PENTAIR LTD
Form 10-K/A
February 28, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

For the Fiscal Year Ended December 31, 2012

OR

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

Commission file number 001-11625

Pentair Ltd.

(Exact name of Registrant as specified in its charter)

Switzerland	**98-1050812**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification number)*

Freier Platz 10, 8200 Schaffhausen, Switzerland
(Address of principal executive offices)
Registrant s telephone number, including area code: 41-52-630-48-00

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

Title of each class	**Name of each exchange on which registered**
Common Shares, CHF 0.50 par value	New York Stock Exchange

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

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

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

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

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

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

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

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

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

Aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of $38.28 per share as reported on the New York Stock Exchange on June 29, 2012 (the last business day of Registrant s most recently completed second quarter): $3,624,092,524

The number of shares outstanding of Registrant s only class of common stock on December 31, 2012 was 206,137,460.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant s definitive proxy statement for its annual meeting to be held on April 29, 2013, are incorporated by reference in this Form 10-K in response to Part III, ITEM 10, 11, 12, 13 and 14.

EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 on Form 10-K/A (Form 10-K/A) to the Annual Report on Form 10-K of Pentair Ltd. for the year ended December 31, 2012, originally filed with the Securities and Exchange Commission on February 26, 2013 (Form 10-K), is to amend Item 8 of the Form 10-K to revise the Reports of Independent Registered Public Accounting Firm on pages 56 and 57 to include the name and signatures of Deloitte & Touche LLP, which were inadvertently omitted when the Form 10-K was originally filed.

Except as described above, no other changes have been made to the Form 10-K. This Form 10-K/A has not been updated for events occurring after the filing of the Form 10-K and no attempt has been made in this Form 10-K/A to modify or update other disclosures as presented in the original filing of the Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Pentair Ltd. 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, 2012. 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, 2012, the Company s internal control over financial reporting was effective based on those criteria.

Management has excluded from its assessment the internal control over financial reporting at Tyco Flow Control International Ltd. (Flow Control), which we merged with on September 28, 2012 and whose financial statements constitute 60 percent of total assets and 20 percent of total revenues in the consolidated financial statements as of and for the year ended December 31, 2012.

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 December 31, 2012. 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*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Pentair Ltd.

We have audited the internal control over financial reporting of Pentair Ltd. and subsidiaries (the Company) as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. As described in Management s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Tyco Flow Control International Ltd. (Flow Control), which was acquired on September 28, 2012 and whose financial statements constitute 60 percent of total assets and 20 percent of total revenues on the consolidated financial statements as of and for the year ended December 31, 2012. Accordingly, our audit did not include the internal control over financial reporting at Flow Control.

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, 2012, 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, 2012 of the Company and our report dated February 26, 2013 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding changes in certain of the Company s methods of accounting for defined benefit pension and other postretirement benefit costs.

Minneapolis, Minnesota

February 26, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Pentair Ltd.

We have audited the accompanying consolidated balance sheets of Pentair Ltd. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pentair Ltd. and subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company has elected to change its method of accounting for defined benefit pension and other post-retirement benefit plan costs in 2012. Such changes are reflected in the accompanying consolidated balance sheet as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2012.

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, 2012, 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 26, 2013 expressed an unqualified opinion on the Company s internal control over financial reporting.

Minneapolis, Minnesota

February 26, 2013

Pentair Ltd. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss)

In thousands, except per-share data	**Years ended December 31** **2012**	**2011**	**2010**
Net sales	$ 4,416,146	$ 3,456,686	$ 3,030,773
Cost of goods sold	3,146,554	2,382,964	2,100,133
Gross profit	1,269,592	1,073,722	930,640
Selling, general and administrative	1,158,436	694,841	550,501
Research and development	93,557	78,158	67,156
Impairment of trade names and goodwill	60,718	200,520	
Operating income (loss)	(43,119)	100,203	312,983
Other (income) expense			
Loss on early extinguishment of debt	75,367		
Equity income of unconsolidated subsidiaries	(2,156)	(1,898)	(2,108)
Interest income	(2,902)	(1,432)	(1,263)
Interest expense	70,537	60,267	37,379
Income (loss) from continuing operations before income taxes and noncontrolling interest	(183,965)	43,266	278,975
Provision (benefit) for income taxes	(79,353)	46,417	88,943
Income (loss) from continuing operations	(104,612)	(3,151)	190,032
Loss on disposal of discontinued operations, net of tax			(626)
Net income (loss) before noncontrolling interest	(104,612)	(3,151)	189,406
Noncontrolling interest	2,574	4,299	4,493
Net income (loss) attributable to Pentair Ltd.	$ (107,186)	$ (7,450)	$ 184,913
Net income (loss) from continuing operations attributable to Pentair Ltd.	$ (107,186)	$ (7,450)	$ 185,539
Comprehensive income (loss), net of tax			
Net income (loss) before noncontrolling interest	$ (104,612)	$ (3,151)	$ 189,406
Changes in cumulative translation adjustment	35,830	(93,706)	(32,706)
Amortization of pension and other post-retirement prior service cost and transition obligation	(253)	(11)	153
Changes in market value of derivative financial instruments	(3,630)	4,375	310
Total comprehensive income (loss)	(72,665)	(92,493)	157,163
Less: Comprehensive income (loss) attributable to noncontrolling interest	3,988	2,184	2,274
Comprehensive income (loss) attributable to Pentair Ltd.	$ (76,653)	$ (94,677)	$ 154,889
Earnings (loss) per common share attributable to Pentair Ltd.			
Basic			

Continuing operations	$	(0.84)	$	(0.08)	$	1.89
Discontinued operations						(0.01)
Basic earnings (loss) per common share	$	(0.84)	$	(0.08)	$	1.88
Diluted						
Continuing operations	$	(0.84)	$	(0.08)	$	1.87
Discontinued operations						(0.01)
Diluted earnings (loss) per common share	$	(0.84)	$	(0.08)	$	1.86
Weighted average common shares outstanding						
Basic		127,368		98,233		98,037
Diluted		127,368		98,233		99,294
Dividends paid per common share	$	0.88	$	0.80	$	0.76

See accompanying notes to consolidated financial statements.

Pentair Ltd. and Subsidiaries

Consolidated Balance Sheets

In thousands, except share and per-share data	December 31 2012	December 31 2011
Assets		
Current assets		
Cash and cash equivalents	$ 261,341	$ 50,077
Accounts and notes receivable, net of allowances of $37,455 and $39,111, respectively	1,292,648	569,204
Inventories	1,380,271	449,863
Other current assets	326,108	168,691
Total current assets	3,260,368	1,237,835
Property, plant and equipment, net	1,224,488	387,525
Other assets		
Goodwill	4,894,512	2,273,918
Intangibles, net	1,909,656	592,285
Other non-current assets	506,287	94,750
Total other assets	7,310,455	2,960,953
Total assets	$ 11,795,311	$ 4,586,313
Liabilities and Equity		
Current liabilities		
Current maturities of long-term debt and short-term borrowings	$ 3,096	$ 4,862
Accounts payable	569,596	294,858
Employee compensation and benefits	295,067	118,413
Other current liabilities	670,162	223,708
Total current liabilities	1,537,921	641,841
Other liabilities		
Long-term debt	2,454,278	1,304,225
Pension and other post-retirement compensation and benefits	378,066	280,389
Deferred tax liabilities	488,102	188,957
Other non-current liabilities	453,587	123,509
Total liabilities	5,311,954	2,538,921
Equity		
Common shares CHF 0.50 par value, 213,000,000 authorized and issued at December 31, 2012; 250,000,000 shares authorized at December 31, 2011 and 98,622,564 shares issued and outstanding at December 31, 2011	113,454	47,526
Common shares held in treasury, 6,862,540 shares at December 31, 2012	(315,519)	
Capital contribution reserve	5,283,835	457,754
Retained earnings	1,292,288	1,465,780
Accumulated other comprehensive income (loss)	(7,198)	(37,731)

Shareholders equity attributable to Pentair Ltd.	6,366,860	1,933,329
Noncontrolling interest	116,497	114,063
Total equity	6,483,357	2,047,392
Total liabilities and equity	$ 11,795,311	$ 4,586,313

See accompanying notes to consolidated financial statements.

Pentair Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

	Years ended December 31		
In thousands	**2012**	**2011**	**2010**
Operating activities			
Net income (loss) before noncontrolling interest	$ (104,612)	$ (3,151)	$ 189,406
Adjustments to reconcile net income (loss) before noncontrolling interest to net cash provided by (used for) operating activities			
Loss on disposal of discontinued operations			626
Equity income of unconsolidated subsidiaries	(2,156)	(1,898)	(2,108)
Depreciation	87,835	66,235	57,995
Amortization	75,957	41,897	26,184
Deferred income taxes	(146,896)	(5,583)	29,453
Share-based compensation	35,847	19,489	21,468
Impairment of trade names and goodwill	60,718	200,520	
Loss on early extinguishment of debt	75,367		
Excess tax benefits from share-based compensation	(4,976)	(3,310)	(2,686)
Pension and other post-retirement expense	167,536	84,345	34,098
Pension and other post-retirement contributions	(238,014)	(40,294)	(52,992)
Loss (gain) on sale of assets	(2,276)	933	466
Changes in assets and liabilities, net of effects of business acquisitions			
Accounts and notes receivable	55,720	1,348	(62,344)
Inventories	125,099	18,263	(44,495)
Other current assets	(6,696)	10,032	2,777
Accounts payable	(61,990)	(24,330)	55,321
Employee compensation and benefits	(81,313)	(20,486)	27,252
Other current liabilities	27,178	(7,954)	(795)
Other non-current assets and liabilities	5,632	(15,830)	(9,250)
Net cash provided by (used for) operating activities	67,960	320,226	270,376
Investing activities			
Capital expenditures	(94,532)	(73,348)	(59,523)
Proceeds from sale of property and equipment	5,508	1,310	358
Acquisitions, net of cash acquired	470,459	(733,105)	
Other	(5,858)	(2,943)	(1,148)
Net cash provided by (used for) investing activities	375,577	(808,086)	(60,313)
Financing activities			
Net short-term borrowings	(3,700)	(1,239)	2,728
Proceeds from long-term debt	1,536,146	1,421,602	703,641
Repayment of long-term debt	(1,305,339)	(832,147)	(804,713)
Debt issuance costs	(9,704)	(8,973)	(50)
Debt extinguishment costs	(74,752)		
Excess tax benefits from share-based compensation	4,976	3,310	2,686
Shares issued to employees, net of shares withheld	68,177	13,322	9,941
Repurchases of common shares	(334,159)	(12,785)	(24,712)
Dividends paid	(112,397)	(79,537)	(75,465)
Distribution to noncontrolling interest	(1,554)		(4,647)
Net cash provided by (used for) financing activities	(232,306)	503,553	(190,591)
Effect of exchange rate changes on cash and cash equivalents	33	(11,672)	(6,812)
Change in cash and cash equivalents	211,264	4,021	12,660

Cash and cash equivalents, beginning of year	50,077	46,056	33,396
Cash and cash equivalents, end of year	$ 261,341	$ 50,077	$ 46,056

See accompanying notes to consolidated financial statements.

Pentair Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

In thousands, except share and per-share data	Common shares Number	Common shares Amount	Treasury shares Number	Treasury shares Amount	Capital contribution reserve	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair Ltd.	Non-controlling interest	Total
Balance - December 31, 2009	98,655,506	$ 47,530		$	$ 441,719	$ 1,443,319	$ 79,520	$ 2,012,088	$ 114,252	$ 2,126,340
Net income						184,913		184,913	4,493	189,406
Change in cumulative translation adjustment							(30,487)	(30,487)	(2,219)	(32,706)
Amortization of pension and other post-retirement prior service cost and transition obligation, net of $111 tax							153	153		153
Changes in market value of derivative financial instruments, net of $229 tax							310	310		310
Tax benefit of share-based compensation					2,171			2,171		2,171
Dividends declared						(75,465)		(75,465)		(75,465)
Distribution to noncontrolling interest									(4,647)	(4,647)
Share repurchase	(726,777)	(350)			(24,362)			(24,712)		(24,712)
Exercise of options, net of 27,177 shares tendered for payment	651,331	314			14,612			14,926		14,926
Issuance of restricted shares, net of cancellations	(4,122)	(2)			708			706		706
Amortization of restricted shares					3,538			3,538		3,538
Shares surrendered by employees to pay taxes	(166,746)	(80)			(5,611)			(5,691)		(5,691)
Share-based compensation					10,703			10,703		10,703
Balance - December 31, 2010	98,409,192	$ 47,412		$	$ 443,478	$ 1,552,767	$ 49,496	$ 2,093,153	$ 111,879	$ 2,205,032
Net income (loss)						(7,450)		(7,450)	4,299	(3,151)
Change in cumulative translation adjustment							(91,591)	(91,591)	(2,115)	(93,706)
Amortization of pension and other post-retirement prior service cost, net of $7 tax							(11)	(11)		(11)
Changes in market value of derivative financial instruments, net of $2,884 tax							4,375	4,375		4,375
Tax benefit of share-based compensation					3,868			3,868		3,868
Dividends declared						(79,537)		(79,537)		(79,537)
Share repurchase	(397,126)	(211)			(12,574)			(12,785)		(12,785)
Exercise of options, net of 182,270 shares tendered for payment	657,616	350			14,358			14,708		14,708

Issuance of restricted shares, net of cancellations	28,603	15		1,460			1,475		1,475
Amortization of restricted shares				1,006			1,006		1,006
Shares surrendered by employees to pay taxes	(75,721)	(40)		(2,758)			(2,798)		(2,798)
Share-based compensation				8,916			8,916		8,916
Balance - December 31, 2011	98,622,564	$ 47,526	$	$ 457,754	$ 1,465,780	$ (37,731)	$ 1,933,329	$ 114,063	$ 2,047,392

In thousands, except share and per-share data	Common shares		Treasury shares		Capital contribution	Retained	Accumulated other comprehensive income	Total	Non-controlling	
	Number	**Amount**	**Number**	**Amount**	**reserve**	**earnings**	**(loss)**	**Pentair Ltd.**	**interest**	**Total**
Net income (loss)						(107,186)		(107,186)	2,574	(104,612)
Change in cumulative translation adjustment							34,416	34,416	1,414	35,830
Amortization of pension and other post-retirement prior service cost, net of $161 tax							(253)	(253)		(253)
Changes in market value of derivative financial instruments, net of $3,661 tax							(3,630)	(3,630)		(3,630)
Tax benefit of share-based compensation					5,555			5,555		5,555
Dividends declared					(141,058)	(66,306)		(207,364)		(207,364)
Distribution to noncontrolling interest									(1,554)	(1,554)
Issuance of shares related to the Merger	113,611,537	65,521	(2,712,603)	(119,626)	4,977,249			4,923,144		4,923,144
Share repurchase			(7,291,078)	(334,159)				(334,159)		(334,159)
Exercise of options, net of 45,123 shares tendered for payment	669,361	356	2,319,367	97,549	(7,833)			90,072		90,072
Issuance of restricted shares, net of cancellations	168,936	90	1,254,449	59,798	(40,904)			18,984		18,984
Amortization of restricted shares					24,209			24,209		24,209
Shares surrendered by employees to pay taxes	(72,398)	(39)	(432,675)	(19,081)	(2,775)			(21,895)		(21,895)
Share-based compensation					11,638			11,638		11,638
Balance - December 31, 2012	213,000,000	$ 113,454	(6,862,540)	$ (315,519)	$ 5,283,835	$ 1,292,288	$ (7,198)	$ 6,366,860	$ 116,497	$ 6,483,357

See accompanying notes to consolidated financial statements.

Pentair Ltd. and Subsidiaries

Notes to consolidated financial statements

1. Background and Nature of Operations

Pentair Ltd., formerly known as Tyco Flow Control International Ltd. (as used prior to the Merger (as defined below), Flow Control), is a company organized under the laws of Switzerland. In these notes, the terms the Company, Pentair, us, we or our refer to Pentair Ltd. and its consolidated subsidiaries. Our business took its current form on September 28, 2012 as a result of a spin-off of Flow Control from its parent, Tyco International Ltd. (Tyco), and a reverse acquisition involving Pentair, Inc.

Prior to the spin-off, Tyco engaged in an internal restructuring whereby it transferred to Flow Control certain assets related to the flow control business of Tyco, and Flow Control assumed from Tyco certain liabilities related to the flow control business of Tyco. On September 28, 2012 prior to the Merger (as defined below), Tyco effected a spin-off of Flow Control through the pro-rata distribution of 100% of the outstanding common shares of Flow Control to Tyco s shareholders (the Distribution), resulting in the distribution of 110,898,934 of our common shares to Tyco s shareholders. Immediately following the Distribution, an indirect, wholly-owned subsidiary of ours merged with and into Pentair, Inc., with Pentair, Inc. surviving as an indirect, wholly-owned subsidiary of ours (the Merger). At the effective time of the Merger, each Pentair, Inc. common share was converted into the right to receive one of our common shares, resulting in 99,388,463 of our common shares being issued to Pentair, Inc. shareholders. The Merger is intended to be tax-free for U.S. federal income tax purposes. After the Merger, our common shares are traded on the New York Stock Exchange under the symbol PNR. Tyco equity-based awards held by Flow Control employees and certain Tyco employees and directors outstanding prior to the completion of the Distribution were converted in connection with the Distribution into equity-based awards with respect to our common shares and were assumed by us. Pentair, Inc. equity-based awards outstanding prior to the completion of the Merger were converted upon completion of the Merger into equity-based awards with respect to our common shares and were assumed by us.

The Merger was accounted for as a reverse acquisition under the purchase method of accounting with Pentair, Inc. treated as the acquirer, reflecting the control maintained by the executive management and board of directors of Pentair, Inc. after the Merger. As such, on the acquisition date of September 28, 2012, the assets and liabilities of Flow Control have been assessed at fair value and the assets and liabilities of Pentair, Inc. are carried over at historical cost. For periods prior to September 28, 2012, the Consolidated Statements of Operations and Comprehensive Income (Loss) and Consolidated Statements of Cash Flows include the historical results of Pentair, Inc. The consolidated financial statements include the results of Flow Control from the date of the Merger. Flow Control s net sales and net loss from continuing operations for the period from the acquisition date to December 31, 2012 were $886.5 million and $117.0 million, respectively.

Our common share balances prior to the Merger have been adjusted to reflect the one-for-one conversion of the Pentair, Inc. shares to Pentair Ltd. shares, with the difference in par value recorded in *Capital contribution reserve*.

Based on the price of Pentair, Inc. common stock and our common shares issued on the date of the Merger, the purchase price was composed of the following:

In thousands	
Value of common shares issued to Tyco shareholders [(1)]	$ 4,811,363
Cash paid to Tyco shareholders in lieu of fractional common shares [(2)]	542
Value of replacement equity-based awards to holders of Tyco equity-based awards [(3)]	111,239
Total purchase price	$ 4,923,144

(1) Equals 110,886,444 Pentair Ltd. shares distributed to Tyco shareholders multiplied by the Merger date share price of $43.39.

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(2) Equals cash paid to Tyco shareholders in lieu of 12,490 Pentair Ltd. fractional shares multiplied by the Merger date share price of $43.39.

(3) In accordance with applicable accounting guidance, the fair value of replacement equity-based awards attributable to pre-combination service is recorded as part of the consideration transferred in the Merger, while the fair value of replacement equity-based awards attributable to post-combination service is recorded separately from the business combination and recognized as compensation cost in the post-acquisition period over the remaining service period. The fair value of our equivalent stock options was estimated using the Black-Scholes valuation model utilizing various assumptions.

During the fourth quarter of 2012, we recorded fair value adjustments to our preliminary purchase price allocation, which resulted in an increase to goodwill of $32.6 million.

The purchase price has been preliminarily allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the Merger. The preliminary purchase price allocation is subject to further refinement and may require significant adjustments to arrive at the final purchase price allocation. These adjustments will primarily relate to accounts receivable, inventories, property, plant and equipment, certain contingent liabilities and income tax-related items. We expect the purchase price allocation to be completed in the second quarter of 2013. There can be no assurance that such finalization will not result in material changes from the preliminary purchase price allocation. The purchase price is subject to a working capital and net indebtedness adjustment.

The following table summarizes our preliminary fair values of the assets acquired and liabilities assumed in the Merger:

In thousands		
Cash and cash equivalents	$	691,702
Accounts and notes receivable		771,576
Inventories		1,046,165
Other current assets		98,212
Property, plant and equipment		822,001
Goodwill		2,520,110
Intangibles		1,425,072
Other non-current assets		275,103
Current liabilities		(856,341)
Long-term debt		(914,530)
Income taxes, including current and deferred		(364,573)
Other liabilities and redeemable noncontrolling interest		(591,353)
Total purchase price	$	4,923,144

The excess of purchase price over tangible net assets and identified intangible assets acquired was allocated to goodwill in the amount of $2.5 billion. Goodwill has been preliminarily allocated to our reporting segments as follows: $321.4 million to Water & Fluid Solutions, $1,342.6 million to Valves & Controls and $856.1 million to Technical Solutions. None of the goodwill recognized from the Merger is expected to be deductible for income tax purposes. Goodwill recognized from the Merger reflects the value of future income resulting from synergies of our combined operations. Identifiable intangible assets acquired as part of the Merger were $1.4 billion and include $362.3 million of indefinite life trade name intangibles and the following definite-lived intangibles: $905.7 million of customer relationships with a weighted average useful life of 14.2 years, $115.9 million of proprietary technology with weighted average useful life of 13.7 years and $41.2 million of customer backlog with a weighted average useful life of less than one year.

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Flow Control is a global leader in the industrial flow control market, specializing in the design, manufacture and servicing of highly engineered valves, actuation & controls, electric heat management solutions and water transmission and distribution products. Flow Control s broad portfolio of products and services serves flow control needs primarily across the general process, oil & gas, water, power generation and mining industries. Sales are conducted through multiple channels based on local market conditions and demand. A global customer base is served through major manufacturing and after-market service centers around the world. Flow Control, through its valves & controls business, is one of the world s largest manufacturers of valves, actuators and controls, with leading products, services and solutions to address many of the most challenging flow applications in the general process, oil & gas, power generation and mining industries. Through its thermal management business, Flow Control is a leading provider of complete electric heat management solutions, primarily for the oil & gas, general process and power generation industries. Additionally, Flow Control s water & environmental systems business is a leading provider of large-scale water transmission and distribution products and water/wastewater systems in the Pacific and Southeast Asia regions.

We believe the Merger combines two complementary leaders in water and fluid solutions, valves and controls and technical solutions, providing us with the ability to achieve operational and tax synergies and increase global revenue. Following the Merger, we are a diversified industrial manufacturing company comprising three reporting segments: Water & Fluid Solutions, Valves & Controls and Technical Solutions. Water & Fluid Solutions designs, manufactures, markets and services innovative water management and fluid processing products and solutions. Valves & Controls designs, manufactures, markets and services valves, fittings, automation and controls and actuators. Technical Solutions designs, manufactures and markets products that guard and protect some of the world s most sensitive electronics and electronic equipment, as well as heat management solutions designed to provide thermal protection to temperature sensitive fluid applications.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of presentation

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

The consolidated financial statements have been prepared in United States dollars (USD) and in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain information described under Article 663-663h of the Swiss Code of Obligations has been presented in the Company s Swiss statutory financial statements for the year ended December 31, 2012.

Fiscal year

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

Use of estimates

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates include our accounting for valuation of long-lived assets, including goodwill and indefinite lived intangible

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assets, percentage of completion revenue recognition, assets acquired and liabilities assumed in acquisitions and the Merger, contingent liabilities, income taxes, and pension and other post-retirement benefits. Actual results could differ from our estimates.

Revenue recognition

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

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

Percentage of completion

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

We record costs and earnings in excess of billings on uncompleted contracts within *Other current assets* and billings in excess of costs and earnings on uncompleted contracts within *Other current liabilities* in the Consolidated Balance Sheets. Amounts included in *Other current assets* related to these contracts were $124.4 million and $54.7 million at December 31, 2012 and 2011, respectively. Amounts included in *Other current liabilities* related to these contracts were $61.1 million and $17.7 million at December 31, 2012 and 2011, respectively.

Sales returns

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

Pricing and sales incentives

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

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The following represents a description of our pricing arrangements, promotions and other volume-based incentives:

Pricing is established up front with our customers and we record sales at the agreed-upon net selling price. However, one of our businesses allows customers to apply for a refund of a percentage of the original purchase price if they can demonstrate sales to a qualifying original equipment manufacturer 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.

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 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 Operations and Comprehensive Income (Loss). 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 Operations and Comprehensive Income (Loss).

Research and development

We conduct research and development (R&D) activities in our own facilities, which consist primarily of the development of new products, product applications and manufacturing processes. We expense R&D costs as incurred. R&D expenditures during 2012, 2011 2010 were $93.6 million, $78.2 million and $67.2 million, respectively.

Cash equivalents

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

Trade receivables and concentration of credit risk

We record an allowance for doubtful accounts, reducing our receivables balance to an amount we estimate is collectible from our customers. Estimates used in det