

PENTAIR INC  
Form 10-Q  
October 26, 2010

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

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

**OR**

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

**Commission file number 000-04689**

**Pentair, Inc.**

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

**Minnesota**

**41-0907434**

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

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

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

**55416**

**(Address of principal executive offices)**

**(Zip code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

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



**Pentair, Inc. and Subsidiaries**

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Pentair, Inc. and Subsidiaries  
Condensed Consolidated Statements of Income (Unaudited)**

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

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

*See accompanying notes to condensed consolidated financial statements.*

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

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



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

*See accompanying notes to condensed consolidated financial statements.*

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

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

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

*See accompanying notes to condensed consolidated financial statements.*

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

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

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

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<b>Balance December 31, 2008</b>	98,276,919	\$ 16,379	\$ 451,241	\$ 1,457,676	\$ (26,615)	\$ 1,898,681	\$ 121,388	\$ 2,020,069	
Net income				86,141		86,141	2,531	88,672	\$ 86,141
Change in cumulative translation adjustment					55,883	55,883	(5,596)	50,287	55,883
Changes in market value of derivative financial instruments, net of \$(578) tax					2,432	2,432		2,432	2,432
Comprehensive income									\$ 144,455
Cash dividends \$0.54 per common share				(53,162)		(53,162)		(53,162)	
Exercise of stock options, net of 104,554 shares tendered for payment	110,612	18	1,295			1,313		1,313	
Issuance of restricted shares, net of cancellations	28,987	4	509			513		513	
Amortization of restricted shares			5,385			5,385		5,385	
Shares surrendered by employees to pay taxes	(75,681)	(12)	(1,751)			(1,763)		(1,763)	
Stock compensation			5,390			5,390		5,390	
<b>Balance September 26, 2009</b>	98,340,837	\$ 16,389	\$ 462,069	\$ 1,490,655	\$ 31,700	\$ 2,000,813	\$ 118,323	\$ 2,119,136	

*See accompanying notes to condensed consolidated financial statements.*

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

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

**1. Basis of Presentation and Responsibility for Interim Financial Statements**

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

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

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

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

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

**2. New Accounting Standards**

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

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

**3. Stock-based Compensation**

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

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

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