 2009, with some reduction in interest expense as a result of lower borrowing levels and continuing low interest rates. We also believe that should we experience volume gains in excess of those we are projecting, we will be able to convert those extra revenues into operating income at an approximate 40% rate, consistent with our productivity assumptions.

Our guidance assumes an absence of significant acquisitions or divestitures in 2010. We continue to look for smaller 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 and 2010 guidance will depend, to a certain extent, on factors outside our control. See Risk Factors under Part I of this report.

RESULTS OF OPERATIONS

Net sales

The components of the net sales change were:

Percentages	*2009 vs. 2008*	*2008 vs. 2007*
Volume	(19.7)	(1.6)
Price	1.2	2.3
Currency	(1.2)	1.5
Total	(19.7)	2.2

The 19.7 percent decrease in consolidated net sales in 2009 from 2008 was primarily the result of:

- lower sales of certain pump, pool and filtration products primarily related to the downturn in the North American and Western European residential housing markets and other global markets;
- lower Technical Products Group sales in both the Electrical and Electronics businesses; and
- unfavorable foreign currency effects.

These decreases were partially offset by:

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

an increase in sales volume related to the formation of PRF.

The 2.2 percent increase in consolidated net sales in 2008 from 2007 was primarily the result of:

selective increases in selling prices to mitigate inflationary cost increases;

an increase in sales volume due to the formation of PRF and our February 2, 2007 acquisition of Jung Pump and our April 30, 2007 acquisition of Porous Media;

favorable foreign currency effects; and

higher Technical Products Group sales.

These increases were partially offset by:

lower sales of certain pump, pool and filtration products related to the downturn in the North American residential housing market throughout 2008 and other global markets starting in the fourth quarter of 2008.

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Sales by segment and the year-over-year changes were as follows:

In thousands	2009	2008	2007	2009 vs. 2008 $ change	2009 vs. 2008 % change	2008 vs. 2007 $ change	2008 vs. 2007 % change
Water	$ 1,847,764	$ 2,206,142	$ 2,230,770	$ (358,378)	(16.2)%	$ (24,628)	(1.1)%
Technical Products	844,704	1,145,834	1,050,133	(301,130)	(26.3)%	95,701	9.1%
Total	$ 2,692,468	$ 3,351,976	$ 3,280,903	$ (659,508)	(19.7)%	$ 71,073	2.2%

Water

The 16.2 percent decrease in Water Group sales in 2009 from 2008 was primarily the result of:

organic sales decline (excluding acquisitions and foreign currency exchange) of 16.1% primarily due to lower sales of certain pump, pool and filtration products primarily related to the downturn in the North American and Western European residential housing markets and other global markets; and

unfavorable foreign currency effects.

These decreases were partially offset by:

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

an increase in sales volume due to the formation of PRF.

The 1.1 percent decrease in Water Group sales in 2008 from 2007 was primarily the result of:

organic sales decline (excluding acquisitions and foreign currency exchange) of 5.1% for the full year 2008, which included:

lower sales of certain pump, pool and filtration products into North American and Western European residential housing markets; and

second quarter 2007 sales of municipal pumps related to a large flood control project that did not recur in 2008.

These decreases were partially offset by:

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

continued growth in China and in other markets in Asia-Pacific as well as continued success in penetrating markets in Europe and the Middle East.

These decreases were further offset by:

an increase in sales volume driven by the formation of PRF and our 2007 acquisitions of Jung Pump and Porous Media; and

favorable foreign currency effects.

Technical Products

The 26.3 percent decrease in Technical Products Group sales in 2009 from 2008 was primarily the result of:

organic sales decline (excluding foreign currency exchange) of 25.4% primarily related to:

a decrease in sales to electrical markets resulting from lower capital spending by customers in the industrial vertical market;

a decrease in sales to electronics markets that was largely attributable to reduced spending in the communications and general electronics vertical markets; and

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unfavorable foreign currency effects.

These decreases were partially offset by:

selective increases in selling prices to mitigate inflationary cost increases.

The 9.1 percent increase in Technical Products Group sales in 2008 from 2007 was primarily the result of:

an increase in sales into electrical markets, which includes new products and selective increases in selling prices to mitigate inflationary cost increases;

an increase in sales into electronics markets as sales to our datacommunication and telecommunications customers rebounded and we expanded into other vertical markets;

strong sales performance in Asia and Europe; and

favorable foreign currency effects.

These increases were partially offset by:

an organic sales decline in our North American electronics markets.

Gross profit

In thousands	**2009**	**% of sales**	**2008**	**% of sales**	**2007**	**% of sales**
Gross profit	$ 785,135	29.2%	$ 1,014,550	30.3%	$ 1,012,698	30.9%
Percentage point change		(1.1) pts		(0.6) pts		

The 1.1 percentage point decrease in gross profit as a percent of sales in 2009 from 2008 was primarily the result of:

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

lower sales volume in our Technical Products Group and lower fixed cost absorption resulting from that volume decline;

inflationary increases related to raw materials and labor costs; and

period restructuring costs and write-offs of inventory associated with the consolidation of facilities.

These decreases were partially offset by:

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

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

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

higher cost of goods sold in 2008 as a result of a fair market value inventory step-up related to the formation of PRF.

The 0.6 percentage point decrease in gross profit as a percent of sales in 2008 from 2007 was primarily the result of:

inflationary increases related to raw materials and labor costs;

lower sales of certain, pump, pool and filtration products primarily related to the downturn in the North American residential housing market and the slowing of residential markets in Western Europe;

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higher cost of goods sold in 2008 as a result of a fair market value inventory step-up related to the formation of PRF; and

operating inefficiencies related to product moves and plant consolidations.

These decreases were partially offset by:

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

the gross margin impact from increased sales volume in our Technical Products Group and the resulting improved fixed cost leverage;

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

lower comparative cost in 2008 for our Jung Pump and Porous Media businesses due to the absence of a fair market value inventory step-up that was recorded in connection with those acquisitions.

Selling, general and administrative (SG&A)

In thousands	**2009**	**% of sales**	**2008**	**% of sales**	**2007**	**% of sales**
*SG&A	$ 507,303	18.8%	$ 627,415	18.7%	$ 576,828	17.6%
Percentage point change		0.1 pts		1.1 pts		

* Includes Legal settlement in 2008 of $20.4 million, which is presented on a separate line in the Consolidated Statements of Income

The 0.1 percentage point increase in SG&A expense as a percent of sales in 2009 from 2008 was primarily the result of:

lower sales volume and the resultant loss of leverage on the SG&A expense spending;

expense associated with incremental restructuring actions in both our Water and Technical Products Groups in 2009;

impairment charge of $11.3 million for selected trade names resulting from significant volume declines;

higher costs associated with the integration of and intangible amortization related to the June 2008 formation of PRF; and

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

These increases were offset by:

2008 charges for the Horizon legal settlement, which were non-recurring in 2009; and

reduced costs related to productivity actions taken throughout 2008 and 2009 to consolidate facilities and streamline general and administrative costs.

The 1.1 percentage point increase in SG&A expense as a percent of sales in 2008 from 2007 was primarily the result of:

restructuring actions in both our Water and Technical Products Groups during the second half of 2008;

higher selling and general expense to fund investments in future growth with emphasis on growth in the international markets, including personnel and business infrastructure investments; and

expenses related to the settlement of the Horizon litigation.

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These increases were partially offset by:

- reduced costs related to productivity actions taken in the second half of 2007 and throughout 2008; and
- reduced costs related to the completion of the European SAP implementation in 2007.

Research and development (R&D)

In thousands	**2009**	**% of sales**	**2008**	**% of sales**	**2007**	**% of sales**
R&D	$ 57,884	2.2%	$ 62,450	1.9%	$ 56,821	1.7%
Percentage point change		0.3 pts		0.2 pts		

The 0.3 percentage point increase in R&D expense as a percent of sales in 2009 from 2008 was primarily the result of:

- lower sales volume and the resultant loss of leverage on the R&D expense spending.

The 0.2 percentage point increase in R&D expense as a percent of sales in 2008 from 2007 was primarily the result of:

- increased R&D spending with emphasis on new product development and value engineering.

Operating income

Water

In thousands	**2009**	**% of sales**	**2008**	**% of sales**	**2007**	**% of sales**
Operating income	$ 163,745	8.9%	$ 206,357	9.4%	$ 273,677	12.3%
Percentage point change		(0.5) pts		(2.9) pts		

The 0.5 percentage point decrease in Water Group operating income as a percent of net sales in 2009 from 2008 was primarily the result of:

- lower sales of certain pump, pool and filtration products resulting from the downturn in the North American and Western European residential housing markets;

inflationary increases related to raw materials and labor;

incremental restructuring actions taken in 2009;

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

impairment charge of $11.3 million for selected trade names resulting from significant volume declines; and

higher costs associated with the integration of and intangible amortization related to the June 2008 formation of PRF.

These decreases were partially offset by:

selective increases in selling prices to mitigate inflationary cost increases;

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

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

2008 charges for the Horizon legal settlement, which were non-recurring in 2009.

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The 2.9 percentage point decrease in Water Group operating income as a percent of net sales in 2008 from 2007 was primarily the result of:

- inflationary increases related to raw materials and labor;
- a decline in sales of certain pump, pool and filtration products resulting from the downturn in North American and Western European markets;
- restructuring actions taken throughout 2008;
- expenses related to the settlement of the Horizon litigation;
- second quarter 2007 sales of municipal pumps related to a large flood control project, which did not recur in 2008; and
- higher cost in 2008 as a result of a fair market value inventory step-up and intangible amortization related to the June 2008 formation of PRF.

These decreases were partially offset by:

- selective increases in selling prices to mitigate inflationary cost increases;
- savings generated from our PIMS initiatives including lean and supply management practices;
- an increase in sales volume driven by our February 2, 2007 acquisition of Jung Pump, our April 30, 2007 acquisition of Porous Media, and the June 2008 formation of PRF;
- the curtailment of long-term defined benefit pension and retiree medical plans in 2007; and
- lower comparative cost in 2008 for our Jung Pump and Porous Media businesses due to the absence of a fair market value inventory step-up that was recorded in connection with those acquisitions.

Technical Products

In thousands	**2009**	**% of sales**	**2008**	**% of sales**	**2007**	**% of sales**
Operating income	$ 100,355	11.9%	$ 169,315	14.8%	$ 153,586	14.6%
Percentage point change		(2.9) pts		0.2 pts		

The 2.9 percentage point decrease in Technical Products Group operating income as a percent of net sales in 2009 from 2008 was primarily the result of:

a decrease in sales to electrical markets resulting from lower capital spending by customers in the industrial vertical market;

a decrease in sales into electronics markets that was largely attributable to reduced spending in the communications and general electronics vertical markets;

lower fixed cost absorption resulting from the sales volume decline; and

incremental restructuring actions taken in 2009 and the associated period costs related to the closure of certain facilities.

These decreases were partially offset by:

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

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

lower material cost for key commodities such as carbon steel.

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The 0.2 percentage point increase in Technical Products Group operating income as a percent of net sales in 2008 from 2007 was primarily the result of:

- an increase in sales to electrical and electronics markets, which includes selective increases in selling prices to mitigate inflationary cost increases; and
- savings realized from the continued success of PIMS, including lean and supply management activities.

These increases were partially offset by:

- inflationary increases related to raw materials such as carbon steel and labor costs; and
- expenses associated with restructuring actions taken during the second half of 2008.

Net interest expense

In thousands	**2009**	**2008**	**Difference**	**% change**	**2008**	**2007**	**Difference**	**% change**
Net interest expense	$ 41,118	$ 59,435	$ (18,317)	(30.8)%	$ 59,435	$ 68,393	$ (8,958)	(13.1%)

The 30.8 percent decrease in interest expense from continuing operations in 2009 from 2008 was primarily the result of:

- favorable impact of lower variable interest rates and lower debt levels in part attributable to the redemption on April 15, 2009 of our 7.85% Senior Notes due 2009.

The 13.1 percent decrease in interest expense from continuing operations in 2008 from 2007 was primarily the result of:

- a decrease in outstanding debt; and
- favorable impact of lower interest rates.

Gain on sale of interest in subsidiaries

On June 28, 2008, we entered into a transaction with GE that was accounted for as an acquisition of an 80.1 percent ownership interest in GE s global water softener and residential water filtration business in exchange for a 19.9 percent interest in our global water softener and residential water filtration business. The acquisition was effected through the formation of two new entities, a U.S. entity and an international entity into which we and GE contributed certain assets, properties, liabilities and operations representing our respective global water softener and residential water filtration businesses. We are an 80.1 percent owner of the new entities and GE is a 19.9 percent owner. The acquisition and related sale of our 19.9 percent interest resulted in a gain of $109.6 million representing the difference

between the carrying amount and the fair value of the 19.9 percent interest sold.

Loss on early extinguishment of debt

On July 8, 2008, we commenced a cash tender offer for all of our outstanding $250 million aggregate principal 7.85% Senior Notes due 2009 (the Notes). Upon expiration of the tender offer on August 4, 2008, we purchased $116.1 million aggregate principal amount of the Notes. As a result of this transaction, we recognized a loss of $4.6 million on early extinguishment of debt in 2008. The loss included the write off of $0.1 million in unamortized deferred financing fees in addition to recognition of $0.6 million in previously unrecognized swap gains and cash paid of $5.1 million related to the tender premium and other costs associated with the purchase.

On March 16, 2009, we announced the redemption of all of our remaining outstanding $133.9 million aggregate principal of 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 the second quarter of 2009. The loss included the

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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.

Provision for income taxes from continuing operations

In thousands	**2009**	**2008**	**2007**
Income from continuing operations before income taxes and minority interest	$ 172,647	$ 367,140	$ 306,561
Provision for income taxes	56,428	108,344	94,443
Effective tax rate	32.7%	29.5%	30.8%

The 3.2 percentage point increase in the tax rate in 2009 from 2008 was primarily the result of:

a portion of the gain on the formation of PRF in 2008 being taxed at a rate of 0%.

This increase was partially offset by:

favorable adjustments in 2009 related to prior years tax returns.

The 1.3 percentage point decrease in the tax rate in 2008 from 2007 was primarily the result of:

higher earnings in lower-tax rate jurisdictions during 2008; and

a portion of the gain on the formation of PRF taxed at a rate of 0%.

These decreases were partially offset by:

the impact in 2007 of a favorable adjustment related to the measurement of deferred tax assets and liabilities to account for changes in German tax law enacted on August 17, 2007.

We expect our full year effective tax rate in 2010 to be between 32% and 34%. We will continue to pursue tax rate reduction opportunities.

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 over the past few years through acquisitions, such as Jung Pump and Porous Media in 2007, 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.

In light of the current uncertain economic situation, we do not currently plan to make any significant acquisitions in 2010, although we may undertake smaller acquisitions. For the second year in a row, our Board did not authorize our

annual share repurchase program that we had undertaken prior to 2009. We continue to focus on increasing our cash flow and maximizing debt repayment for the foreseeable future. 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) was entered into in the second quarter of 2007 and does not expire until 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 needs ($601.7 million at December 31, 2009 which would be limited to $390.2 million based on the credit agreement s leverage ratio covenant).

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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 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 $258.4 million in 2009, or $54.2 million higher than in 2008. The increase in cash provided by operating activities was due primarily to a reduction in working capital, offset by a discretionary pension contribution of $25 million and lower income from continuing operations.

Cash provided by operating activities was $204.2 million in 2008, or $137.1 million lower than in 2007. The decrease in cash provided by operating activities was due primarily to an increase in working capital, higher prepaid expenses (particularly prepaid taxes) and lower income from continuing operations, excluding the gain from the formation of PRF.

In December 2008 and 2007, we sold approximately $44 million and $50 million, respectively, of a customer s account receivable to a third-party financial institution to mitigate accounts receivable concentration risk. Sales of accounts receivable are reflected as a reduction of accounts receivable in our Consolidated Balance Sheets and the proceeds are included in the cash flows from operating activities in our Consolidated Statements of Cash Flows. In 2008 and 2007, a loss in the amount of $0.5 million and $1.2 million, respectively, related to the sale of accounts receivable and is included in the line item *Other* in our Consolidated Statements of Income. We did not undertake a similar sale of customer receivables in 2009, in part because of lower receivable balances and higher transactions costs.

Investing activities

Capital expenditures in 2009, 2008, and 2007 were $54.1 million, $53.1 million and $61.5 million, respectively. We anticipate capital expenditures for fiscal 2010 to be approximately $55 to $65 million, primarily for capacity expansions in our low cost country manufacturing facilities, new product development, and general maintenance capital.

On May 7, 2007, we acquired as part of our Technical Products Group the assets of Calmark Corporation (Calmark), a privately held business, for $28.4 million, including a cash payment of $29.2 million and transaction costs of $0.2 million, less cash acquired of $1.0 million.

On April 30, 2007, we acquired as part of our Water Group all of the capital interests in Porous Media, two privately held filtration and separation technologies businesses, for $224.9 million, including a cash payment of $225.0 million and transaction costs of $0.4 million, less cash acquired of $0.5 million.

On February 2, 2007, we acquired as part of our Water Group all the outstanding shares of capital stock of Jung Pump for $229.5 million, including a cash payment of $239.6 million and transaction costs of $1.3 million, less cash acquired of $11.4 million.

On December 15, 2008, we sold our Spa/Bath business to Balboa Water Group in a cash transaction for $9.2 million. The results of Spa/Bath have been reported as discontinued operations for all periods presented. The assets and liabilities of Spa/Bath have been reclassified as discontinued operations for all periods presented.

On February 28, 2008, we sold our NPT business to Pool Corporation in a cash transaction for $29.8 million. The results of NPT have been reported as discontinued operations for all periods presented. The assets and liabilities of NPT have been reclassified as discontinued operations for all periods presented.

Cash proceeds from the sale of property and equipment of $1.2 million in 2009 was related to various asset dispositions. Cash proceeds from the sale of property and equipment of $4.7 million in 2008 was primarily

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related to the sale of a facility in our Water Group. Cash proceeds from the sale of property and equipment of $5.2 million in 2007 was primarily related to the sale of a facility used by our Technical Products Group.

Financing activities

Net cash used for financing activities was $209.1 million in 2009 and $217.2 in 2008 versus net cash provided by financing activities of $222.7 in 2007. The difference in cash usage between 2009 and 2008 was primarily the result of debt repayments in 2008. The difference in cash usage between 2008 and 2007 was primarily attributable to three acquisitions in 2007. Other 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 used to repurchase Company stock, cash received from stock option exercises, 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. 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 believe that internally generated funds and funds available under our Credit Facility will be sufficient to support our normal operations, dividend payments, stock repurchases (if and when authorized) and debt maturities over the life of the Credit Facility.

We are authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. We use the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. Our use of commercial paper as a funding vehicle depends upon the relative interest rates for our paper compared to the cost of borrowing under our Credit Facility. As of December 31, 2009, we had no outstanding commercial paper. As of December 31, 2008 we had $0.2 million of commercial paper outstanding. All of the commercial paper at December 31, 2008 was classified as long-term as we had the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

In May 2007, we entered into a Note Purchase Agreement with various institutional investors (the Agreement) for the sale of $300 million aggregate principal amount of our 5.87% Senior Notes (Fixed Notes) and $105 million aggregate principal amount of our Floating Rate Senior Notes (Floating Notes and with the Fixed Notes, the Notes). The Fixed Notes are due in May 2017. The Floating Notes are due in May 2012 and bear interest equal to the 3 month LIBOR plus 0.50%. The Agreement contains customary events of default.

We used $250 million of the proceeds from the sale of the Notes to retire a $250 million 364-day Term Loan Agreement that we entered into in April 2007, which we used in part to pay the cash purchase price of our Porous Media acquisition which closed in April 2007.

On July 8, 2008, we commenced a cash tender offer for all of our outstanding $250 million aggregate principal of Notes. Upon expiration of the tender offer on August 4, 2008, we purchased $116.1 million aggregate principal amount of the Notes. As a result of this transaction, we recognized a loss of $4.6 million on early extinguishment of debt in 2008. The loss included the write off of $0.1 million in unamortized deferred financing fees in addition to recognition of $0.6 million in previously unrecognized swap gains, and cash paid of $5.1 million related to the tender premium and other costs associated with the purchase.

On March 16, 2009, we announced the redemption of all of our remaining outstanding $133.9 million aggregate principle of 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 the second quarter of 2009. The loss included the write off of $0.1 million in unamortized deferred financing fees in

addition to recognition of $0.3 million in previously unrecognized swap gains, and cash paid of $5.0 million related to the redemption and other costs associated with the purchase.

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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 covenants under our debt agreements as of December 31, 2009.

In addition to the Credit Facility, we have $40.0 million of uncommitted credit facilities, under which we had $2.1 million of borrowings as of December 31, 2009.

Our current credit ratings are as follows:

Rating Agency	Long-Term Debt Rating	Current Rating Outlook
Standard & Poor s	BBB-	Stable
Moody s	Baa3	Negative

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 6, 2009, Standard & Poor s (S&P) lowered our credit rating from BBB to BBB- and changed the outlook from negative to stable. S&P s rating action reflects their expectation that the difficult global economic environment will likely delay improvement in our credit metrics, resulting in metrics that are more consistent with a BBB- rating. On May 1, 2009, Moody s Investors Service affirmed its Baa3 rating and changed the outlook from stable to negative. Our credit rating continues to be an investment grade rating, which is a credit rating of BBB- or higher by S&P and Baa3 or higher by Moody s.

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.

We issue short-term commercial paper notes that are currently not rated by Standard & Poor s 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 continue to issue unrated commercial paper.

We do not expect that a one rating downgrade of our long-term debt by either Standard & Poor s 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. We have the ability and sufficient capacity to meet these cash requirements, by using available cash and internally generated funds, and to borrow under our committed and uncommitted credit facilities.

We paid dividends in 2009 of $70.9 million, compared with $67.3 million in 2008 and $59.9 million in 2007. We recently announced an increase in our dividend rate for 2010 from $0.72 per share in 2009 to $0.76 per share in 2010, which is the 34th consecutive year in which we have increased our dividend.

In December 2007, the Board of Directors authorized the repurchase of shares of our common stock during 2008 up to a maximum dollar limit of $50 million. As of December 31, 2008, we had purchased 1,549,893 shares for $50 million pursuant to this authorization. This authorization expired on December 31, 2008. No authorization for the repurchase of shares of our common stock was sought from or granted by our Board for 2009 or 2010.

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The following summarizes our significant contractual obligations that impact our liquidity:

	Payments Due by Period						
In thousands	**2010**	**2011**	**2012**	**2013**	**2014**	**More than 5 Years**	**Total**
Long-term debt obligations	$ 2,286	$ 15	$ 303,306	$ 200,007	$ 8	$ 300,015	$ 805,637
Interest obligations on fixed-rate debt , including effects of derivative financial instruments	33,524	33,524	30,697	26,550	17,610	44,025	185,930
Operating lease obligations, net of sublease rentals	21,791	17,804	14,425	9,574	7,663	11,153	82,410
Pension and post retirement plan contributions	11,300	36,500	34,600	35,700	35,000	102,200	255,300
Other long-term liabilities	552	235	118				905
Total contractual cash obligations, net	$ 69,453	$ 88,078	$ 383,146	$ 271,831	$ 60,281	$ 457,393	$ 1,330,182

In addition to the summary of significant contractual obligations, we will incur annual interest expense on outstanding variable rate debt. As of December 31, 2009, variable interest rate debt, including the effects of derivative financial instruments, was $200.5 million at a weighted average interest rate of 0.90%.

The estimated annual pension plan contribution amounts are intended to achieve fully funded status of our domestic qualified pension plan in accordance with the Pension Protection Act of 2006.

Pension and post retirement plan contributions are based on an assumed discount rate of 6.0% for all periods and an expected rate of return on plan assets ranging from 6.0% to 8.5%. In December 2009, we made a discretionary contribution of $25 million to our defined benefit pension plan.

The total gross liability for uncertain tax positions at December 31, 2009 is estimated to be approximately $30.0 million. We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, which is consistent with our past practices. As of December 31, 2009, we had recorded approximately $0.6 million for the possible payment of penalties and $5.5 million related to the possible payment of interest.

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Other financial measures

In addition to measuring our cash flow generation or usage based upon operating, investing, and financing classifications included in the 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-GAAP 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:

	Twelve Months Ended December 31		
In thousands	**2009**	**2008**	**2007**
Net cash provided by (used for) continuing operations	$ 259,900	$ 212,612	$ 336,990
Capital expenditures	(54,137)	(53,089)	(61,516)
Proceeds from sale of property and equipment	1,208	4,741	5,198
Free cash flow	206,971	164,264	280,672
Net income from continuing operations attributable to Pentair, Inc.	115,512	256,363	212,118
Conversion of net income from continuing operations attributable to Pentair, Inc.	179%	64%	132%

In 2010, our objective is to generate free cash flow that equals or exceeds 100% conversion of net income.

Off-balance sheet arrangements

At December 31, 2009, we had no off-balance sheet financing arrangements.

COMMITMENTS AND CONTINGENCIES

Environmental

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

years; to date our recorded accruals have been adequate.

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

We may be named as a PRP at other sites in the future, for both divested and acquired businesses. When the outcome of the matter is probable and it is possible to provide reasonable estimates of our liability with respect to environmental sites, provisions have been made in accordance with GAAP in the United States. As of December 31, 2009 and 2008, our undiscounted reserves for such environmental liabilities were approximately $2.3 million and $3.1 million, respectively. We cannot ensure that environmental requirements will not change or become more stringent over time or that our eventual environmental clean-up costs and liabilities will not exceed the amount of our current reserves.

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Stand-by letters of credit

In the ordinary course of business, we are required to commit to bonds that require payments to our customers for any non-performance. The outstanding face value of the bonds fluctuates with the value of our projects in process and in our backlog. In addition, we issue financial stand-by letters of credit primarily to secure our performance to third parties under self-insurance programs and certain legal matters. As of December 31, 2009 and 2008, the outstanding value of these instruments totaled $51.2 million and $64.5 million, respectively.

NEW ACCOUNTING STANDARDS

See ITEM 8, Note 1 of the Notes to Consolidated Financial Statements for information pertaining to recently adopted accounting standards or accounting standards to be adopted in the future.

CRITICAL ACCOUNTING POLICIES

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are more fully described in ITEM 8, Note 1 of the Notes to Consolidated Financial Statements. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, and information available from other outside sources, as appropriate. We consider an accounting estimate to be critical if:

- it requires us to make assumptions about matters that were uncertain at the time we were making the estimate; and

- changes in the estimate or different estimates that we could have selected would have had a material impact on our financial condition or results of operations.

Our critical accounting estimates include the following:

Impairment of Goodwill and Indefinite-Lived Intangibles

Goodwill

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

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

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

In developing our discounted cash flow analysis, assumptions about future revenues and expenses, capital expenditures, and changes in working capital are based on our annual operating plan and long term business plan for each of our reporting units. These plans take into consideration numerous factors including historical experience, anticipated future economic conditions, changes in raw material prices, and growth expectations for the industries and end markets we participate in. These assumptions are determined over a five year long term planning period. The five year growth rates for revenues and operating profits vary for each reporting

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unit being evaluated. Revenues and operating profit beyond 2016 are projected to grow at a 3% perpetual growth rate for all reporting units.

Discount rate assumptions for each reporting unit take into consideration our assessment of risks inherent in the future cash flows of the respective reporting unit and our weighted-average cost of capital. We utilized a discount rate ranging from 12% to 13% in determining the discounted cash flows in our fair value analysis.

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

Indefinite-Lived Intangibles
Our primary identifiable intangible assets include trade marks and trade names, patents, non-compete agreements, proprietary technology, and customer relationships. Identifiable intangibles with finite lives are amortized and those identifiable intangibles with indefinite lives are not amortized. Identifiable intangible assets that are subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Identifiable intangible assets not subject to amortization are tested for impairment annually or more frequently if events warrant. During the fourth quarter of 2009 and 2008, we completed our annual impairment test for those identifiable assets not subject to amortization and recorded impairment charges of $11.3 million and $1.0 million, respectively. These charges were recorded in *Selling, general and administrative* in our Consolidated Statements of Income.

The impairment test consists of a comparison of the fair value of the trade name with its carrying value. Fair value is measured using the relief-from-royalty method. This method assumes the trade name has value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital. The impairment charge was the result of significant declines in sales volume.

At December 31, 2009 our goodwill and intangible assets were approximately $2,575.2 million, and represented approximately 65.8% of our total assets. If we experience further declines in sales and operating profit or do not meet our operating forecasts, we may be subject to future impairments. Additionally, changes in assumptions regarding the future performance of our businesses, increases in the discount rate used to determine the discounted cash flows of our businesses, or significant declines in our stock price or the market as a whole could result in additional impairment indicators. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

Impairment of Long-lived Assets
We review the recoverability of long-lived assets to be held and used, such as property, plant and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. The measurement of impairment requires us to estimate future cash flows and the fair value of long-lived assets.

Pension

We sponsor domestic and foreign defined-benefit pension and other post-retirement plans. The amounts recognized in our consolidated financial statements related to our defined-benefit pension and other post-retirement plans are determined from actuarial valuations. Inherent in these valuations are assumptions

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including expected return on plan assets, discount rates, rate of increase in future compensation levels, and health care cost trend rates. These assumptions are updated annually and are disclosed in ITEM 8, Note 12 to the Notes to Consolidated Financial Statements. Changes to these assumptions will affect pension expense, pension contributions and the funded status of our pension plans.

We recognize the overfunded or underfunded status of our defined benefit and retiree medical plans as an asset or liability in our balance sheet, with changes in the funded status recognized through comprehensive income in the year in which they occur.

Discount rate
The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year based on our December 31 measurement date. The discount rate was determined by matching our expected benefit payments to payments from a stream of AA or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions. This produced a discount rate for our U.S. plans of 6.00% in 2009 and 6.50% in 2008 and 2007. The discount rates on our foreign plans ranged from 2.00% to 6.0% in 2009, 2.00% to 6.25% in 2008 and 2.00% to 5.25% in 2007. There are no other known or anticipated changes in our discount rate assumption that will impact our pension expense in 2010.

Expected rate of return
Our expected rate of return on plan assets in 2009 equaled 8.5%, which remained unchanged from 2008 and 2007. The expected rate of return is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical returns, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer-term market indices.

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

See ITEM 8, Note 12 of the Notes to Consolidated Financial Statements for further information regarding pension plans.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. We are exposed to various market risks, including changes in interest rates and foreign currency rates. We use derivative financial instruments to manage or reduce the impact of changes in interest rates. Counterparties to all derivative contracts are major financial institutions. All instruments are entered into for other than trading purposes. The major accounting policies and utilization of these instruments is described more fully in ITEM 8, Note 1 of the Notes to Consolidated Financial Statements.

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.

Interest rate risk

Our debt portfolio, excluding impact of swap agreements, as of December 31, 2009 was comprised of debt predominantly denominated in U.S. dollars. This debt portfolio is comprised of 50% fixed-rate debt and 50%

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variable-rate debt, not considering the effects of our interest rate swaps. Taking into account the variable to fixed rate swap agreements we entered with an effective date of April 2006 and August 2007, our debt portfolio is comprised of 75% fixed-rate debt and 25% variable-rate debt. Changes in interest rates have different impacts on the fixed and variable-rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the fair value but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not impact the net financial instrument position.

Based on the fixed-rate debt included in our debt portfolio, as of December 31, 2009, a 100 basis point increase or decrease in interest rates would result in a $20.0 million increase or decrease in fair value.

Based on the variable-rate debt included in our debt portfolio, including the interest rate swap agreements, as of December 31, 2009, a 100 basis point increase or decrease in interest rates would result in a $2.0 million increase or decrease in interest incurred.

Foreign currency risk

We conduct business in various locations throughout the world and are subject to market risk due to changes in the value of foreign currencies in relation to our reporting currency, the U.S. dollar. We generally do not use derivative financial instruments to manage these risks. The functional currencies of our foreign operating locations are the local currency in the country of domicile. We manage these operating activities at the local level and revenues, costs, assets, and liabilities are generally denominated in local currencies, thereby mitigating the risk associated with changes in foreign exchange. However, our results of operations and assets and liabilities are reported in U.S. dollars and thus will fluctuate with changes in exchange rates between such local currencies and the U.S. dollar.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2009, the Company s internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Company s internal control over financial reporting as of year ended December 31, 2009. That attestation report is set forth immediately following this management report.

Randall J. Hogan	John L. Stauch
Chairman and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Pentair, Inc.:

We have audited the internal control over financial reporting of Pentair, Inc. and subsidiaries (the Company) as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule listed in the Index at Item 15 as of and for the year ended December 31, 2009, of the Company and our report dated February 23, 2010, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding the Company s adoption of a new accounting standard.

Minneapolis, Minnesota
February 23, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Pentair, Inc.:

We have audited the accompanying consolidated balance sheets of Pentair, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting and reporting for noncontrolling interests for all periods presented.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2010 expressed an unqualified opinion on the Company s internal control over financial reporting.

Minneapolis, Minnesota
February 23, 2010

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Pentair, Inc. and Subsidiaries

Consolidated Statements of Income

In thousands, except per-share data	Years Ended December 31 2009	2008	2007
Net sales	$ 2,692,468	$ 3,351,976	$ 3,280,903
Cost of goods sold	1,907,333	2,337,426	2,268,205
Gross profit	785,135	1,014,550	1,012,698
Selling, general and administrative	507,303	606,980	576,828
Research and development	57,884	62,450	56,821
Legal settlement		20,435	
Operating income	219,948	324,685	379,049
Other (income) expense:			
Gain on sale of interest in subsidiaries		(109,648)	
Equity losses of unconsolidated subsidiary	1,379	3,041	2,865
Loss on early extinguishment of debt	4,804	4,611	
Interest income	(999)	(2,029)	(1,510)
Interest expense	42,117	61,464	69,903
Other		106	1,230
Income from continuing operations before income taxes and noncontrolling interest	172,647	367,140	306,561
Provision for income taxes	56,428	108,344	94,443
Income from continuing operations	116,219	258,796	212,118
Loss from discontinued operations, net of tax		(5,783)	(1,629)
Gain (loss) on disposal of discontinued operations, net of tax	(19)	(21,846)	438
Net income before noncontrolling interest	116,200	231,167	210,927
Noncontrolling interest	707	2,433	
Net income attributable to Pentair, Inc.	$ 115,493	$ 228,734	$ 210,927
Net income from continuing operations attributable to Pentair, Inc.	$ 115,512	$ 256,363	$ 212,118

Earnings (loss) per common share attributable to Pentair, Inc.			
Basic			
Continuing operations	$ 1.19	$ 2.62	$ 2.15
Discontinued operations		(0.28)	(0.01)
Basic earnings per common share	$ 1.19	$ 2.34	$ 2.14
Diluted			
Continuing operations	$ 1.17	$ 2.59	$ 2.12
Discontinued operations		(0.28)	(0.01)
Diluted earnings per common share	$ 1.17	$ 2.31	$ 2.11
Weighted average common shares outstanding			
Basic	97,415	97,887	98,762
Diluted	98,522	99,068	100,205

See accompanying notes to consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Consolidated Balance Sheets

In thousands, except share and per-share data	December 31 2009	December 31 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 33,396	$ 39,344
Accounts and notes receivable, net of allowances of $27,081 and $25,156, respectively	455,090	461,081
Inventories	360,627	417,287
Deferred tax assets	49,609	51,354
Prepaid expenses and other current assets	47,576	63,113
Total current assets	946,298	1,032,179
Property, plant and equipment, net	333,688	343,881
Other assets		
Goodwill	2,088,797	2,101,851
Intangibles, net	486,407	515,508
Other	56,144	59,794
Total other assets	2,631,348	2,677,153
Total assets	$ 3,911,334	$ 4,053,213
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	$ 2,205	$
Current maturities of long-term debt	81	624
Accounts payable	207,661	217,898
Employee compensation and benefits	74,254	90,210
Current pension and post-retirement benefits	8,948	8,890
Accrued product claims and warranties	34,288	41,559
Income taxes	5,659	5,451
Accrued rebates and sales incentives	27,554	28,897
Other current liabilities	85,629	104,975
Total current liabilities	446,279	498,504
Other liabilities		
Long-term debt	803,351	953,468

Pension and other retirement compensation	234,948	270,139
Post-retirement medical and other benefits	31,790	34,723
Long-term income taxes payable	26,936	28,139
Deferred tax liabilities	146,630	146,559
Other non-current liabilities	95,060	101,612
Total liabilities	1,784,994	2,033,144
Commitments and contingencies		
Shareholders equity		
Common shares par value $0.16 2/3; 98,655,506 and 98,276,919 shares issued and outstanding, respectively	16,442	16,379
Additional paid-in capital	472,807	451,241
Retained earnings	1,502,242	1,457,676
Accumulated other comprehensive income (loss)	20,597	(26,615)
Noncontrolling interest	114,252	121,388
Total shareholders equity	2,126,340	2,020,069
Total liabilities and shareholders equity	$ 3,911,334	$ 4,053,213

See accompanying notes to consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

In thousands	Year Ended December 31 2009	December 31 2008	December 31 2007
Operating activities			
Net income before noncontrolling interest	$ 116,200	$ 231,167	$ 210,927
Adjustments to reconcile net income to net cash provided by (used for) operating activities			
Loss from discontinued operations		5,783	1,629
(Gain) loss on disposal of discontinued operations	19	21,846	(438)
Equity losses of unconsolidated subsidiary	1,379	3,041	2,865
Depreciation	64,823	59,673	57,603
Amortization	40,657	27,608	25,561
Deferred income taxes	30,616	40,754	(16,652)
Stock compensation	17,324	20,572	22,913
Excess tax benefits from stock-based compensation	(1,746)	(1,617)	(4,204)
(Gain) loss on sale of assets	985	510	(1,929)
Gain on sale of interest in subsidiaries		(109,648)	
Changes in assets and liabilities, net of effects of business acquisitions and dispositions			
Accounts and notes receivable	11,307	(18,247)	(19,068)
Inventories	66,684	(33,311)	14,714
Prepaid expenses and other current assets	16,202	(27,394)	2,175
Accounts payable	(13,822)	(1,973)	19,482
Employee compensation and benefits	(22,431)	(21,919)	3,995
Accrued product claims and warranties	(7,440)	(7,286)	4,763
Income taxes	1,972	(4,409)	2,849
Other current liabilities	(21,081)	8,987	(3,218)
Pension and post-retirement benefits	(39,607)	301	6
Other assets and liabilities	(2,141)	18,174	13,017
Net cash provided by (used for) continuing operations	259,900	212,612	336,990
Net cash provided by (used for) operating activities of discontinued operations	(1,531)	(8,397)	4,288
Net cash provided by (used for) operating activities	258,369	204,215	341,278
Investing activities			
Capital expenditures	(54,137)	(53,089)	(61,516)
Proceeds from sale of property and equipment	1,208	4,741	5,198
Acquisitions, net of cash acquired		(2,027)	(487,561)
Divestitures	1,567	37,907	

Other	(3,224)	(12)	(5,544)
Net cash provided by (used for) investing activities	(54,586)	(12,480)	(549,423)
Financing activities			
Net short-term borrowings	2,205	(16,994)	(1,830)
Proceeds from long-term debt	580,000	715,000	1,269,428
Repayment of long-term debt	(730,304)	(805,016)	(954,077)
Debt issuance costs	(50)	(114)	(1,876)
Excess tax benefits from stock-based compensation	1,746	1,617	4,204
Proceeds from exercise of stock options	8,247	5,590	7,388
Repurchases of common stock		(50,000)	(40,641)
Dividends paid	(70,927)	(67,284)	(59,910)
Net cash provided by (used for) financing activities	(209,083)	(217,201)	222,686
Effect of exchange rate changes on cash and cash equivalents	(648)	(5,985)	1,434
Change in cash and cash equivalents	(5,948)	(31,451)	15,975
Cash and cash equivalents, beginning of period	39,344	70,795	54,820
Cash and cash equivalents, end of period	$ 33,396	$ 39,344	$ 70,795

See accompanying notes to consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders Equity

re and per-share data	Common shares Number	Common shares Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair, Inc.	Noncontrolling Interest	T
1, 2006	99,777,165	$ 16,629	$ 488,540	$ 1,148,126	$ 16,704	$ 1,669,999	$	$ 1,
				210,927		210,927		
anslation adjustment					72,901	72,901		
t liability, net of					37,201	37,201		
e of derivative financial 58) tax					(4,940)	(4,940)		
pply tax guidance				(2,917)		(2,917)		
npensation			5,654			5,654		
per common share				(59,910)		(59,910)		
	(1,209,257)	(202)	(40,439)			(40,641)		
s, net of 342,870 shares	491,618	83	4,348			4,431		
ares, net of	313,160	52	530			582		
ed shares			9,256			9,256		
mployees to pay taxes	(150,855)	(25)	(4,820)			(4,845)		
			13,173			13,173		
1, 2007	99,221,831	$ 16,537	$ 476,242	$ 1,296,226	$ 121,866	$ 1,910,871	$	$ 1,
				228,734		228,734		
anslation adjustment					(72,117)	(72,117)		
t liability, net of 42,793					(66,933)	(66,933)		
e of derivative financial 84) tax					(9,431)	(9,431)		

npensation			2,247			2,247		
per common share				(67,284)		(67,284)		
	(1,549,893)	(258)	(49,742)			(50,000)		
s, net of 121,638 shares								
	322,574	53	4,948			5,001		
ares, net of								
	366,005	61	388			449		
ed shares			9,378			9,378		
mployees to pay taxes	(83,598)	(14)	(2,730)			(2,744)		
			10,510			10,510		
							121,388	
1, 2008	98,276,919	$ 16,379	$ 451,241	$ 1,457,676	$ (26,615)	$ 1,898,681	$ 121,388	$ 2,
				115,493		115,493	707	
anslation adjustment					43,371	43,371	(7,843)	
t liability, net of								
					256	256		
e of derivative financial								
23 tax					3,585	3,585		
npensation			1,025			1,025		
per common share				(70,927)		(70,927)		
s, net of 124,613 shares								
	433,533	72	7,639			7,711		
ares, net of								
	24,531	4	516			520		
ed shares			7,190			7,190		
mployees to pay taxes	(79,477)	(13)	(1,867)			(1,880)		
			7,063			7,063		
1, 2009	98,655,506	$ 16,442	$ 472,807	$ 1,502,242	$ 20,597	$ 2,012,088	$ 114,252	$ 2,

See accompanying notes to consolidated financial statements.

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Fiscal year

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

Principles of consolidation

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

Use of estimates

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

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

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

Revenue recognition

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

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

Sales returns

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

Pricing and sales incentives

We record estimated reductions to revenue for customer programs and incentive offerings including pricing arrangements, promotions, and other volume-based incentives at the later of the date revenue is recognized or the incentive is offered. Sales incentives given to our customers are recorded as a reduction of revenue unless we

(1) receive an identifiable benefit for the goods or services in exchange for the consideration and (2) we

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

can reasonably estimate the fair value of the benefit received. The following represents a description of our pricing arrangements, promotions, and other volume-based incentives:

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

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

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

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

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

Trade receivables and concentration of credit risk
We record an allowance for doubtful accounts; reducing our receivables balance to an amount we estimate is collectible from our customers. Estimates used in determining the allowance for doubtful accounts are based on historical collection experience, current trends, aging of accounts receivable, and periodic credit evaluations of our customers financial condition. We generally do not require collateral. One customer had a receivable balance of approximately 10% of the total net receivable balance as of December 31, 2009. No customer receivable balances exceeded 10% of total net receivable balances as of December 31, 2008.

In December 2008 and 2007, we sold approximately $44 million and $50 million, respectively, of one customer s accounts receivable to a third-party financial institution to mitigate accounts receivable concentration risk. Sales of accounts receivable are reflected as a reduction of accounts receivable in our Consolidated Balance Sheets and the

proceeds are included in the cash flows from operating activities in our Consolidated Statements of Cash Flows. In 2008 and 2007, a loss in the amount of $0.5 million and $1.2 million related to the sale of accounts receivable is included in the line item *Other* in our Consolidated Statements of Income. We did not undertake a similar sale of customer receivables in 2009.

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

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

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

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

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

We review the recoverability of long-lived assets to be held and used, such as property, plant and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset or asset group, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. The measurement of impairment requires us to estimate future cash flows and the fair value of long-lived assets.

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

Goodwill is tested at least annually for impairment, and is tested for impairment more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is performed using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. This non-recurring fair value measurement is a Level 3 measurement under the fair value hierarchy described below. If the estimated fair value is less than the carrying amount of the reporting unit, an indication that goodwill impairment exists and a second step must be completed in order to determine the amount of the goodwill impairment, if any that should be recorded. In the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied

fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation.

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

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

In developing our discounted cash flow analysis, assumptions about future revenues and expenses, capital expenditures, and changes in working capital, are based on our annual operating plan and long term business plan for each of our reporting units. These plans take into consideration numerous factors including historical experience, anticipated future economic conditions, changes in raw material prices, and growth expectations for the industries and end markets we participate in. These assumptions are determined over a five year long term planning period. The five year growth rates for revenues and operating profits vary for each reporting unit being evaluated. Revenues and operating profit beyond 2016 are projected to grow at a 3% perpetual growth rate for all reporting units.

Discount rate assumptions for each reporting unit take into consideration our assessment of risks inherent in the future cash flows of the respective reporting unit and our weighted-average cost of capital. We utilized a discount rate ranging from 12% to 13% in determining the discounted cash flows in our fair value analysis.

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

We completed step one of our annual goodwill impairment evaluation during the fourth quarter with each reporting unit s fair value exceeding its carrying value. Accordingly, step two of the impairment analysis was not required.

Identifiable intangible assets
Our primary identifiable intangible assets include trade marks and trade names, patents, non-compete agreements, proprietary technology, and customer relationships. Identifiable intangibles with finite lives are amortized and those identifiable intangibles with indefinite lives are not amortized. Identifiable intangible assets that are subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Identifiable intangible assets not subject to amortization are tested for impairment annually or more frequently if events warrant. During the fourth quarter of 2009 and 2008, we completed our annual impairment test for those identifiable assets not subject to amortization and recorded impairment charges of $11.3 million and $1.0 million, respectively, related to trade names. These charges were recorded in *Selling, general and administrative* in our Consolidated Statements of Income.

The impairment test consists of a comparison of the fair value of the trade name with its carrying value. Fair value is measured using the relief-from-royalty method. This method assumes the trade name has value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital. This non-recurring fair value measurement is a Level 3 measurement under the fair value hierarchy described below. The impairment charge was the result of significant declines in sales volume. These charges were recorded in *Selling, general and administrative* in our Consolidated Statements of Income.

At December 31, 2009 our goodwill and intangible assets were approximately $2,575.2 million, and represented approximately 65.8% of our total assets. If we experience further declines in sales and operating profit or do not meet our operating forecasts, we may be subject to future impairments. Additionally, changes in assumptions regarding the

future performance of our businesses, increases in the discount rate used to determine the discounted cash flows of our businesses, or significant declines in our stock price or the market as a whole could result in additional impairment indicators. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

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

Income taxes
We use the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in our tax provision in the period of change. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

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

Insurance subsidiary
We insure certain general and product liability, property, workers compensation, and automobile liability risks through our regulated wholly-owned captive insurance subsidiary, Penwald Insurance Company (Penwald). Reserves for policy claims are established based on actuarial projections of ultimate losses. As of December 31, 2009 and 2008, reserves for policy claims were $56.3 million ($10.0 million included in A*ccrued product claims and warranties* and $46.3 million included in *Other non-current liabilities*) and $59.2 million ($10.0 million included in *Accrued product claims and warranties* and $49.2 million included in *Other non-current liabilities*), respectively.

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

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

Earnings per common share
Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding including the dilutive effects of common stock equivalents. The dilutive effects of stock options and restricted share awards and units increased weighted average common shares outstanding by 1,107 thousand, 1,181 thousand and 1,443 thousand in 2009, 2008 and 2007, respectively.

Stock options excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of the common shares were 5,283 thousand, 5,268 thousand, and 2,841 thousand in 2009, 2008 and 2007, respectively.

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

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

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.

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

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

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

Foreign currency translation
The financial statements of subsidiaries located outside of the United States are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resultant translation adjustments are included in accumulated other comprehensive income, a separate component of shareholders equity.

New accounting standards
In June 2009, the FASB 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 are evaluating the impact the new guidance will have on our consolidated financial statements.

On January 1, 2009, we adopted new accounting guidance that changes the accounting and reporting for minority interests. Minority interests have been recharacterized as noncontrolling interests and are reported as a component of equity separate from the parent s equity. Purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the Consolidated Income Statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. We have classified noncontrolling interest (previously minority interest) as a component of equity for all periods presented.

In December 2008, we adopted new accounting guidance that requires more detailed disclosures about employers pension plan assets. New disclosures include more information on investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. This new standard required new disclosures only, and had no impact on our consolidated financial position, results of operations or cash flows. These new disclosures are included in Note 12 to the Consolidated Financial Statements.

Subsequent events
In connection with preparing the audited consolidated financial statements for the year ended December 31, 2009, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing.

2. Acquisitions
On June 28, 2008, we entered into a transaction with GE Water & Process Technologies (a unit of General Electric Company) (GE) that was accounted for as an acquisition of an 80.1 percent ownership interest in GE s global water softener and residential water filtration business in exchange for a 19.9 percent interest in our global water softener and residential water filtration business. The acquisition was effected through the formation of two new entities (collectively, Pentair Residential Filtration or PRF), a U.S. entity and an international entity, into which we and GE contributed certain assets, properties, liabilities and operations representing our respective global water softener and

residential water filtration businesses. We are an 80.1 percent owner of PRF and GE is a 19.9 percent owner. The fair value of the acquisition was $229.2 million, which includes approximately $3.3 million of acquisition related costs. The acquisition and

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

related sale of our 19.9 percent interest resulted in a gain of $109.6 million ($85.8 million after tax), representing the difference between the carrying amount and the fair value of the 19.9 percent interest sold.

With the formation of Pentair Residential Filtration, we believe we are better positioned to serve residential customers with industry-leading technical applications in the areas of water conditioning, whole-house filtration, point of use water management and water sustainability and expect to accelerate revenue growth by selling GE s existing residential conditioning products through our sales channels.

The fair value of the 80.1% interest in the global water softener and residential water filtration business of GE Water and Process Technologies acquired was determined using both an income approach and a market approach. The income approach utilizes a discounted cash flow analysis based on certain key assumptions including a discount rate based on a computed weighted average cost of capital and expected long-term revenue and expense growth rates. The market approach indicates the fair value of a business based on a comparison of the business to guideline publicly traded companies and transactions in its industry.

The fair value of the business acquired was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value acquired over the identifiable assets acquired and liabilities assumed is reflected as goodwill. Goodwill recorded as part of the purchase price allocation was approximately $137.9 million, none of which is tax deductible. Identifiable intangible assets acquired as part of the acquisition were $66.5 million, including definite-lived intangibles, such as customer relationships, proprietary technology and trade names with a weighted average amortization period of approximately 15 years.

The following pro forma consolidated condensed financial results of operations for the year ended December 31, 2008 is presented as if the acquisition had been completed at the beginning of the period presented:

In thousands, except per-share data

Pro forma net sales from continuing operations	$ 3,406,449
Pro forma net income from continuing operations	256,363
Pro forma net income	228,734
Pro forma earnings per common share continuing operations	
Basic	$ 2.62
Diluted	$ 2.59
Weighted average common shares outstanding	
Basic	97,887
Diluted	99,068

These pro forma consolidated condensed financial results have been prepared for comparative purposes only and include certain adjustments. The adjustments do not reflect the effect of synergies that would have been expected to result from the integration of this acquisition. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the combination occurred on January 1, or of future results of the consolidated entities.

3. Discontinued Operations/Divestitures

On December 15, 2008, we sold our Spa and Bath (Spa/Bath) business to Balboa Water Group in a cash transaction for $9.2 million. The results of Spa/Bath have been reported as discontinued operations for all periods presented. The assets and liabilities of Spa/Bath have been reclassified as discontinued operations for all periods presented. Goodwill of $5.6 million was included in the assets of Spa/Bath.

On February 28, 2008, we sold our National Pool Tile (NPT) business to Pool Corporation in a cash transaction for $29.8 million. The results of NPT have been reported as discontinued operations for all periods

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

presented. The assets and liabilities of NPT have been reclassified as discontinued operations for all periods presented. Goodwill of $16.8 million was included in the assets of NPT.

Operating results of the discontinued operations are summarized below.

In thousands	2009	2008	2007
Net sales	$	$ 43,346	$ 117,795
Loss from discontinued operations before income taxes		(9,392)	(2,917)
Income tax benefit		3,609	1,288
Loss from discontinued operations, net of income taxes		(5,783)	(1,629)
Gain (loss) on disposal of discontinued operations, before taxes	221	(28,692)	762
Income tax (expense) benefit	(240)	6,846	(324)
Gain (loss) on disposal of discontinued operations, net of tax	$ (19)	$ (21,846)	$ 438

4. 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 announcement of the closure of certain manufacturing facilities as well as the reduction in hourly and salaried headcount of approximately 800 and 1700 employees in 2009 and 2008, respectively, which included 350 and 1,300 in the Water Group and 450 and 400 in the Technical Products Group. These actions were generally completed by the end of 2009.

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

	Years Ended December 31	
In thousands	2009	2008
Severance and related costs	$ 11,160	$ 34,615
Asset impairment	4,050	5,282
Contract termination costs	2,030	5,309

Total restructuring costs	$ 17,240	$ 45,206

Total restructuring costs related to the Water Group and the Technical Products Group were $7.7 million and $9.5 million, respectively, for year ended December 31, 2009. Total restructuring costs related to the Water Group and the Technical Products Group were $36.3 million and $8.9 million, respectively, for year ended December 31, 2008.

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

	Years Ended December 31	
In thousands	**2009**	**2008**
Beginning balance	$ 34,174	$
Costs incurred	13,190	39,924
Cash payments and other	(32,855)	(5,750)
Ending balance	$ 14,509	$ 34,174

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements (continued)

5. Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2009 and 2008 by segment are as follows:

In thousands	December 31, 2008	Acquisitions/ Divestitures	Foreign Currency Translation/Other	December 31, 2009
Water Group	$ 1,818,470	$ 895	$ (16,452)	$ 1,802,913
Technical Products Group	283,381		2,503	285,884
Consolidated Total	$ 2,101,851	$ 895	$ (13,949)	$ 2,088,797

Included in foreign currency translation/other is the correction of an immaterial error related to the previous accounting treatment for certain acquisitions. The correction resulted in a decrease in goodwill and a decrease of deferred tax liabilities of $28.5 million ($27.5 million in the Water Group and $1.0 million in the Technical Products Group).

In thousands	December 31, 2007	Acquisitions/ Divestitures	Foreign Currency Translation/Other	December 31, 2008
Water Group	$ 1,706,626	$ 132,720	$ (20,876)	$ 1,818,470
Technical Products Group	292,493	106	(9,218)	283,381
Consolidated Total	$ 1,999,119	$ 132,826	$ (30,094)	$ 2,101,851

In 2008, the acquired goodwill in the Water Group is related primarily to the formation of PRF and the 2007 acquisition of Jung Pump. In 2008, goodwill allocated to divested businesses was $22.4 million.

The detail of acquired intangible assets consisted of the following:

In thousands	2009 Gross Carrying Amount	2009 Accumulated Amortization	2009 Net	2008 Gross Carrying Amount	2008 Accumulated Amortization	2008 Net
Finite-life intangible assets						
Patents	$ 15,458	$ (11,502)	$ 3,956	$ 15,427	$ (9,774)	$ 5,653
Non-compete agreements	4,522	(4,522)		4,722	(4,566)	156
Proprietary technology	73,244	(23,855)	49,389	72,375	(17,652)	54,723
Customer relationships	288,122	(66,091)	222,031	283,015	(46,841)	236,174
Trade names	1,562	(235)	1,327	961	(77)	884
Total finite-life intangible assets	$ 382,908	$ (106,205)	$ 276,703	$ 376,500	$ (78,910)	$ 297,590
Indefinite-life intangible assets						
Trade names	$ 209,704	$	$ 209,704	$ 217,918	$	$ 217,918
Total intangibles, net	$ 592,612	$ (106,205)	$ 486,407	$ 594,418	$ (78,910)	$ 515,508

Intangible asset amortization expense in 2009, 2008, and 2007 was $27.3 million, $24.0 million, and $21.8 million, respectively.

In 2009 we recorded an impairment charge to write down trade name intangible assets of $11.3 million in the Water Group. Additionally, in 2008 we recorded an impairment change to write-off a trade name intangible asset of $1.0 million in the Technical Products Group.

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The impairment test consists of a comparison of the fair value of the trade name with its carrying value. Fair value is measured using the relief-from-royalty method which would be a Level 3 measurement under the fair value hierarchy described in Note 1. This method assumes the trade name has value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital. The impairment charge was the result of significant declines in sales volume. These charges were recorded in *Selling, general and administrative* in our Consolidated Statements of Income.

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

In thousands	**2010**	**2011**	**2012**	**2013**	**2014**
Estimated amortization expense	$ 25,134	$ 25,042	$ 24,205	$ 23,857	$ 23,534

6. Supplemental Balance Sheet Information

In thousands	**2009**	**2008**
Inventories		
Raw materials and supplies	$ 200,931	$ 212,792
Work-in-process	38,338	53,241
Finished goods	121,358	151,254
Total inventories	$ 360,627	$ 417,287
Property, plant and equipment		
Land and land improvements	$ 36,635	$ 32,949
Buildings and leasehold improvements	213,453	204,757
Machinery and equipment	586,764	580,632
Construction in progress	28,408	24,376
Total property, plant and equipment	865,260	842,714
Less accumulated depreciation and amortization	531,572	498,833
Property, plant and equipment, net	$ 333,688	$ 343,881

Equity method investments

We have a 50% investment in FARADYNE Motors LLC (FARADYNE), a joint venture with ITT Water Technologies, Inc. that began design, development, and manufacturing of submersible pump motors in 2005. We do not consolidate the investment in our consolidated financial statements as we do not have a controlling interest over the investment. There were investments in and loans to FARADYNE of $4.5 million and $5.0 million at December 31, 2009 and December 31, 2008, respectively, which is net of our proportionate share of the results of their operations.

7. Supplemental Cash Flow Information

The following table summarizes supplemental cash flow information:

In thousands	**2009**	**2008**	**2007**
Interest payments	$ 43,010	$ 63,851	$ 66,044
Income tax payments	8,719	80,765	98,798

On June 28, 2008, we entered into a transaction with GE that was accounted for as an acquisition of an 80.1 percent ownership interest in GE s global water softener and residential water filtration business in

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exchange for a 19.9 percent interest in our global water softener and residential water filtration business. The transaction is more fully described in Note 2. *Acquisitions.*

8. Accumulated Other Comprehensive Income (Loss)

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

In thousands	**2009**	**2008**
Retirement liability adjustments, net of tax	$ (58,448)	$ (58,704)
Cumulative translation adjustments	88,671	45,300
Market value of derivative financial instruments, net of tax	(9,626)	(13,211)
Accumulated other comprehensive income (loss)	$ 20,597	$ (26,615)

9. Debt

Debt and the average interest rates on debt outstanding as of December 31 are summarized as follows:

In thousands	**Average interest rate December 31, 2009**	**Maturity (Year)**	**December 31 2009**	**December 31 2008**
Commercial paper	0.00%	2012	$	$ 249
Revolving credit facilities	0.86%	2012	198,300	214,200
Private placement fixed rate	5.65%	2013-2017	400,000	400,000
Private placement floating rate	0.83%	2012-2013	205,000	205,000
Senior notes	7.85%	2009		133,900
Other	4.64%	2010-2016	2,337	275
Total contractual debt obligations			805,637	953,624
Deferred income related to swaps				468
Total debt, including current portion per balance sheet			805,637	954,092

Less: Current maturities	(81)	(624)
Short-term borrowings	(2,205)	
Long-term debt	$ 803,351	$ 953,468

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 will 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 December 31, 2009, we had no outstanding commercial paper. As of December 31, 2008 we had $0.2 million of commercial paper outstanding.

All of the commercial paper and $133.9 million aggregate principle 7.85% Senior Notes due 2009 (the Notes) at December 31, 2008 were classified as long-term as we had the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

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In addition to the Credit Facility, we have $40.0 million of uncommitted credit facilities, under which we had $2.1 of borrowings as of December 31, 2009.

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 December 31, 2009.

Total availability under our existing Credit Facility was $601.7 million at December 31, 2009, which would be limited to $390.2 million based on the credit agreement s leverage ratio covenant.

On July 8, 2008, we commenced a cash tender offer for all of our outstanding Notes. Upon expiration of the tender offer on August 4, 2008, we purchased $116.1 million aggregate principal amount of the Notes. As a result of this transaction, we recognized a loss of $4.6 million on early extinguishment of debt in 2008. The loss included the write off of $0.1 million in unamortized deferred financing fees and $0.6 million in previously unrecognized swap gains, and cash paid of $5.1 million related to the tender premium and other costs associated with the purchase.

On March 16, 2009, we announced the redemption of all of our remaining outstanding $133.9 million aggregate principal of 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 the second quarter of 2009. The loss included the write off of $0.1 million in unamortized deferred financing fees in addition to recognition of $0.3 million in previously unrecognized swap gains, and cash paid of $5.0 million related to the redemption and other costs associated with the purchase.

Debt outstanding at December 31, 2009, matures on a calendar year basis as follows:

In thousands	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Contractual debt obligation maturities	$ 2,286	$ 15	$ 303,306	$ 200,007	$ 8	$ 300,015	$ 805,637

10. Derivative and Financial Instruments

Cash-flow hedges

In August 2007, we entered into a $105 million interest rate swap agreement with a major financial institution to exchange variable rate interest payment obligations for a fixed rate obligation without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the swap was August 30, 2007. The swap agreement has a fixed interest rate of 4.89% and expires in May 2012. The fixed interest rate of 4.89% plus the .50% interest rate spread over LIBOR results in an effective fixed interest rate of 5.39%. The fair value of the swap was a liability of $8.1 million and $10.7 million at December 31, 2009 and December 31, 2008, respectively, and was recorded in *Other non-current liabilities*.

In September 2005, we entered into a $100 million interest rate swap agreement with several major financial institutions to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the fixed rate swap was April 25, 2006. The swap agreement has a fixed interest rate of 4.68% and expires in July 2013. The fixed interest rate of 4.68% plus the .60% interest rate spread over LIBOR results in an effective fixed interest rate of 5.28%. The fair value of the swap was a liability of $8.3 million and $11.6 million at December 31, 2009 and December 31, 2008, respectively, and was recorded in *Other non-current liabilities*.

The variable to fixed interest rate swaps are designated as cash-flow hedges. The fair value of these swaps are recorded as assets or liabilities on the Consolidated Balance Sheet. Unrealized income/expense is included in Accumulated other comprehensive income (OCI) and realized income/expense, amounts due to/from swap

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counterparties, are included in earnings. We realized incremental interest expense resulting from the swaps of $7.9 million and $3.4 million at December 31, 2009 and December 31, 2008, respectively.

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

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

At December 31, 2009 and 2008, 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.

Fair value of financial instruments

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

	2009		2008	
In thousands	**Recorded amount**	**Fair value**	**Recorded amount**	**Fair value**
Total debt, including current portion				
Variable rate	$ 405,505	$ 405,505	$ 419,449	$ 419,449
Fixed rate	400,132	390,930	534,175	482,148
Total	$ 805,637	$ 796,435	$ 953,624	$ 901,597
Derivative financial instruments				
Market value of variable to fixed interest rate swap (liability) asset	$ (16,354)	$ (16,354)	$ (22,309)	$ (22,309)

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

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

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

interest rate swap agreements fair values are determined through the use of models that consider various assumptions, including time value, yield curves, as well as other relevant economic measures, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance.

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11. Income Taxes

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

In thousands	**2009**	**2008**	**2007**
United States	$ 111,530	$ 220,294	$ 229,012
International	61,117	146,846	77,549
Income from continuing operations before taxes and noncontrolling interest	$ 172,647	$ 367,140	$ 306,561

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

In thousands	**2009**	**2008**	**2007**
Currently payable			
Federal	$ 10,502	$ 41,985	$ 70,610
State	2,456	5,140	9,851
International	13,947	25,735	19,250
Total current taxes	26,905	72,860	99,711
Deferred			
Federal and state	26,733	35,535	3,405
International	2,790	(51)	(8,673)
Total deferred taxes	29,523	35,484	(5,268)
Total provision for income taxes	$ 56,428	$ 108,344	$ 94,443

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

Percentages	**2009**	**2008**	**2007**
U.S. statutory income tax rate	35.0	35.0	35.0
State income taxes, net of federal tax benefit	2.6	1.6	2.6
Tax effect of stock-based compensation	0.2	0.2	0.3
Tax effect of international operations	(3.5)	(6.1)	(5.1)
Tax credits	(1.4)	(1.0)	(0.8)
Domestic manufacturing deduction	(0.4)	(0.7)	(1.3)
ESOP dividend benefit	(0.4)	(0.2)	(0.2)
All other, net	0.6	0.7	0.3
Effective tax rate on continuing operations	32.7	29.5	30.8

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

In thousands	**2009**	**2008**
Gross unrecognized tax benefits beginning balance	$ 28,139	$ 23,879
Gross increases for tax positions in prior periods	3,191	3,526
Gross decreases for tax positions in prior periods	(2,433)	(411)
Gross increases based on tax positions related to the current year	1,789	2,666
Gross decreases related to settlements with taxing authorities	(209)	
Reductions due to statute expiration	(515)	(1,521)
Gross unrecognized tax benefits at December 31	$ 29,962	$ 28,139

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Included in the $30.0 million of total gross unrecognized tax benefits as of December 31, 2009 was $26.8 million of tax benefits that, if recognized, would impact the effective tax rate. It is reasonably possible that the gross unrecognized tax benefits as of December 31, 2009 may decrease by a range of $0 to $22.8 million during the next twelve months primarily as a result of the resolution of federal, state and foreign examinations and the expiration of various statutes of limitations.

The determination of annual income tax expense takes into consideration amounts which may be needed to cover exposures for open tax years. The Internal Revenue Service (IRS) has examined our U.S. federal income tax returns through 2003 with no material adjustments. The IRS has also completed a survey of our 2004 U.S. federal income tax return with no material findings. The IRS is currently examining our 2005 and 2006 federal tax returns. No material adjustments have been proposed; however, actual settlements may differ from amounts accrued.

We record penalties and interest related to unrecognized tax benefits in *Provision for income taxes* and *Net interest expense*, respectively, which is consistent with our past practices. As of December 31, 2009, we had recorded approximately $0.6 million for the possible payment of penalties and $5.5 million related to the possible payment of interest.

United States income taxes have not been provided on undistributed earnings of international subsidiaries. It is our intention to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so. As of December 31, 2009, approximately $173.0 million of unremitted earnings attributable to international subsidiaries were considered to be indefinitely invested. It is not practicable to estimate the amount of tax that might be payable if such earnings were to be remitted.

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

Deferred taxes were classified in the consolidated balance sheet as follows:

In thousands	December 31, 2009	2008
Deferred tax assets	$ 49,609	$ 51,354
Other noncurrent assets	5,132	8,085
Other noncurrent liabilities	(149)	
Deferred tax liabilities	(146,630)	(146,559)
Net deferred tax liability	$ (92,038)	$ (87,120)

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

In thousands	2009 Deferred tax Assets	2009 Deferred tax Liabilities	2008 Deferred tax Assets	2008 Deferred tax Liabilities
Accounts receivable allowances	$ 4,073	$	$ 2,684	$
Inventory valuation	11,005		7,064	
Accelerated depreciation/amortization		12,893		13,190
Accrued product claims and warranties	24,558		30,779	
Employee benefit accruals	119,357		131,493	
Goodwill and other intangibles		172,675		191,313
Other, net		65,463		54,637
Total deferred taxes	$ 158,993	$ 251,031	$ 172,020	$ 259,140
Net deferred tax liability		$ (92,038)		$ (87,120)

Included in Other, net in the table above are deferred tax assets of $4.7 million and $8.1 million as of December 31, 2009 and December 31, 2008, respectively, related to a foreign tax credit carryover from the tax period ended December 31, 2006 and related to state net operating losses. The foreign tax credit is eligible for carryforward until the tax period ending December 31, 2016.

Non-U.S. tax losses of $49.1 million and $19.8 million were available for carryforward at December 31, 2009 and 2008, respectively. A valuation allowance reflected above in other, net of $7.5 million and $3.3 million exists for deferred income tax benefits related to the non-U.S. loss carryforwards available as of December 31, 2009 and 2008, respectively that may not be realized. We believe that sufficient taxable income will be generated in the respective countries to allow us to fully recover the remainder of the tax losses. The non-U.S. operating losses are subject to varying expiration periods and will begin to expire in 2010. State tax losses of $73.0 million and $73.0 million were available for carryforward at December 31, 2009 and 2008, respectively. A valuation allowance reflected above in other, net of $2.6 million and $2.0 million exists for deferred income tax benefits related to the carryforwards available at December 31, 2009 and December 31, 2008, respectively. Certain state tax losses will expire in 2010, while others are subject to carryforward periods of up to twenty years.

12. Benefit Plans

Pension and post-retirement benefits

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

We recognized a pension curtailment gain in December 2007, of $5.5 million related to the announcement that we will be freezing certain pension plans as of December 31, 2017. Also, we recognized a curtailment gain of $4.1 million related to the termination of certain post-retirement health care benefits.

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Obligations and Funded Status

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

	Pension benefits		Post-retirement	
In thousands	**2009**	**2008**	**2009**	**2008**
Change in benefit obligation				
Benefit obligation beginning of year	$ 521,698	$ 534,648	$ 38,417	$ 40,836
Service cost	12,334	14,104	214	263
Interest cost	32,612	32,383	2,377	2,534
Amendments	3	(207)	(1,303)	
Actuarial (gain) loss	13,309	(26,978)	(1,517)	(1,624)
Translation (gain) loss	2,469	(5,446)		
Benefits paid	(30,116)	(26,806)	(2,887)	(3,592)
Benefit obligation end of year	$ 552,309	$ 521,698	$ 35,301	$ 38,417
Change in plan assets				
Fair value of plan assets beginning of year	$ 265,112	$ 388,037	$	$
Actual gain (loss) return on plan assets	44,521	(106,546)		
Company contributions	49,044	12,815	2,887	3,592
Translation gain (loss)	627	(2,388)		
Benefits paid	(30,116)	(26,806)	(2,887)	(3,592)
Fair value of plan assets end of year	$ 329,188	$ 265,112	$	$
Funded status				
Plan assets less than benefit obligation	$ (223,121)	$ (256,586)	$ (35,301)	$ (38,417)
Net amount recognized	$ (223,121)	$ (256,586)	$ (35,301)	$ (38,417)

Of the $223.1 million underfunding at December 31, 2009, $115.9 million relates to foreign pension plans and our supplemental executive retirement plans which are not commonly funded.

Amounts recognized in the Consolidated Balance Sheets are as follows:

In thousands	Pension benefits 2009	Pension benefits 2008	Post-retirement 2009	Post-retirement 2008
Current liabilities	$ (5,437)	$ (5,197)	$ (3,511)	$ (3,693)
Noncurrent liabilities	(217,684)	(251,389)	(31,790)	(34,724)
Net amount recognized	$ (223,121)	$ (256,586)	$ (35,301)	$ (38,417)

The accumulated benefit obligation for all defined benefit plans was $534.9 million and $489.3 million at December 31, 2009, and 2008, respectively.

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

In thousands	2009	2008
Pension plans with an accumulated benefit obligation in excess of plan assets:		
Fair value of plan assets	$ 329,188	$ 265,112
Accumulated benefit obligation	534,936	489,258
Pension plans with a projected benefit obligation in excess of plan assets:		
Fair value of plan assets	$ 329,188	$ 265,112
Accumulated benefit obligation	552,309	521,698

Components of net periodic benefit cost are as follows:

	Pension benefits			Post-retirement		
In thousands	2009	2008	2007	2009	2008	2007
Service cost	$ 12,334	$ 14,104	$ 17,457	$ 214	$ 263	$ 585
Interest cost	32,612	32,383	31,584	2,377	2,534	2,983
Expected return on plan assets	(30,286)	(29,762)	(28,539)			
Amortization of transition obligation	25	25	20			
Amortization of prior year service cost (benefit)	23	179	160	(41)	(136)	(245)
Recognized net actuarial (gain) loss	82	121	3,195	(3,326)	(3,301)	(1,423)
Settlement gain	(9)					
Curtailment gain			(5,533)			(4,126)
Net periodic benefit cost	$ 14,781	$ 17,050	$ 18,344	$ (776)	$ (640)	$ (2,226)

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

	Pension benefits		Post-retirement	
In thousands	2009	2008	2009	2008

Net transition obligation	$ 11	$ 37	$	$
Prior service cost (benefit)	118	170	(905)	357
Net actuarial (gain) loss	120,022	120,910	(23,429)	(25,238)
Accumulated other comprehensive (income) loss	$ 120,151	$ 121,117	$ (24,334)	$ (24,881)

The estimated amount that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2010 is as follows:

In thousands	**Pension benefits**	**Post-retirement**
Net transition obligation	$ 11	$
Prior service cost (benefit)	24	(27)
Net actuarial (gain) loss	1,672	(3,356)
Total estimated 2010 amortization	$ 1,707	$ (3,383)

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Notes to consolidated financial statements (continued)

Additional Information

Change in accumulated other comprehensive income, net of tax:

In thousands	2009	2008
Beginning of the year	$ (58,704)	$ 8,229
Additional prior service cost incurred during the year	794	126
Actuarial gains (losses) incurred during the year	1,500	(65,755)
Translation gains (losses) incurred during the year	(63)	594
Amortization during the year:		
Transition obligation	15	15
Unrecognized prior service cost (benefit)	(11)	27
Actuarial gains	(1,979)	(1,940)
End of the year	$ (58,448)	$ (58,704)

Assumptions

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

	Pension benefits			Post-retirement		
Percentages	2009	2008	2007	2009	2008	2007
Discount rate	6.00	6.50	6.50	6.00	6.50	6.50
Rate of compensation increase	4.00	4.00	5.00			

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

	Pension benefits			Post-retirement		
Percentages	2009	2008	2007	2009	2008	2007
Discount rate	6.50	6.50	6.00	6.50	6.50	6.00
Expected long-term return on plan assets	8.50	8.50	8.50			
Rate of compensation increase	4.00	5.00	5.00			

Discount rate

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year based on our December 31 measurement date. The discount rate was determined by matching our expected benefit payments to payments from a stream of AA or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions. This produced a discount rate for our U.S. plans of 6.00% in 2009, 6.50% in 2008 and 2007. The discount rates on our foreign plans ranged from 2.00% to 6.00% in 2009, 2.00% to 6.25% in 2008 and 2.00% to 5.25% in 2007. There are no other known or anticipated changes in our discount rate assumption that will impact our pension expense in 2009.

Expected rate of return

Our expected rate of return on plan assets in 2009 equaled 8.5%, which remained unchanged from 2008 and 2007. The expected rate of return is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical returns, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer-term market indices. In 2009, the pension plan assets yielded returns of 19.5%, compared to a loss of 28.8% in 2008 and returns of 7.8% in 2007.

We base our determination of pension expense or income on a market-related valuation of assets which reduces