INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
May 09, 2012

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2012

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

Nevada	88-0173041
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6355 South Buffalo Drive, Las Vegas, Nevada 89113
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (702) 669-7777

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 [X] 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] 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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer [X] 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 Exchange Act).
Yes [ ] No [X]

The number of shares outstanding of each of the registrant's classes of common stock, as of May 4, 2012:
295.2 million shares of common stock at $.00015625 par value.

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GLOSSARY OF TERMS AND ABBREVIATIONS (as used in this document)

Fiscal dates--actual:	Fiscal dates--as presented:
March 31, 2012	March 31, 2012
April 2, 2011	March 31, 2011
October 1, 2011	September 30, 2011
December 31, 2011	December 31, 2011

Abbreviation/term	Definition
Anchor	Anchor Gaming
ASU	Accounting Standards Update
5.5% Bonds	5.5% fixed rate notes due 2020
7.5% Bonds	7.5% fixed rate notes due 2019
bps	basis points
CCSC	Colorado Central Station Casino
CEO	chief executive officer
CFO	chief financial officer
CLS	China LotSynergy Holdings, Ltd.
DCF	discounted cash flow
DoubleDown	Double Down Interactive LLC
EBITDA	earnings before interest, taxes, depreciation, and amortization
Entraction	Entraction Holding AB
EPA	Environmental Protection Agency
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
IGT, we, our, the Company	International Game Technology and its consolidated entities
IFRS	International Financial Reporting Standards
IP	intellectual property
IRS	Internal Revenue Service
LatAm	Mexico and South/Central America
LIBOR	London inter-bank offered rate
MDA	management’s discussion and analysis of financial condition and results of operations
MLD®	Multi-layer-display
Notes	3.25% convertible notes due 2014
OSHA	Occupational Safety & Health Administration
pp	percentage points
R&D	research and development
SEC	Securities and Exchange Commission
SIP	2002 Stock Incentive Plan
UK	United Kingdom
US	United States
UTBs	unrecognized tax benefits
VIE	variable interest entity
WAP	wide area progressive
*	not meaningful (in tables)

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Interim Financial Statements

See accompanying notes

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CONSOLIDATED INCOME STATEMENTS

	Quarters Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
(In millions, except per share amounts)				
Revenues				
Gaming operations	$300.4	$269.8	$565.0	$522.7
Product sales	240.8	207.2	421.8	405.5
Total revenues	541.2	477.0	986.8	928.2
Costs and operating expenses				
Cost of gaming operations	118.8	102.4	223.0	196.4
Cost of product sales	108.8	92.0	198.2	179.8
Selling, general and administrative	109.3	89.1	199.1	171.3
Research and development	55.3	48.7	102.2	97.6
Depreciation and amortization	19.3	16.7	34.7	34.8
Contingent acquisition related costs	11.7	-	11.7	-
Total costs and operating expenses	423.2	348.9	768.9	679.9
Operating income	118.0	128.1	217.9	248.3
Other income (expense)				
Interest income	10.8	13.3	22.9	26.6
Interest expense	(30.0)	(35.6)	(60.1)	(71.0)
Other	(2.0)	(1.0)	(4.8)	3.4
Total other income (expense)	(21.2)	(23.3)	(42.0)	(41.0)
Income from continuing operations before tax	96.8	104.8	175.9	207.3
Income tax provision	34.4	37.1	63.2	66.8
Income from continuing operations	62.4	67.7	112.7	140.5
Income (loss) from discontinued operations, net of tax	(0.5)	1.9	(1.5)	2.8
Net income	$61.9	$69.6	$111.2	$143.3
Basic earnings (loss) per share				
Continuing operations	$0.21	$0.22	$0.38	$0.47
Discontinued operations	-	0.01	(0.01)	0.01
Net income	$0.21	$0.23	$0.37	$0.48
Diluted earnings (loss) per share				
Continuing operations	$0.21	$0.22	$0.38	$0.47
Discontinued operations	-	0.01	(0.01)	0.01
Net income	$0.21	$0.23	$0.37	$0.48
Cash dividends declared per share	$0.06	$0.06	$0.12	$0.12
Weighted average shares outstanding				
Basic	296.7	298.4	297.0	298.0
Diluted	298.1	299.9	298.6	299.4

See accompanying notes

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CONSOLIDATED BALANCE SHEETS

	March 31, 2012	September 30, 2011
(In millions, except par value)		
Assets		
Current assets		
Cash and equivalents	$271.1	$460.0
Restricted cash and investment securities	87.5	89.6
Restricted cash and investment securities of VIEs	2.0	2.4
Jackpot annuity investments	47.6	48.7
Jackpot annuity investments of VIEs	13.9	14.5
Accounts receivable, net	314.0	320.1
Current maturities of contracts and notes receivable, net	197.4	167.1
Inventories	90.6	73.0
Deferred income taxes	73.6	97.1
Other assets and deferred costs	143.8	137.4
Total current assets	1,241.5	1,409.9
Property, plant and equipment, net	582.0	552.1
Jackpot annuity investments	263.6	271.8
Jackpot annuity investments of VIEs	49.4	52.8
Contracts and notes receivable, net	128.2	126.4
Goodwill	1,470.6	1,231.4
Other intangible assets, net	254.5	170.4
Deferred income taxes	107.1	84.6
Other assets and deferred costs	251.6	255.0
Total Assets	$4,348.5	$4,154.4
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities		
Accounts payable	$89.1	$103.0
Jackpot liabilities, current portion	150.4	143.0
Accrued employee benefits	20.7	38.9
Accrued income taxes	3.6	3.2
Dividends payable	17.7	17.8
Other accrued liabilities	293.0	228.8
Total current liabilities	574.5	534.7
Long-term debt	1,656.4	1,646.3
Jackpot liabilities	346.4	365.4
Other liabilities	260.4	163.2
Total Liabilities	2,837.7	2,709.6
Commitments and Contingencies		
Shareholders' Equity		
Common stock: $.00015625 par value; 1,280.0 shares authorized; 343.3 and 341.9 issued; 295.5 and 297.4 outstanding	0.1	0.1
Additional paid-in capital	1,568.7	1,542.5
Treasury stock at cost: 47.8 and 44.4 shares	(907.7)	(855.2)
Retained earnings	839.4	763.8
Accumulated other comprehensive income	10.3	(8.8)

Total IGT Shareholders' Equity	1,510.8	1,442.4
Noncontrolling Interests	-	2.4
Total Equity	1,510.8	1,444.8
Total Liabilities and Shareholders' Equity	$4,348.5	$4,154.4

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended March 31,	2012		2011	
(In millions)				
Operating				
Net income	$111.2		$143.3	
Adjustments:				
Depreciation and amortization	115.2		109.2	
Discounts and deferred issuance costs	20.1		22.4	
Share-based compensation	16.7		22.9	
Net loss on disposal and impairment	1.5		-	
Excess tax benefits from employee stock plans	(2.3	)	(2.8	)
Other non-cash items	3.8		(5.7	)
Changes in operating assets and liabilities, excluding acquisitions:				
Receivables	(28.5	)	3.8	
Inventories	(14.6	)	(6.2	)
Accounts payable and accrued liabilities	3.8		(35.4	)
Jackpot liabilities	(21.9	)	(56.4	)
Income taxes, net of employee stock plans	(11.5	)	50.5	
Other assets and deferred costs	(16.8	)	18.1	
Net operating cash flows	176.7		263.7	
Investing				
Capital expenditures	(123.6	)	(89.3	)
Proceeds from assets sold	19.8		9.2	
Jackpot annuity investments, net	23.6		26.6	
Changes in restricted cash	3.2		23.0	
Loans receivable cash advanced	-		(0.5	)
Loans receivable payments received	14.9		14.8	
Unconsolidated affiliates, net	-		16.5	
Business acquisitions, net of cash acquired	(233.0	)	-	
Net investing cash flows	(295.1	)	0.3	
Financing				
Debt proceeds	-		95.0	
Debt repayments	-		(195.0	)
Employee stock plan proceeds	12.0		13.9	
Excess tax benefits from employee stock plans	2.3		2.8	
Share repurchases	(50.1	)	-	
Noncontrolling interest acquired	(2.5	)	-	
Dividends paid	(35.7	)	(35.8	)
Net financing cash flows	(74.0	)	(119.1	)
Foreign exchange rates effect on cash and equivalents	3.5		2.6	
Net change in cash and equivalents	(188.9	)	147.5	
Beginning cash and equivalents	460.0		158.4	
Ending cash and equivalents	$271.1		$305.9	

See accompanying notes

SUPPLEMENTAL CASH FLOWS INFORMATION

“Depreciation and amortization” reflected in the cash flows statements are comprised of amounts presented separately on the income statements, plus “depreciation and amortization” included in cost of gaming operations, cost of product sales and discontinued operations.

Six Months Ended March 31,	2012	2011
(In millions)		
Unconsolidated affiliates		
Proceeds from	-	16.5
Net	$-	$16.5
Jackpot funding		
Change in jackpot liabilities	$(21.9)	$(56.4)
Jackpot annuity purchases	(6.2)	(3.8)
Jackpot annuity proceeds	29.8	30.4
Net change in jackpot annuity investments	23.6	26.6
Net jackpot funding	$1.7	$(29.8)
Capital expenditures		
Property, plant and equipment	$(34.5)	$(8.4)
Gaming operations equipment	(87.1)	(80.2)
Intellectual property	(2.0)	(0.7)
Total	$(123.6)	$(89.3)
Payments		
Interest	$29.6	$37.6
Income taxes	72.5	15.7
Non-cash investing and financing items:		
Accrued capital asset additions	$0.7	$0.2
Interest accretion for jackpot annuity investments	10.2	11.5
Business acquisitions/purchase price adjustments		
Fair value of assets	$352.3	$-
Fair value of liabilities	2.7	-

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

Our fiscal year is reported on a 52/53-week period ending on the Saturday nearest to September 30. Similarly, our quarters end on the Saturday nearest to the last day of the quarter end month. For simplicity, fiscal periods in this report are presented using the calendar month end as outlined in the table below.

	Period End Actual	Presented as
Current quarter	March 31, 2012	March 31, 2012
Prior year quarter	April 2, 2011	March 31, 2011
Prior year end	October 1, 2011	September 30, 2011

Our consolidated interim financial statements include the accounts of International Game Technology, including all majority-owned or controlled subsidiaries and VIEs for which we are the primary beneficiary. All inter-company accounts and transactions have been eliminated.

Our consolidated interim financial statements for the current quarter ended March 31, 2012 were prepared without audit on a basis consistent with the comparative quarter ended March 31, 2011, and as appropriate, with the audited financial statements for the year ended September 30, 2011. Certain information and footnote disclosures have been condensed or omitted in conformity with SEC and US GAAP requirements.

Our consolidated interim financial statements include all adjustments of a normal recurring nature necessary to fairly state our consolidated results of operations, financial position, and cash flows for all periods presented. Interim period results are not necessarily indicative of full year results. This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2011.

Unless otherwise indicated in this report:

- references to years relate to our fiscal years ending September 30
- dollar amounts in tables are presented in millions, except EPS and par value
- current refers to the quarter ended March 31, 2012
- italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors, and additional IGT trademark information is available on our website at www.IGT.com

Use of Estimates

Our consolidated interim financial statements are prepared in conformity with US GAAP. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our company and the industry as a whole, and information available from other outside sources. Our estimates affect reported amounts for assets, liabilities, revenues, expenses, and related disclosures. Actual results may differ from initial estimates.

Restricted Cash and Investments

We are required by gaming regulation to maintain sufficient reserves in restricted accounts to be used for the purpose of funding payments to WAP jackpot winners. Restricted amounts are based primarily on the jackpot meters displayed to slot players and vary by jurisdiction. Compliance with restricted cash and investments requirements for jackpot funding is reported to the gaming authorities in various jurisdictions.

Additionally, restricted cash and investments included online player deposits of $12.5 million at March 31, 2012 and $14.5 million at September 30, 2011.

Recently Adopted Accounting Standards or Updates

Fair Value Measurements

At the beginning of 2012, we adopted accounting standards issued in January 2010 that require separate disclosure of purchases, sales, issuances, and settlements of fair value instruments within the Level 3 reconciliation. The adoption of this ASU did not have a material impact on our financial statements.

Accruals for Casino Jackpot Liabilities

At the beginning of 2012, we adopted accounting standards issued in April 2010, clarifying that jackpot liabilities should not be accrued before they are won if the payout can be avoided. This ASU did not have a material impact on our financial statements.

Fair Value Measurements

In May 2011, the FASB issued an ASU to amend fair value measurements to achieve convergence between US GAAP and IFRS. See Note 8 for additional information about fair value measurements. This adoption in our second quarter of 2012 changed some fair value measurement principles and disclosure requirements, but did not have a material impact on our financial statements.

Recently Issued Accounting Standards or Updates—Not Yet Adopted

Qualitative Goodwill Impairment Assessment

In September 2011, the FASB issued an ASU to simplify the annual goodwill impairment test by allowing an entity to first assess qualitative factors, considering the totality of events and circumstances, to determine that there is a greater than 50% likelihood that the carrying amount of a reporting unit is less than its fair value. If so, then the two-step impairment test is not required. The ASU will be effective for our 2013 first quarter and we are currently evaluating whether we will adopt early, as permitted. This ASU is not expected to have a material impact on our financial statements.

Presentation of Other Comprehensive Income

In June 2011, the FASB issued an ASU to require other comprehensive income, including income reclassification adjustments, to be presented with net income in one continuous statement or in a separate statement consecutively following net income. In December 2011, the requirement to disclose the income reclassification adjustments by component was deferred indefinitely. This ASU will be effective for our 2013 first quarter and is not expected to have a material impact on our financial statements.

Offsetting Assets and Liabilities

In December 2011, the FASB issued an ASU to require new disclosures associated with offsetting financial instruments and derivative instruments on the balance sheet that will enable users to evaluate the effect on an entity's financial position. This ASU will be effective for our 2014 first quarter and, is not expected to have a material impact on our financial statements.

2. VARIABLE INTERESTS AND AFFILIATES

Variable Interest Entities

New Jersey regulation requires that annuitized WAP jackpot payments to winners be administered through an individual trust set up for each WAP system. These trusts are VIEs and IGT is the primary consolidating beneficiary, because these VIE trusts are designed for the sole purpose of administering jackpot payments for IGT WAP winners and IGT guarantees all liabilities of the trusts. The assets of these consolidated VIEs can only be used to settle trust obligations and have been segregated on our balance sheet.

The consolidation of these VIEs primarily increases jackpot liabilities and related assets, as well as interest income and equivalent offsetting interest expense. Consolidated VIE trust assets and equivalent liabilities totaled $65.3 million at March 31, 2012 and $69.7 million at September 30, 2011.

Investments in Unconsolidated Affiliates

China LotSynergy Holdings, Ltd.

During the 2011 first quarter, we sold our CLS stock investment for net proceeds of $16.5 million and recognized a gain of $4.3 million.

The fair value of our CLS convertible note, including the default put, totaled $9.2 million at March 31, 2012 and $9.3 million at September 30, 2011. The adjusted cost basis of the note, including the conversion option derivative that did not require bifurcation, totaled $9.3 million at March 31, 2012 and $8.9 million at September 30, 2011. The fair value of the free standing derivative default put, was zero at March 31, 2012 and was $0.4 million at September 30, 2011.

See Note 8 and 9 for additional information about related fair value assumptions and derivatives.

3. RECEIVABLES

Accounts Receivable

Allowances for Credit Losses	March 31, 2012	September 30, 2011
Total	$ 16.5	$ 17.6

Customer Financing (Contracts and Notes)

	March 31, 2012	September 30, 2011
Recorded Investment (principal and interest due, net of deferred interest and fees)		
Individually evaluated for impairment	$ 113.4	$ 104.2
Collectively evaluated for impairment	282.7	260.7
Total	$ 396.1	$ 364.9
Allowances for Credit Losses		
Individually evaluated for impairment	$ 56.9	$ 58.6
Collectively evaluated for impairment	13.6	12.8
Total	$ 70.5	$ 71.4

Reconciliation of Allowances for Credit Losses	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Beginning balance	$ 70.1	$ 77.7	$ 71.4	$ 78.4
Charge-offs	-	(0.5)	-	(1.0)
Recoveries	-	0.3	-	0.4

Provisions		0.4		0.5		(0.9	)		0.2
Ending balance	$	70.5	$	78.0	$	70.5		$	78.0
Current	$	46.8	$	43.7	$	46.8		$	43.7
Non-current	$	23.7	$	34.3	$	23.7		$	34.3

	March 31, 2012			September 30, 2011		
Age Analysis of Recorded Investment	Contracts	Notes	Total	Contracts	Notes	Total
Past Due:						
1-29 days	$ 5.1	$ 1.4	$ 6.5	$ 5.3	$ 2.0	$ 7.3
30-59 days	3.8	1.4	5.2	2.0	1.8	3.8
60-89 days	2.2	1.4	3.6	1.2	1.8	3.0
Over 90 days	6.5	41.7	48.2	6.3	31.0	37.3
Total past due	$ 17.6	$ 45.9	$ 63.5	$ 14.8	$ 36.6	$ 51.4
Total current	234.1	98.5	332.6	188.1	125.4	313.5
Grand total	$ 251.7	$ 144.4	$ 396.1	$ 202.9	$ 162.0	$ 364.9
Over 90 days and accruing interest	$ 2.6	$ 0.1	$ 2.7	$ 2.6	$ 0.1	$ 2.7
Nonaccrual status (not accruing interest)	19.4	84.0	103.4	24.2	84.0	108.2

	March 31, 2012			September 30, 2011		
Recorded Investment by Credit Quality Indicator Using Credit Profile by Internally Assigned Risk Grade	Contracts	Notes	Total	Contracts	Notes	Total
Low	$76.2	$-	$76.2	$43.9	$-	$43.9
Medium	28.3	0.3	28.6	25.8	0.3	26.1
High*	147.2	144.1	291.3	133.2	161.7	294.9
Total recorded investment	$251.7	$144.4	$396.1	$202.9	$162.0	$364.9

* includes $84.0 of impaired Alabama notes receivable

Impaired loans	March 31, 2012			September 30, 2011		
	Contracts	Notes	Total	Contracts	Notes	Total
Recorded investment	$1.8	$84.0	$85.8	$5.2	$84.0	$89.2
Unpaid principal face	1.7	85.2	86.9	5.1	85.2	90.3
Related allowance	1.1	55.8	56.9	2.8	55.8	58.6
Average recorded investment	3.5	84.0	87.5	8.8	87.6	96.4

Interest income recognized on impaired loans	March 31, 2012			March 31, 2011		
	Contracts	Notes	Total	Contracts	Notes	Total
Quarter-to-date:						
Total	$-	$-	$-	$0.2	$-	$0.2
Year-to-date						
Total	$-	$-	$-	$0.5	$0.3	$0.8
Cash-basis	-	-	-	-	0.3	0.3

4. CONCENTRATIONS OF CREDIT RISK

Receivables By Legal Gaming Region At March 31, 2012		
Nevada	10	%
Alabama	5	

Oklahoma	4	
New Jersey	4	
Other (less than 4% individually)	28	
North America	51	%
Argentina	24	%
Europe	7	
Australia	5	
Other (less than 4% individually)	13	
International	49	%

5. INVENTORIES

	March 31, 2012	September 30, 2011
Raw materials	$44.0	$44.1
Work-in-process	3.8	2.4
Finished goods	42.8	26.5
Total	$90.6	$73.0

6. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2012	September 30, 2011
Land	$62.7	$62.6
Buildings	234.4	232.8
Leasehold improvements	18.0	17.3
Machinery, furniture and equipment	277.4	248.6
Gaming operations equipment	834.4	812.9
Total	1,426.9	1,374.2
Less accumulated depreciation	(844.9)	(822.1)
Property, plant and equipment, net	$582.0	$552.1

7. GOODWILL AND OTHER INTANGIBLES

Goodwill

Activity By Segment For the Six Months Ended March 31, 2012	North America	International	Total
Beginning balance	$1,042.8	$188.6	$1,231.4
Acquisitions (see Note 17)	234.6	-	234.6
Foreign currency adjustments	-	4.6	4.6
Ending balance	$1,277.4	$193.2	$1,470.6

Other Intangibles

Additions For the Six Months Ended March 31, 2012	Business Combinations (See Note 17)	Other Additions	Weighted Average Life (Years)
Patents (including capitalized legal costs)	$-	$0.7	4
Developed technology	51.8	-	6
Customer relationships	47.3	-	4
Trademarks	10.9	-	5
Reaquired rights	-	1.3	2
Total	$110.0	$2.0	

	March 31, 2012			September 30, 2011		
Ending Balances	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents	$383.5	$ 285.4	$98.1	$382.8	$ 270.5	$112.3
Developed technology	131.7	52.4	79.3	86.9	54.0	32.9
Contracts	23.5	19.7	3.8	25.5	19.5	6.0
Reacquired rights	14.7	2.7	12.0	13.4	2.1	11.3
Customer relationships	61.1	10.8	50.3	14.2	6.9	7.3
Trademarks	12.5	1.5	11.0	2.1	1.5	0.6
Total	$627.0	$ 372.5	$254.5	$524.9	$ 354.5	$170.4

	Quarters Ended March 31,		Six Months Ended March 31,		Future Annual Estimates				
Aggregate Amortization	2012	2011	2012	2011	2012	2013	2014	2015	2016
	$ 16.6	$ 11.0	$ 27.2	$ 23.3	$ 57.5	$ 89.9	$ 79.9	$ 58.5	$ 36.3

8. FAIR VALUE MEASUREMENTS

Financial Assets (Liabilities) Carried at Fair Value

	Fair Value	Level 1	Level 2	Level 3
March 31, 2012				
Money market funds	$83.5	$83.5	$-	$-
Investments in unconsolidated affiliates	9.2	-	-	9.2
Derivative assets	84.8	-	84.8	-
Derivative liabilities	(87.0)	-	(87.0)	-
Acquisition contingent consideration payable	(90.7)	-	-	(90.7)
September 30, 2011				
Money market funds	$76.9	$76.9	$-	$-
Investments in unconsolidated affiliates	9.3	-	-	9.3
Derivative assets	90.8	-	90.8	-
Derivative liabilities	(93.2)	-	(93.2)	-

Valuation Techniques and Balance Sheet Presentation

Money market funds were primarily money market securities valued based on quoted market prices in active markets.

Investments in unconsolidated affiliates were valued using an integrated lattice model incorporating market participant assumptions for publicly traded stock price (HK$0.11 at March 30, 2012), risk-free rate (.06%), credit rating (B+), bond yield (1.95%), daily stock price volatility (63%) and default recovery rate (40%). Generally, changes in risk free rate and credit rating will result in inverse changes in fair value, while changes in stock price, stock price volatility, bond yield and recovery rate result in directionally similar changes in fair value. Changes in credit rating are generally accompanied by directionally opposite changes in bond yield. These investments were presented as a component of other current assets. See Note 2.

Derivative assets and liabilities were valued using quoted forward pricing from bank counterparties, LIBOR credit default swap rates for non-performance risk, and net settlement amounts where appropriate. These are presented primarily as components of other assets, other liabilities, and notes payable. See Note 9.

Acquisition contingent consideration payable related to DoubleDown reaching certain earnings targets was valued with a DCF model applied to the expected payments determined based on probability-weighted internal earnings projections. We applied a rate of probability (15% - 65%) to each scenario, as well as a risk-adjusted discount rate of 19%, to derive the estimated fair value at March 31, 2012. Changes in the projections and/or the probabilities are the most significant assumptions and result in directionally similar changes in the fair value. Discount rate changes cause a directionally opposite change in the fair value. Acquisition contingent consideration payable was presented as a component of other current ($29.5 million) and noncurrent liabilities ($61.2 million) and changes in its fair value are recorded to contingent acquisition related costs on the income statement, along with accrued retention plan compensation. See Note 17.

Reconciliation of Items Carried at Fair Value Using Significant Unobservable Inputs (Level 3)

Six Months Ended March 31,	2012		2011
	Investments in Unconsolidated Affiliates	Acquisition Contingent Consideration Payable	Investments in Unconsolidated Affiliates
Beginning balance	$9.3	$-	$21.3
Gain (loss) included in:			
Other income (expense) - other	(0.4)	-	(2.0)
Other comprehensive income	(0.2)	-	1.0
Issuances	-	(90.7)	-
Interest accretion	0.5	-	1.1
Ending balance	$9.2	$(90.7)	$21.4
Net change in unrealized gain (loss) included in earnings related to instruments still held	$(0.4)	$-	$(2.0)

Financial Assets (Liabilities) Not Carried at Fair Value

	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Unrealized Gain (Loss)
March 31, 2012						
Jackpot investments	$374.5	$435.2	$435.2	$-	$-	$60.7
Contracts & notes receivable	325.6	316.3	-	-	316.3	(9.3)
Jackpot liabilities	(496.8)	(515.1)	-	-	(515.1)	(18.3)
Debt	(1,569.6)	(1,873.5)	(1,873.5)	-	-	(303.9)
September 30, 2011						
Jackpot investments	$387.8	$458.9	$458.9	$-	$-	$71.1
Contracts & notes receivable	293.5	294.6	-	-	294.6	1.1
Jackpot liabilities	(508.4)	(521.6)	-	-	(521.6)	(13.2)
Debt	(1,553.1)	(1,879.5)	(1,879.5)	-	-	(326.4)

Valuation Techniques and Balance Sheet Presentation

Jackpot investments were valued based on quoted market prices.

Contracts and notes receivable were valued using DCF, incorporating expected payments and market interest rates relative to the credit risk of each customer (low 7.5%, medium 8%, high 9.5% - 11%). Credit risk is determined on a number of factors, including customer size, type, financial condition, historical collection experience, account aging, and credit ratings derived from credit reporting agencies and other industry trade reports. Contracts are secured by the underlying assets sold and notes are secured by the developed property and/or other assets. The high risk category includes most of our development financing loans in new markets and customers in regions with a history of currency or economic instability, such as South/Central America. See Notes 3 and 4.

Jackpot liabilities were valued using DCF, incorporating expected future payment timing, estimated funding rates based on the treasury yield curve, and IGT's nonperformance credit risk. Expected annuity payments over 1-25 years (average 10 years) were discounted using the 10-year treasury yield curve rate (2.21%) for the estimated funding rate and the 10-year credit default swap rate (1.65%) for nonperformance risk. The present value (carrying value) of the expected lump sum payments were discounted using the 3-month treasury yield curve rate (.08%) with the 1-year credit default swap rate (.44%) for the current amounts and the 1-year treasury yield curve rate (.23%) with the 2-year credit default swap rate (.65%) for noncurrent amounts. Significant increases (decreases) in any of these inputs in isolation would result in a lower (higher) fair value measurement. Generally, changes in the estimated funding rates do not correlate with changes in nonperformance credit risk.

Debt was valued using quoted market prices or dealer quotes, for the identical financial instrument when traded as an asset in an active market. When our revolving credit facility has an outstanding balance, its level 2 fair value would be determined using DCF models of expected payments on outstanding borrowings at current borrowing rates. Carrying values above excluded swap adjustments and equity components of convertible debt.

Level 3 Valuation Process

Our valuation policies and procedures are determined by the Accounting Department, which ultimately reports to the Chief Financial Officer, in coordination with appropriate business asset owners and third-party valuation services when needed. Changes in fair value and methods for calibration, back testing, and other testing procedures of pricing models are evaluated through analytical review by managers of the responsible Accounting Department quarterly, by the Global Controller at inception and periodically with significant changes. Material valuations are discussed with the Audit Committee at inception and periodically if changes are significant or if impairment charges are recorded. Third-party information is evaluated for consistency with the FASB ASC for fair value measurement through analytical review and in-depth discussions with a variety of valuation experts.

Unobservable inputs are used only to the extent that observable inputs are not available and reflect management assumptions that cannot be corroborated with observable market data about what market participants would use in pricing the asset or liability, including assumptions about risk. Our unobservable inputs consist primarily of expected cash flows, stock price volatility, and other rates derived through extrapolation or interpolation. These inputs are developed based on the best information available, including trends deduced from available historical information and future expectations, using company specific data and market or industry published data. These inputs are validated for reasonableness by analytic comparison to other relevant valuation statistics whenever possible. Unobservable inputs depend on the facts and circumstances specific to a given asset or liability and require significant professional judgment.

9. FINANCIAL DERIVATIVES

Foreign Currency Hedging

The notional amount of foreign currency contracts hedging our exposure related to monetary assets and liabilities denominated in nonfunctional currency totaled $23.0 million at March 31, 2012 and $13.9 million at September 30, 2011.

In May 2007, we executed five-year forward contracts designated as fair value hedges to protect a portion of the US dollar value of our Hong Kong dollar investment in the CLS convertible note (See Note 2). In conjunction with the early redemption of this CLS investment negotiated in September 2010, we executed additional contracts which effectively reduced the cumulative amount of forward contracts. The notional amount of these foreign currency contracts totaled $6.4 million and there was no ineffectiveness during the three and six months ended March 31, 2012 and 2011.

Interest Rate Management

In conjunction with our 7.5% Bonds issued in June 2009, we executed $250.0 million notional value of interest rate swaps that exchange 7.5% fixed interest payments for variable rate interest payments, at one-month LIBOR plus 342 bps, reset two business days before the 15th of each month. In April 2011, we additionally executed $250.0 million notional value interest rate swaps that exchange the remaining fixed interest payments on these Bonds for variable rate interest payments, based on six-month LIBOR plus 409 bps, reset in arrears two business days before June 15 and December 15 each year. All of these swaps terminate on June 15, 2019.

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In conjunction with our 5.5% Bonds issued in June 2010, we executed $300.0 million notional value of interest rate swaps that terminate on June 15, 2020. These swaps effectively exchange 5.5% fixed interest payments for variable rate interest payments, based on the six-month LIBOR plus 186 bps, reset in arrears two business days before June 15 and December 15 each year. These swaps terminate on June 15, 2020.

All of our interest rate swaps are designated fair value hedges against changes in the fair value of a portion of their related bonds. Net amounts receivable or payable under our swaps settle semiannually on June 15 and December 15. Our assessments have determined that these interest rate swaps are highly effective.

Presentation of Derivative Amounts

Balance Sheet Location and Fair Value	March 31, 2012	September 30, 2011
Non-designated Hedges		
Foreign currency contracts: Other assets and deferred costs (current)	$ 0.1	$ 0.4
Foreign currency contracts: Other accrued liabilities	0.3	-
Designated Hedges		
Interest rate swaps: Other assets and deferred costs (noncurrent)	84.7	90.4
Interest rate swaps: Long-term debt	86.8	93.2

	Quarters Ended March 31,		Six Months Ended March 31,	
Income Statement Location and Gain (loss)	2012	2011	2012	2011
Non-designated Hedges				
Foreign currency contracts: Other income (expense)	$0.1	$0.6	$0.6	$1.3
Designated Hedges				
Interest rate swap - ineffectiveness: Other income (expense)	$0.6	$(0.2)	$0.9	$0.3
Interest rate swap - effectiveness: Interest expense	6.3	4.8	12.2	9.4

10. CREDIT FACILITIES AND INDEBTEDNESS

Total Outstanding debt

	March 31, 2012	September 30, 2011
Credit facilities	$ -	$ -
3.25% Convertible Notes	850.0	850.0
7.5% Bonds	500.0	500.0
5.5% Bonds	300.0	300.0
Total principal debt obligations	1,650.0	1,650.0
Discounts:		
3.25% Convertible Notes	(77.1)	(93.5)
7.5% Bonds	(2.2)	(2.3)
5.5% Bonds	(1.1)	(1.1)
Swap fair value adjustments:		
7.5% Bonds	58.2	61.8

5.5% Bonds		28.6		31.4
Total outstanding debt, net	$	1,656.4	$	1,646.3

IGT was compliant with all covenants and embedded features required no bifurcation at March 31, 2012.

Credit Facilities

At March 31, 2012, no amounts were outstanding under our domestic credit facility, $726.4 million was available, and $23.6 million was reserved for letters of credit and performance bonds. Our foreign credit facility in Australia was terminated in April 2012.

3.25% Convertible Notes

	Quarters Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Contractual interest expense	$6.9	$6.9	$13.8	$13.8
Discount amortization	8.3	7.6	16.4	15.0

Bonds

Interest rate swaps executed in conjunction with our Bonds are described in Note 9.

11. CONTINGENCIES

Litigation

From time to time, in the normal course of its operations, the Company is a party to litigation matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability will be incurred and the amount or range of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

Bally

2004 Federal District Court of Nevada

On December 7, 2004, IGT filed a complaint in US District Court for the District of Nevada, alleging that defendants Alliance Gaming Corp., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed six US patents held by IGT: US Patent Nos. 6,827,646; 5,848,932; 5,788,573; 5,722,891; 6,712,698; and 6,722,985. On January 21, 2005, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT's asserted claims. Defendants also asserted fourteen counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, and unenforceability of the asserted patents, and for antitrust violations and intentional interference with prospective business advantage. IGT successfully moved for partial summary judgment on defendants' counterclaims for intentional interference with prospective business advantage and defendants' antitrust allegations related to the gaming machine market. IGT denies the remaining allegations.

On May 9, 2007, the Court issued an order construing disputed terms of the asserted patent claims. On October 16, 2008, the Court issued summary judgment rulings finding certain of IGT's patents, including patents that IGT believes cover bonus wheel gaming machines, invalid as obvious. The rulings also found that Bally was not infringing certain patents asserted by IGT. Bally's antitrust and unfair competition counterclaims remain pending. On November 7, 2008, the Court issued an order staying the proceedings and certifying the summary judgment and claim construction rulings for immediate appeal.

On December 1, 2008, IGT appealed the rulings to the US Court of Appeals for the Federal Circuit. On January 8, 2009, Bally moved to dismiss the appeal on jurisdictional grounds. On February 2, 2009, the Federal Circuit denied the Bally motion without prejudice to the parties raising jurisdictional issues in their merits briefs. On October 22, 2009, the Federal Circuit affirmed the District Court’s summary judgment rulings. On December 7, 2009, Bally filed a motion to lift the stay and schedule a trial on the remaining issues. At the February 1, 2010 hearing on the motion, the Court indicated that it would revisit earlier motions for summary judgment on the issues not addressed on appeal, including IGT’s motions for summary judgment on Bally’s antitrust and unfair competition counterclaims.

On November 29, 2010, the Court granted summary judgment in favor of IGT on all antitrust and unfair competition counterclaims by Bally and dismissed all other remaining claims. Bally has appealed the grant of summary judgment.

2006 Federal District Court of Delaware

On April 28, 2006, IGT filed a complaint in US District Court for the District of Delaware, alleging that defendants Bally Technologies, Inc., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed nine US patents held by IGT: US Patent Nos. RE 38,812; RE 37,885; 6,832,958; 6,319,125; 6,244,958; 6,431,983; 6,607,441; 6,565,434; and 6,620,046. The complaint alleges that the “BALLY POWER BONUSING™” technology infringes one or more of the claims of the asserted IGT patents. The lawsuit seeks monetary damages and an injunction.

On June 30, 2006, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT’s asserted claims. Defendants also asserted twelve counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, and unenforceability of the asserted patents, antitrust violations, unfair competition, and intentional interference with prospective business advantage. IGT denies these allegations. Pursuant to stipulation of the parties, all claims and counterclaims, except those relating to US Patent Nos. RE 37,885 ("the '885 patent"), RE 38,812 ("the '812 patent"), and 6,431,983 (“the ‘983 patent”), have been dismissed. All proceedings relating to Bally’s antitrust, unfair competition, and intentional interference counterclaims were stayed.

On April 28, 2009, the court issued a summary judgment ruling finding the '885 and '812 patents valid. The court also ruled that Bally's "Power Rewards" and "ACSC Power Winners" products infringe certain claims of the '885 and '812 patents. The court granted Bally's motion for summary judgment that Bally's "SDS Power Winners" does not infringe the '885 patent and "Power Bank" and "Power Promotions" do not infringe the '983 patent. The court denied Bally's motion for summary judgment that the '983 patent is invalid. The parties have agreed that Bally's counterclaim for a declaratory judgment on invalidity of the '983 patent will be dismissed without prejudice. IGT’s motion for a permanent injunction against Bally’s infringing products was denied.

On April 28, 2010, the court entered an order dismissing without prejudice Bally’s remaining counterclaims (antitrust, unfair competition and intentional interference with business relationships) and entered final judgment in favor of IGT and against the Bally defendants and Bally appealed.

On October 6, 2011, the United States Federal Circuit Court of Appeals affirmed the judgment in favor of IGT and against Bally. A trial to determine the amount of damages incurred by IGT, and related matters, as a result of Bally's infringement has been scheduled for November 2012.

Aristocrat

2006 Northern Federal District Court of California

On June 12, 2006, Aristocrat Technologies Australia PTY Ltd. and Aristocrat Technologies, Inc. filed a patent infringement lawsuit against IGT. Aristocrat alleged that IGT willfully infringed US Patent No. 7,056,215 (the “’215 patent”), which issued on June 6, 2006. On December 15, 2006, Aristocrat filed an amended complaint, adding allegations that IGT willfully infringed US Patent No. 7,108,603, which issued on September 19, 2006. The IGT products named in the original and amended complaints were the Fort Knox® mystery progressive slot machines. On June 13, 2007, the US District Court for the Northern District of California entered an order granting summary judgment in favor of IGT declaring both patents invalid. The US Court of Appeals for the Federal Circuit reversed this decision on September 22, 2008. IGT’s request for a rehearing was denied on November 17, 2008.

This case recommenced in the District Court and on May 13, 2010, the District Court entered an order granting IGT's motion for summary judgment of non-infringement. Aristocrat appealed this judgment. Proceedings on IGT's claim that Aristocrat committed inequitable conduct in reviving the '215 patent application continued in the District Court. A trial was held the week of April 4, 2011 on that inequitable conduct issue, and that claim was dismissed on May 6, 2011.

IGT and Aristocrat entered into an agreement, effective September 30, 2011, settling the lawsuit. On October 6, 2011, the parties filed a letter with the court advising the court that, in accordance with the parties' resolution of several disputes between them, the case will be concluded by dismissal with prejudice following the final resolution of the pending appeal of the judgment of non-infringement. In connection with the settlement, IGT was granted an irrevocable paid-up license to the Aristocrat patents that were the subject of the litigation and related patents.

2010 Central Federal District Court of California

On November 15, 2010, IGT filed a complaint in the US District Court for the Central District of California against Aristocrat Leisure Limited of Australia and its US affiliate Aristocrat Technologies, Inc. (collectively "Aristocrat") seeking a preliminary and permanent injunction and damages for the infringement of US Patent No. 6,620,047 (the "'047 patent") and US Patent No. RE 39,370 (the "'370 patent") in violation of 35 U.S.C. section 271.

On January 28, 2011, IGT asserted an additional claim against Aristocrat for infringement of US Patent No 7,063,615 (the "'615 patent") seeking similar relief. IGT asserted that Aristocrat infringes on the '047, the '370, and the '615 patents in connection with the sale and distribution of gaming devices, including the Viridian WS slot machine, without authorization or license from IGT. Aristocrat has denied infringement, filed various affirmative defenses and counterclaimed for patent invalidity.

IGT and Aristocrat entered into an agreement, effective September 30, 2011, settling the lawsuit and on October 4, 2011, the court entered an order dismissing the lawsuit. In connection with the settlement, IGT granted Aristocrat a non-exclusive license to certain IGT patents. IGT and Aristocrat are currently involved in arbitration concerning Aristocrat's payment of royalties under the license agreement.

Rice (formerly Piercey) v Atlantic Lotteries

On May 11, 2010, Atlantic Lottery Corporation commenced an action against International Game Technology, VLC, Inc. and IGT-Canada, wholly-owned subsidiaries of International Game Technology, and other manufacturers of video lottery machines in the Supreme Court of New Foundland and Labrador seeking indemnification for any damages that may be awarded against Atlantic Lottery Corporation in a class action suit also filed in the Supreme Court of New Foundland and Labrador. In December 2011, the plaintiff filed a motion seeking leave to substitute a new plaintiff in place of Rice and to make certain amendments to plaintiff's statement of claim. In January 2012, Atlantic Lottery Corporation filed a motion to dismiss the action for abuse of process. By a decision, dated April 5, 2012, the Court granted defendants' motion to strike plaintiff's statement of claim, terminating the action.

Shareholder Actions

Securities Class Action

On July 30, 2009, International Brotherhood of Electrical Workers Local 697 filed a putative securities fraud class action in the US District Court for the District of Nevada, alleging causes of action under Sections 10(b) and 20(a) of the Exchange Act against IGT and certain of its current and former officers and directors. The complaint alleges that between November 1, 2007 and October 30, 2008, the defendants inflated IGT's stock price through a series of materially false and misleading statements or omissions regarding IGT's business, operations, and prospects. In April 2010, plaintiffs filed an amended complaint. In March 2011, defendants' motion to dismiss that complaint was granted in part and denied in part. The Court found that the allegations concerning statements about the seasonality of game play levels and announcements of projects with Harrah's and City Center were sufficient to state a claim. Plaintiffs did not state a claim based on the remaining statements about earnings, operating expense, or forward-looking statements about play levels and server-based technology.

The parties have settled this action. On February 1, 2012, at the direction of the Court, the plaintiffs filed a Notice of Pending Settlement. On March 28, 2012, the parties submitted to the Court a stipulation to settle the litigation for a payment of $12.5 million which will be covered by insurance. On March 30, 2012 the Court issued an order of preliminary approval. At March 31, 2012, we recorded $12.5 million in other accrued liabilities with a corresponding insurance receivable in current other assets.

Derivative Actions

Between August 20, 2009 and September 17, 2009, the Company was nominally sued in a series of derivative lawsuits filed in the US District Court for the District of Nevada, captioned Fosbre v. Matthews et al., Case No. 3:09-cv-00467; Calamore v. Matthews et al., Case No. 3:09-cv-00489; Israni v. Bittman, et al., Case No. 3:09-cv-00536; and Aronson v. Matthews et al., Case No. 3:09-cv-00542. Plaintiffs purportedly brought their respective actions on behalf of the Company. The complaints asserted claims against various current and former officers and directors of the Company, for breaches of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and contribution and indemnification. The complaints sought an unspecified amount of damages and alleged similar facts as the securities class action lawsuit.

The complaints additionally alleged that certain individual defendants engaged in insider trading and that the director defendants improperly handled Thomas J. Matthews' resignation as Chief Executive Officer of the Company. The actions were consolidated and subsequently a consolidated derivative complaint was filed in December 2009. Defendants moved to dismiss that complaint. On July 6, 2010, the Court granted the defendants' motion to dismiss, with leave to amend. After plaintiffs elected not to amend, the court entered judgment in favor of the defendants. The plaintiff in Israni v. Bittman, et al. appealed to the US Court of Appeals for the Ninth Circuit. On April 2, 2012, the appeals court affirmed the district court's decision dismissing the action.

In a letter dated October 7, 2009 to the Company's Board of Directors, a shareholder made factual allegations similar to those set forth in the above derivative and securities class actions and demanded that the Board investigate, address and remedy the harm allegedly inflicted on IGT. In particular, the letter alleged that certain officers and directors grossly mismanaged the Company by overspending in the area of R&D of server-based game technology despite a looming recession to which the Company was particularly vulnerable; by making or allowing false and misleading statements regarding the Company's growth prospects and earnings guidance; and by wasting corporate assets by causing the Company to repurchase Company stock at inflated prices. The letter asserts that this alleged conduct resulted in breaches of fiduciary duties and violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5. On July 9, 2010, the shareholder filed a derivative lawsuit in the US District Court for the District of Nevada, captioned Sprando v. Hart, et al., Case No. 3:10-cv-00415 and asserting claims similar to those described above. No claims were asserted against the Company, which is a nominal defendant. On July 25, 2011, the Court granted the Company's motion to dismiss with prejudice. Plaintiff then appealed to the US Court of Appeals for the Ninth Circuit.

In February 2011, another shareholder sent a letter to the Company's Board of Directors requesting that the Board investigate allegations similar to those set forth in the derivative actions described above and bring a lawsuit against various of the Company's current or former officers and directors. In response the Board of Directors formed a litigation committee comprised of disinterested outside directors and assisted by outside counsel to investigate and evaluate the allegations raised in this letter. At the conclusion of this investigation, the committee concluded and recommended that it would not be in the best interests of the Company or its shareholders to pursue the proposed claims. The Board considered and accepted this recommendation and the Company informed the shareholder of the Board's resolution in September 2011. On March 15, 2012, the shareholder filed a derivative action in state court in Reno, Nevada (Gusinsky v. Thomas J. Matthews, et. al.), Second Judicial Court of the State of Nevada.

On April 8, 2011, the Company was nominally sued in a derivative complaint filed in the US District Court for the District of Nevada, captioned Arduini v. Hart, et al., Case No. 3:11-cv-00255. The claims and allegations in this complaint are similar to those asserted in the securities class action and derivative actions described above. A motion to dismiss has been filed. On March 14, 2012, defendants' motion to dismiss the action was granted.

ERISA Actions

On October 2, 2009, two putative class action lawsuits were filed on behalf of participants in the Company's employee pension plans, naming as defendants the Company, the IGT Profit Sharing Plan Committee, and several current and former officers and directors. The actions, filed in the US District Court for the District of Nevada, are captioned Carr et al. v. International Game Technology et al., Case No. 3:09-cv-00584, and Jordan et al. v. International Game Technology et al., Case No. 3:09-cv-00585. The actions were consolidated. The consolidated complaint (which seeks unspecified damages) asserts claims under the Employee Retirement Income Security Act, 29 U.S.C §§ 1109 and 1132.

The consolidated complaint is based on allegations similar to those in the securities and derivative lawsuits described above, and further alleges that the defendants breached fiduciary duties to plan participants by failing to disclose material facts to plan participants, failing to exercise their fiduciary duties solely in the interest of the participants, failing to properly manage plan assets, and permitting participants to elect to invest in Company stock. In March 2011, defendants' motion to dismiss the consolidated complaint was granted in part and denied in part. On March 16, 2012, the Court denied plaintiff's motion for class certification.

Environmental Matters

CCSC, a casino operation sold by IGT in April 2003, is located in an area that has been designated by the EPA as an active Superfund site because of contamination from historic mining activity in the area. In order for Anchor Coin, an entity IGT acquired in December 2001, to develop the CCSC site, it voluntarily entered into an administrative order of consent with the EPA to conduct soil removal and analysis (a requirement imposed on similarly situated property developers within the region) in conjunction with re-routing mine drainage. The work and obligations contemplated by the agreement were completed by Anchor in June 1998, and the EPA subsequently issued a termination of the order.

The EPA, together with other property developers excluding CCSC, continues remediation activities at the site. While we believe our remediation obligations are complete, it is possible that additional contamination may be identified and we could be obligated to participate in remediation efforts. Under accounting guidance for environmental remediation liabilities, we determined the incurrence of additional remediation costs is neither probable nor reasonably estimable and no liability has been recorded.

OSHA / Wrongful Termination Matter

On July 8, 2004, two former employees filed a complaint with the US Department of Labor, OSHA alleging retaliatory termination in violation of the Sarbanes-Oxley Act of 2002. The former employees allege that they were terminated in retaliation for questioning whether Anchor and its executives failed to properly disclose information allegedly affecting the value of Anchor's patents in connection with IGT's acquisition of Anchor in December 2001. The former employees also allege that the acquired patents were overvalued on the financial statements of IGT. Outside counsel, retained by an independent committee of our Board of Directors, reviewed the allegations and found them to be entirely without merit.

In conjunction with the Anchor acquisition purchase price allocation as of December 31, 2001, IGT used the relief of royalty valuation methodology to estimate the fair value of the patents at $164.4 million. The carrying value of the patents at March 31, 2012 totaled $22.2 million.

On November 10, 2004, the employees withdrew their complaint filed with OSHA and filed a notice of intent to file a complaint in federal court. On December 1, 2004, a complaint was filed under seal in the US District Court for the District of Nevada, based on the same facts set forth above regarding their OSHA complaint. IGT filed a motion for summary judgment as to all claims in plaintiffs' complaint. On June 14, 2007, the US District Court for the District of Nevada entered an order granting summary judgment in favor of IGT as to plaintiffs' Sarbanes-Oxley whistle-blower claims and dismissed their state law claims without prejudice. Plaintiffs' motion for reconsideration of the District Court's decision was denied.

Plaintiffs appealed to the US Court of Appeals for the Ninth Circuit. Oral argument was heard on March 12, 2009, and on August 3, 2009, the Ninth Circuit reversed the District Court's decision. IGT's motion for summary judgment on plaintiffs' state law claims was argued on October 22, 2009 and granted in IGT's favor on December 8, 2009. On April 13, 2010, the District Court granted IGT's motion to strike the plaintiffs' jury demand and granted IGT's motion to retax costs and fees. It denied plaintiffs' motion for certification and/or reconsideration.

On February 8, 2011, a jury verdict was entered in favor of the plaintiffs as to their Sarbanes-Oxley claims and plaintiffs were awarded damages in an amount equal to approximately $2.2 million. On March 9, 2011, IGT filed a Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial or for Remittitur. On May 24, 2011, the Court denied these motions, and on May 27, 2011, the Court entered an amended judgment for prejudgment interest of approximately $1.3 million, attorneys' fees of approximately $1.0 million, and court costs of approximately $132,000. IGT filed a notice of appeal to the US Court of Appeals for the Ninth Circuit on June 21, 2011, which is pending. On July 1, 2011 plaintiffs filed a notice of cross appeal.

Arrangements with Off-Balance Sheet Risks

In the normal course of business, we are party to financial instruments with off-balance sheet risk, such as performance bonds not reflected in our balance sheet. We do not expect any material losses to result from these arrangements and are not dependent on off-balance sheet financing arrangements to fund our operations.

Performance Bonds

Performance bonds outstanding related to certain gaming operations equipment totaled $14.6 million at March 31, 2012. We are liable to reimburse the bond issuer in the event of exercise due to our nonperformance.

Letters of Credit

Outstanding letters of credit issued under our domestic credit facility to ensure payment to certain vendors and governmental agencies totaled $9.0 million at March 31, 2012.

IGT Licensor Arrangements

Our sales agreements that include software and IP licensing arrangements may require IGT to indemnify the third-party licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark infringement, or trade secret misappropriation. Should such a claim occur, we could be required to make payments to the licensee for any liabilities or damages incurred. Historically, we have not incurred any significant settlement costs due to infringement claims. As we consider the likelihood of incurring future costs to be remote, no liability has been recorded.

Self-Insurance

We are self-insured for various levels of workers' compensation, directors' and officers' liability, and electronic errors and omissions liability, as well as employee medical, dental, prescription drug, and disability coverage. We purchase stop loss coverage to protect against unexpected claims. Accrued insurance claims and reserves include estimated settlements for known claims, and actuarial estimates for claims incurred but not reported.

State and Federal Taxes

We are subject to sales, use, income, gaming and other tax audits and administrative proceedings in various US federal, state, local, and foreign jurisdictions. While we believe we have properly reported our tax liabilities in each jurisdiction, we can give no assurance that taxing authorities will not propose adjustments that increase our tax liabilities.

Product Warranties

The majority of our products are generally covered by a warranty for periods ranging from 90 days to one year. We estimate accrued warranty costs in the table below based on historical trends in product failure rates and expected costs to provide warranty services.

Six Months Ended March 31,	2012	2011
Beginning balance	$6.2	$9.3
Reduction for payments made	(2.8)	(3.3)
Accrual for new warranties issued	4.4	4.9

Adjustments for pre-existing warranties	(2.9)	(2.3)
Ending balance	$4.9	$8.6

12. INCOME TAXES

Our provision for income taxes is based on an estimated effective annual income tax rate, as well as the impact of discrete items, if any, occurring during the period. The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement purposes than for tax return purposes. We reduce deferred tax assets by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Our effective tax rate for the six months ended March 31, 2012 increased to 35.9% from 32.2% for the same prior year period. The prior year effective tax rate was positively impacted by favorable discrete items including an increase in the manufacturing deduction and the retroactive reinstatement of the R&D tax credit. The current year effective tax rate was negatively impacted by losses in foreign jurisdictions for which there are no associated tax benefits and the expiration of the R&D tax credit.

At March 31, 2012, our gross UTBs totaled $120.8 million, excluding related accrued interest and penalties of $22.0 million. At March 31, 2012, $77.9 million of our UTBs, including related accrued interest and penalties, would affect our effective tax rate if recognized. During the six months ended March 31, 2012, our UTBs increased $4.4 million and related interest and penalties increased $1.8 million.

We are currently under audit by the IRS for amended returns filed for 1999, 2006 and 2007, as well as our originally filed returns for 2008 and 2009. We are also subject to examination in various state and foreign jurisdictions. We believe we have recorded all appropriate provisions for outstanding issues for all jurisdictions and open years. However, we can give no assurance that taxing authorities will not propose adjustments that increase our tax liabilities.

13. EMPLOYEE BENEFIT PLANS

Share-based Compensation

SIP As Of And For The Six Months Ended March 31, 2012

Options	Shares (thousands)	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at beginning of fiscal year	15,245	$18.85		
Granted	294	16.21		
Exercised	(723)	12.12		
Forfeited	(364)	16.44		
Expired	(1,272)	27.79		
Outstanding at end of period	13,180	$18.37	6.4	$17.7
Vested and expected to vest	12,878	$18.42	6.3	$17.3
Exercisable at end of period	7,894	$19.96		

Service cost	12,466	11,588	180	200
Interest cost	32,768	31,671	1,889	2,013
Amendments		(281)		

Settlements		(257)		(104)				
Actuarial (gain) loss		62,751		24,677		2,494		(647)
Translation (gain) loss		(2,477)		(4,208)				
Benefits paid		(30,488)		(28,844)		(3,197)		(3,152)
Benefit obligation end of year	$	661,571	$	586,808	$	35,081	$	33,715
Change in plan assets								
Fair value of plan assets beginning of year	$	385,483	$	329,188	$		$	
Actual gain (loss) return on plan assets		27,971		35,495				
Company contributions		37,097		49,840		3,197		3,152
Settlements		(257)		(104)				
Translation gain (loss)		(35)		(92)				
Benefits paid		(30,488)		(28,844)		(3,197)		(3,152)
Fair value of plan assets end of year	$	419,771	$	385,483	$		$	
Funded status								
Plan assets less than benefit obligation	$	(241,800)	$	(201,325)	$	(35,081)	$	(33,715)
Net amount recognized	$	(241,800)	$	(201,325)	$	(35,081)	$	(33,715)

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

Amounts recognized in the Consolidated Balance Sheets are as follows:

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

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

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

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

Components of net periodic benefit cost are as follows:

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

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

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

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

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

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Change in accumulated other comprehensive income, net of tax:

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

Assumptions

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

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

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

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

Discount rate

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

Expected rate of return

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

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

Unrecognized pension and post-retirement losses

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

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

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

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

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

Plan assets

Objective

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

Asset allocation

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

Asset class	Plan assets 2011	Plan assets 2010	Target allocation 2011	Target allocation 2010
Equity securities	42 %	47 %	40 %	50 %
Fixed income investments	50 %	37 %	50 %	40 %
Alternative investments	5 %	12 %	10 %	10 %
Cash	3 %	4 %	- %	- %

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

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

Fair value measurement

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

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

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

Total as of December 31, 2010	$	59,012	$	311,703	$	14,768	$	385,483

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

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

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

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

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

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

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

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

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Cash flows

Contributions

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

Estimated future benefit payments

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

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

Savings plan

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

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

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

Other retirement compensation

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

13. Shareholders Equity

Authorized shares

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

December 31, 2011 or December 31, 2010.

Purchase rights

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

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

Share repurchases

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

14. Stock Plans

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

Omnibus stock incentive plans

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

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

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

Non-qualified and incentive stock options

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

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Restricted shares and restricted stock units

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

Stock appreciation rights, performance shares and performance units

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

Outside directors nonqualified stock option plan

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

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

Stock options

The following table summarizes stock option activity under all plans:

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

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

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

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

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

Restricted share awards

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

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

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

15. Business Segments

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

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

Technical Products designs, manufactures and markets standard, modified and custom enclosures that house and protect sensitive electronics and electrical components and protect the people that use them. Applications served include industrial machinery, data communications, networking, telecommunications, test and measurement, automotive, medical, security, defense and general electronics.

Products include mild steel, stainless steel, aluminum and non-metallic enclosures, cabinets, cases, subracks, backplanes and associated thermal management systems.

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

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

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

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

The following table presents certain geographic information:

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

(1) All cash and cash equivalents are included in Other

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

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

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

16. Commitments and Contingencies

Operating lease commitments

Net rental expense under operating leases follows:

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

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

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

Environmental

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

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

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

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Litigation

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

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

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

Product liability claims

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

Warranties and guarantees

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

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

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

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

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

Stand-by letters of credit and bonds

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

17. Selected Quarterly Financial Data (Unaudited)

The following table represents the 2011 quarterly financial information:

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

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

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

The following table represents the 2010 quarterly financial information:

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

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

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18. Financial Statements of Subsidiary Guarantors

Certain of the domestic subsidiaries (the Guarantor Subsidiaries) of Pentair, Inc. (the Parent Company), each of which is directly or indirectly wholly-owned by the Parent Company, jointly and severally, and fully and unconditionally, guarantee the Parent Company s indebtedness under the Notes and the Credit Facility. The following supplemental financial information sets forth the Condensed Consolidated Statements of Income, the Condensed Consolidated Balance Sheets, and the Condensed Consolidated Statements of Cash Flows for the Parent Company, the Guarantor Subsidiaries, the non-Guarantor Subsidiaries, and total consolidated Pentair and subsidiaries.

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the year ended December 31, 2011

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

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the year ended December 31, 2010

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

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the year ended December 31, 2009

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

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Pentair, Inc. and Subsidiaries

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

December 31, 2011

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

Noncontrolling interest			114,063		114,063
Shareholders equity attributable to Pentair, Inc.	1,933,329	97,673	402,775	(500,448)	1,933,329
Total liabilities and shareholders equity	$ 3,161,230	$ 3,816,661	$ 2,282,060	$ (4,673,638)	$ 4,586,313

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

December 31, 2010

In thousands	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	Assets				
Current assets					
Cash and cash equivalents	$ 3,201	$ 3,404	$ 39,451	$	$ 46,056
Accounts and notes receivable, net	678	357,730	222,319	(63,822)	516,905
Inventories		232,369	172,987		405,356
Deferred tax assets	115,722	40,064	7,928	(107,365)	56,349
Prepaid expenses and other current assets	8,278	10,098	51,497	(25,242)	44,631
Total current assets	127,879	643,665	494,182	(196,429)	1,069,297
Property, plant and equipment, net	17,392	144,332	167,711		329,435
Other assets					
Investments in/advances to subsidiaries	2,355,343	89,659	748,181	(3,193,183)	
Goodwill		1,549,537	516,507		2,066,044
Intangibles, net		265,987	187,583		453,570
Other	56,052	4,045	20,139	(25,049)	55,187
Total other assets	2,411,395	1,909,228	1,472,410	(3,218,232)	2,574,801
Total assets	$ 2,556,666	$ 2,697,225	$ 2,134,303	$ (3,414,661)	$ 3,973,533
	Liabilities and Shareholders Equity				
Current liabilities					
Short-term borrowings	$	$	$ 4,933	$	$ 4,933
Current maturities of long-term debt	135,678		18,154	(153,814)	18
Accounts payable	4,908	170,747	150,517	(63,815)	262,357
Employee compensation and benefits	38,513	32,167	37,315		107,995
Current pension and post-retirement benefits	8,733				8,733
Accrued product claims and warranties	12,245	23,410	6,640		42,295
Income taxes	4,788	633	543		5,964
Accrued rebates and sales incentives		23,500	10,059		33,559
Other current liabilities	9,772	33,227	63,185	(25,242)	80,942
Total current liabilities	214,637	283,684	291,346	(242,871)	546,796
Other liabilities					
Long-term debt	702,500	1,947,400	377,539	(2,324,918)	702,521
Pension and other retirement compensation	136,750	112	72,997		209,859
Post-retirement medical and other benefits	18,388	36,986		(25,049)	30,325
Long-term income taxes payable	23,507				23,507
Deferred tax liabilities	5	213,385	63,173	(107,365)	169,198
Due to/ (from) affiliates	(678,966)	(80,779)	810,652	(50,907)	
Other non-current liabilities	46,692	1,892	37,711		86,295
Total liabilities	463,513	2,402,680	1,653,418	(2,751,110)	1,768,501

Noncontrolling interest			111,879		111,879
Shareholders equity attributable to Pentair, Inc.	2,093,153	294,545	369,006	(663,551)	2,093,153
Total liabilities and shareholders equity	$ 2,556,666	$ 2,697,225	$ 2,134,303	$ (3,414,661)	$ 3,973,533

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Pentair, Inc. and Subsidiaries

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the year ended December 31, 2011

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

Financing activities					
Net short-term borrowings	(1,239)				(1,239)
Proceeds from long-term debt	1,421,602				1,421,602
Repayment of long-term debt	(832,147)				(832,147)
Debt issuance costs	(8,973)				(8,973)
Net change in advances to subsidiaries	(579,126)	(137,767)	716,893		
Excess tax benefits from stock-based compensation	3,310				3,310
Stock issued to employees, net of shares withheld	13,324		(2)		13,322
Repurchases of common stock	(12,785)				(12,785)
Dividends paid	(78,351)	(200)	(986)		(79,537)
Net cash provided by (used for) financing activities	(74,385)	(137,967)	715,905		503,553
Effect of exchange rate changes on cash and cash equivalents	(9,719)		(1,953)		(11,672)
Change in cash and cash equivalents	(104)	(72)	4,197		4,021
Cash and cash equivalents, beginning of period	3,201	3,404	39,451		46,056
Cash and cash equivalents, end of period	$ 3,097	$ 3,332	$ 43,648	$	$ 50,077

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the year ended December 31, 2010

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

Repayment of long-term debt	(804,713)				(804,713)
Debt issuance costs	(50)				(50)
Net change in advances to subsidiaries	106,372	(59,269)	(47,090)	(13)	
Excess tax benefits from stock-based compensation	2,686				2,686
Stock issued to employees, net of shares withheld	9,941				9,941
Repurchases of common stock	(24,712)				(24,712)
Dividends paid	(73,014)	142	(2,593)		(75,465)
Distribution to noncontrolling interest			(4,647)		(4,647)
Net cash provided by (used for) financing activities	(77,121)	(59,096)	(54,361)	(13)	(190,591)
Effect of exchange rate changes on cash and cash equivalents	7,044	(5,756)	(8,104)	4	(6,812)
Change in cash and cash equivalents	1,169	1,591	9,900		12,660
Cash and cash equivalents, beginning of period	2,032	1,813	29,551		33,396
Cash and cash equivalents, end of period	$ 3,201	$ 3,404	$ 39,451	$	$ 46,056

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Pentair, Inc. and Subsidiaries

Notes to consolidated financial statements

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the year end December 31, 2009

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

Stock issued to employees, net of shares withheld		8,247								8,247
Dividends paid		(63,686)		5,313		(12,554)				(70,927)
Net cash provided by (used for) financing activities		(49,360)		(104,618)		(55,870)		765		(209,083)
Effect of exchange rate changes on cash and cash equivalents		(11,095)		8,123		2,323		1		(648)
Change in cash and cash equivalents		(688)		(1,532)		(3,728)				(5,948)
Cash and cash equivalents, beginning of period		2,720		3,345		33,279				39,344
Cash and cash equivalents, end of period	$	2,032	$	1,813	$	29,551	$		$	33,396

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

ITEM 9A. CONTROLS AND PROCEDURES
Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the year ended December 31, 2011, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the year ended December 31, 2011 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

Management s Annual Report on Internal Control Over Financial Reporting

The report of management required under this ITEM 9A is contained in ITEM 8 of this Annual Report on Form 10-K under the caption Management s Report on Internal Control Over Financial Reporting.

Attestation Report of Independent Registered Public Accounting Firm

The attestation report required under this ITEM 9A is contained in ITEM 8 of this Annual Report on Form 10-K under the caption Report of Independent Registered Public Accounting Firm.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION
None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required under this item with respect to directors is contained in our Proxy Statement for our 2011 annual meeting of shareholders under the captions Corporate Governance Matters , Proposal 1 Election of Certain Directors and Section 16(a) Beneficial Ownership Reporting Compliance and is incorporated herein by reference.

Information required under this item with respect to executive officers is contained in Part I of this Form 10-K under the caption Executive Officers of the Registrant.

Our Board of Directors has adopted Pentair s Code of Business Conduct and Ethics and designated it as the code of ethics for the Company s Chief Executive Officer and senior financial officers. The Code of Business Conduct and Ethics also applies to all employees and directors in accordance with New York Stock Exchange Listing Standards. We have posted a copy of Pentair s Code of Business Conduct and Ethics on our website at www.pentair.com/resources/images/2673.pdf. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to or waivers from, Pentair s Code of Business Conduct and Ethics by posting such information on our website at www.pentair.com/resources/images/2673.pdf.

We are not including the information contained on our website as part of or incorporating it by reference into, this report.

ITEM 11. EXECUTIVE COMPENSATION

Information required under this item is contained in our Proxy Statement for our 2012 annual meeting of shareholders under the captions Corporate Governance Matters Committees of the Board Compensation Committee, Compensation Discussion and Analysis, Compensation Committee Report, Executive Compensation and Director Compensation and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required under this item with respect to security ownership is contained in our Proxy Statement for our 2012 annual meeting of shareholders under the captions Security Ownership and is incorporated herein by reference.

The following table summarizes, as of December 31, 2011, information about compensation plans under which our equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2008 Omnibus Stock Incentive Plan	3,313,980	$ 31.03	4,326,895 (1)
2004 Omnibus Stock Incentive Plan	4,060,835	$ 33.51	(2)
Outside Directors Non-qualified Stock Option Plan	462,881	$ 34.20	(2)

Total	7,837,696	$ 32.50	4,326,895

(1) Represents securities remaining available for issuance under the 2008 Omnibus Plan.

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(2) The 2004 Omnibus Plan and the Directors Plan were terminated in 2008. Options previously granted remain outstanding under these plans, but no further options or shares may be granted or issued under either plan.

All share numbers and per share amounts described in this section have been adjusted to reflect our 2-for-1 stock split in 2004.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required under this item is contained in our Proxy Statement for our 2012 annual meeting of shareholders under the captions Corporate Governance Matters Independent Directors, and Corporate Governance Matters Policies and Procedures Regarding Related Person Transactions and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required under this item is contained in our Proxy Statement for our 2012 annual meeting of shareholders under the caption Audit Committee Disclosure and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

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

(1) Financial Statements

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

Consolidated Balance Sheets as of December 31, 2011 and 2010

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

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

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts

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

(3) Exhibits

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 21, 2012.

PENTAIR, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on February 21, 2012.

Signature	Title
/s/ Randall J. Hogan Randall J. Hogan	Chairman and Chief Executive Officer
/s/ John L. Stauch John L. Stauch	Executive Vice President and Chief Financial Officer
/s/ Mark C. Borin Mark C. Borin	Corporate Controller and Chief Accounting Officer
* Leslie Abi-Karam	Director
* Glynis A. Bryan	Director
* Jerry W. Burris	Director
* T. Michael Glenn	Director
* Charles A. Haggerty	Director
* David H. Y. Ho	Director
* David A. Jones	Director

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Signature	Title
* Ronald L. Merriman	Director
* William T. Monahan	Director

*By /s/ Angela D. Lageson
Angela D. Lageson

Attorney-in-fact

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Schedule II Valuation and Qualifying Accounts

Pentair, Inc and subsidiaries

in thousands	Balance beginning in period	Additions charged to costs and expenses	Deductions	Other changes add (deduct)	Balance end of period
Allowances for doubtful accounts					
Year ended December 31, 2011	$ 17,119	$ 4,447	$ 4,724 [1]	$ (842)[2]	$ 16,000
Year ended December 31, 2010	$ 14,154	$ 4,300	$ 1,152 [1]	$ (183)[2]	$ 17,119
Year ended December 31, 2009	$ 8,925	$ 6,832	$ 2,449 [1]	$ 846 [2]	$ 14,154

[1] Uncollectible accounts written off, net of expense

[2] Result of acquisitions and foreign currency effects

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Exhibit Index

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

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

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Exhibit Number	Exhibit
10.18	Confidentiality and Non-Competition Agreement, dated January 6, 2005, between Pentair, Inc. and Michael Schrock (Incorporated by reference to Exhibit 10.2 contained in Pentair s Current Report on Form 8-K dated January 6, 2005).*
10.19	Pentair, Inc. 2008 Omnibus Stock Incentive Plan, as Amended and Restated (Incorporated by reference to Appendix A contained in Pentair s Proxy Statement for its 2010 annual meeting of shareholders filed on March 18, 2010).*
10.20	Form of award letter for executive officers under the Pentair, Inc. 2008 Omnibus Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 contained in Pentair s Current Report on Form 8-K filed January 8, 2009).*
10.21	Form of award letter for directors under the Pentair, Inc. 2008 Omnibus Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.21 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2009).*
10.22	Amended and Restated Pentair, Inc. Outside Directors Nonqualified Stock Option Plan as amended through February 27, 2002 (Incorporated by reference to Exhibit 10.7 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2001).*
21	List of Pentair subsidiaries.
23	Consent of Independent Registered Public Accounting Firm Deloitte & Touche LLP.
24	Power of Attorney.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Pentair, Inc. s Annual Report on Form 10-K for the year ended December 31, 2011 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income for the three years ended December 31, 2011, 2010 and 2009, (ii) the Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010, (iii) the Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009, (iv) the Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2011, 2010 and 2009 and (v) the Notes to the Consolidated Financial Statements.