PENTAIR LTD
Form 10-Q
April 22, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the Quarterly Period Ended March 29, 2014
OR	
¨	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-11625
Pentair Ltd.

(Exact name of Registrant as specified in its charter)

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

Freier Platz 10, 8200 Schaffhausen, Switzerland
(Address of principal executive offices)
Registrant’s telephone number, including area code: 41-52-630-48-00
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
On March 29, 2014, 194,702,369 shares of Registrant’s common stock were outstanding.

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Pentair Ltd. and Subsidiaries

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
Pentair Ltd. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

In millions, except per-share data	Three months ended March 29, 2014	March 30, 2013
Net sales	$1,725.2	$1,774.5
Cost of goods sold	1,146.9	1,250.7
Gross profit	578.3	523.8
Selling, general and administrative	368.4	416.0
Research and development	30.0	33.5
Operating income	179.9	74.3
Other (income) expense:		
Equity income of unconsolidated subsidiaries	(0.4)	(0.2)
Loss (gain) on sale of businesses	8.0	(16.7)
Net interest expense	15.7	17.0
Income before income taxes and noncontrolling interest	156.6	74.2
Provision for income taxes	38.0	20.9
Net income before noncontrolling interest	118.6	53.3
Noncontrolling interest	—	1.6
Net income attributable to Pentair Ltd.	$118.6	$51.7
Comprehensive income (loss), net of tax		
Net income before noncontrolling interest	$118.6	$53.3
Changes in cumulative translation adjustment	(27.9)	(76.9)
Changes in market value of derivative financial instruments, net of $0.1 and $0.4 tax, respectively	0.2	0.7
Total comprehensive income (loss)	90.9	(22.9)
Less: Comprehensive income attributable to noncontrolling interest	—	0.7
Comprehensive income (loss) attributable to Pentair Ltd.	$90.9	$(23.6)
Earnings per common share attributable to Pentair Ltd.		
Basic	$0.60	$0.25
Diluted	$0.59	$0.25
Weighted average common shares outstanding		
Basic	196.2	204.8
Diluted	199.7	208.2

See accompanying notes to condensed consolidated financial statements.

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Pentair Ltd. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per-share data	March 29, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$211.1	$265.1
Accounts and notes receivable, net of allowances of $103.9 and $115.1, respectively	1,410.7	1,334.3
Inventories	1,271.6	1,243.3
Other current assets	411.9	389.4
Total current assets	3,305.3	3,232.1
Property, plant and equipment, net	1,162.0	1,170.0
Other assets		
Goodwill	5,098.9	5,134.2
Intangibles, net	1,747.7	1,776.1
Other non-current assets	452.6	430.9
Total other assets	7,299.2	7,341.2
Total assets	$11,766.5	$11,743.3
Liabilities and Equity		
Current liabilities		
Current maturities of long-term debt and short-term borrowings	$2.8	$2.5
Accounts payable	575.4	596.6
Employee compensation and benefits	294.6	347.1
Other current liabilities	655.3	664.0
Total current liabilities	1,528.1	1,610.2
Other liabilities		
Long-term debt	2,933.8	2,552.6
Pension and other post-retirement compensation and benefits	318.6	324.8
Deferred tax liabilities	599.5	580.6
Other non-current liabilities	450.2	457.4
Total liabilities	5,830.2	5,525.6
Equity		
Common shares CHF 0.50 par value, 213.0 authorized and issued at March 29, 2014 and December 31, 2013, respectively	113.5	113.5
Common shares held in treasury, 18.3 and 15.6 shares at March 29, 2014 and December 31, 2013, respectively	(1,105.1)	(875.1)
Capital contribution reserve	5,051.5	5,071.4
Retained earnings	1,947.7	1,829.1
Accumulated other comprehensive income (loss)	(71.3)	(43.6)
Shareholders’ equity attributable to Pentair Ltd.	5,936.3	6,095.3
Noncontrolling interest	—	122.4
Total equity	5,936.3	6,217.7
Total liabilities and equity	$11,766.5	$11,743.3

See accompanying notes to condensed consolidated financial statements.

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Pentair Ltd. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Three months ended March 29, 2014	March 30, 2013
Operating activities		
Net income before noncontrolling interest	$118.6	$53.3
Adjustments to reconcile net income before noncontrolling interest to net cash provided by (used for) operating activities		
Equity income of unconsolidated subsidiaries	(0.4)	(0.2)
Depreciation	37.3	38.1
Amortization	29.4	41.8
Deferred income taxes	0.1	2.0
Loss (gain) on sale of businesses	8.0	(16.7)
Share-based compensation	7.4	10.4
Excess tax benefits from share-based compensation	(6.1)	—
Loss on sale of assets	0.4	—
Changes in assets and liabilities, net of effects of business acquisitions		
Accounts and notes receivable	(78.0)	(129.4)
Inventories	(28.8)	29.1
Other current assets	(25.3)	(21.7)
Accounts payable	(35.9)	20.9
Employee compensation and benefits	(53.3)	(25.7)
Other current liabilities	37.0	8.9
Other non-current assets and liabilities	(9.8)	9.1
Net cash provided by (used for) operating activities	0.6	19.9
Investing activities		
Capital expenditures	(27.2)	(49.7)
Proceeds from sale of property and equipment	0.4	0.9
Proceeds from sale of businesses, net	—	30.0
Other	(0.5)	0.3
Net cash provided by (used for) investing activities	(27.3)	(18.5)
Financing activities		
Net receipts of short-term borrowings	0.3	2.9
Net receipts of commercial paper and revolving long-term debt	381.9	139.6
Repayments of long-term debt	(0.9)	(1.7)
Debt issuance costs	—	(1.3)
Excess tax benefits from share-based compensation	6.1	—
Shares issued to employees, net of shares withheld	24.0	11.8
Repurchases of common shares	(252.2)	(140.3)
Dividends paid	(49.2)	(47.2)
Purchase of noncontrolling interest	(134.7)	—
Distribution to noncontrolling interest	—	(2.0)
Net cash provided by (used for) financing activities	(24.7)	(38.2)
Effect of exchange rate changes on cash and cash equivalents	(2.6)	(10.0)
Change in cash and cash equivalents	(54.0)	(46.8)
Cash and cash equivalents, beginning of period	265.1	261.3
Cash and cash equivalents, end of period	$211.1	$214.5

See accompanying notes to condensed consolidated financial statements.

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Pentair Ltd. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity (Unaudited)

In millions	Common shares		Treasury shares		Capital contribution reserve	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair Ltd.	Noncontrolling interest	Total
	Number	Amount	Number	Amount						
Balance - December 31, 2013	213.0	$113.5	(15.6)	$(875.1)	$5,071.4	$1,829.1	$ (43.6)	$6,095.3	$ 122.4	$6,217.7
Net income	—	—	—	—	—	118.6	—	118.6	—	118.6
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(27.7)	(27.7)	—	(27.7)
Dividends declared	—	—	—	—	0.6	—	—	0.6	—	0.6
Purchase of noncontrolling interest	—	—	—	—	(12.3)	—	—	(12.3)	(122.4)	(134.7)
Share repurchase	—	—	(3.5)	(269.6)	—	—	—	(269.6)	—	(269.6)
Exercise of options, net of shares tendered for payment	—	—	0.7	34.3	(7.1)	—	—	27.2	—	27.2
Issuance of restricted shares, net of cancellations	—	—	0.2	7.3	(7.3)	—	—	—	—	—
Shares surrendered by employees to pay taxes	—	—	(0.1)	(2.0)	(1.2)	—	—	(3.2)	—	(3.2)
Share-based compensation	—	—	—	—	7.4	—	—	7.4	—	7.4
Balance - March 29, 2014	213.0	$113.5	(18.3)	$(1,105.1)	$5,051.5	$1,947.7	$ (71.3)	$5,936.3	$ —	$5,936.3

In millions	Common shares		Treasury shares		Capital contribution reserve	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair Ltd.	Noncontrolling interest	Total
	Number	Amount	Number	Amount						
Balance - December 31, 2012	213.0	$113.5	(6.9)	$(315.5)	$5,292.4	$1,292.3	$ (11.6)	$6,371.1	$ 116.4	$6,487.5
Net income	—	—	—	—	—	51.7	—	51.7	1.6	53.3
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(75.3)	(75.3)	(0.9)	(76.2)
Tax benefits of share-based compensation	—	—	—	—	6.2	—	—	6.2	—	6.2

Dividends declared	—	—	—	—	0.8	—	—	0.8	—	0.8
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(2.0)	(2.0)
Share repurchase	—	—	(2.7)	(140.3)	—	—	—	(140.3)	—	(140.3)
Exercise of options, net of shares tendered for payment	—	—	0.8	33.8	(12.0)	—	—	21.8	—	21.8
Issuance of restricted shares, net of cancellations	—	—	0.5	24.0	(24.0)	—	—	—	—	—
Shares surrendered by employees to pay taxes	—	—	(0.2)	(8.5)	(1.5)	—	—	(10.0)	—	(10.0)
Share-based compensation	—	—	—	—	10.4	—	—	10.4	—	10.4
Balance - March 30, 2013	213.0	$113.5	(8.5)	$(406.5)	$5,272.3	$1,344.0	$(86.9)	$6,236.4	$115.1	$6,351.5

See accompanying notes to condensed consolidated financial statements.

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Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

1.Basis of Presentation and Responsibility for Interim Financial Statements
Pentair Ltd. took its current form on September 28, 2012 as a result of a reverse acquisition (the "Merger") involving Pentair, Inc. and an indirect, wholly-owned subsidiary of Flow Control (defined below), with Pentair, Inc. surviving as an indirect, wholly-owned subsidiary of Pentair Ltd. "Flow Control" refers to Pentair Ltd. prior the Merger. Prior to the Merger, Tyco International Ltd. ("Tyco") engaged in an internal restructuring whereby it transferred to Flow Control certain assets related to the flow control business of Tyco, and Flow Control assumed from Tyco certain liabilities related to the flow control business of Tyco. On September 28, 2012 prior to the Merger, Tyco effected a spin-off of Flow Control through the pro-rata distribution of 100% of the outstanding common shares of Flow Control to Tyco’s shareholders (the “Distribution”), resulting in the distribution of approximately 110.9 million of our common shares to Tyco’s shareholders. The Merger was accounted for as a reverse acquisition under the purchase method of accounting with Pentair, Inc. treated as the acquirer.

The accompanying unaudited condensed consolidated financial statements of Pentair Ltd. and subsidiaries (“we,” “us,” “our,” “Pentair,” or “the Company”) have been prepared following the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America can be condensed or omitted.

During the fourth quarter of 2013, we reorganized our business segments to reflect a new operating structure and management of our Global Business Units, resulting in a change from three reporting segments to four. All prior period amounts related to the segment change have been retrospectively reclassified throughout this Quarterly Report on Form 10-Q to conform to the new presentation.
We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto, which are included in our Annual Report on Form 10-K for the year ended December 31, 2013.
Revenues, expenses, cash flows, assets and liabilities can and do vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be indicative of those for a full year.
Our fiscal year ends on December 31. We report our interim quarterly periods on a 13-week basis ending on a Saturday.
2. Acquisitions and Divestitures
Acquisitions
On January 30, 2014, we acquired, as part of Process Technologies, the remaining 19.9 percent ownership interest in a U.S. entity and an international entity (collectively, "Pentair Residential Filtration" or “PRF”), from GE Water & Process Technologies (a unit of General Electric Company) (“GE”) for $134.3 million in cash. Prior to the acquisition, we held an 80.1 percent ownership equity interest in PRF, representing our and GE's respective global water softener and residential water filtration businesses. There was no material pro forma impact from this acquisition as the results of PRF were consolidated into our financial statements prior to acquiring the remaining interest.
Divestitures
During the three months ended March 29, 2014, we sold a business that was part of Flow Technologies resulting in a loss of $8.0 million.
During the three months ended March 30, 2013, we sold a business that was part of Technical Solutions for a cash purchase price of $30.0 million, net of transaction costs, resulting in a gain of $16.7 million. Goodwill of $5.3 million was included in the assets of the business sold. The sales price was subject to a working capital adjustment and we received an additional $0.1 million cash in the third quarter of 2013 as a result.

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Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

3. Share Plans
Total share-based compensation expense for the three months ended March 29, 2014 and March 30, 2013 was as follows:

In millions	Three months ended March 29, 2014	Three months ended March 30, 2013
Restricted stock units	$4.9	$6.8
Stock options	2.5	3.6
Total share-based compensation expense	$7.4	$10.4

In the first quarter of 2014, we issued our annual share-based compensation grants under the Pentair Ltd. 2012 Stock and Incentive Plan to eligible employees. The total number of awards issued was approximately 0.7 million, of which 0.5 million were stock options and 0.2 million were restricted stock units. The weighted-average grant date fair value of the stock options and restricted stock units issued was $23.35 and $78.72, respectively.

We estimated the fair value of each stock option award issued in the annual share-based compensation grant using a Black-Scholes option pricing model, modified for dividends and using the following assumptions:

	2014 Annual Grant	
Risk-free interest rate	1.43	%
Expected dividend yield	1.45	%
Expected share price volatility	35.3	%
Expected term (years)	5.6	

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

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

4. Restructuring
During the three months ended March 29, 2014 and the year ended December 31, 2013, we continued execution of certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business. The 2014 initiatives included the reduction in hourly and salaried headcount of approximately 450 employees, consisting of approximately 100 in Valves & Controls, 50 in Process Technologies, 250 in Flow Technologies and 50 in Technical Solutions. The 2013 initiatives included the reduction in hourly and salaried headcount of approximately 1,150 employees, consisting of approximately 500 in Valves & Controls, 150 in Process Technologies, 200 in Flow Technologies and 300 in Technical Solutions.

Restructuring related costs included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) included costs for severance and other restructuring costs as follows:

In millions	Three months ended March 29, 2014	Three months ended March 30, 2013
Severance and related costs	$18.4	$20.1

Other	4.8	1.5
Total restructuring costs	$23.2	$21.6

Other restructuring costs primarily consist of asset impairment and various contract termination costs.

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Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Total restructuring costs related to Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions were $9.8 million, $2.6 million, $8.2 million and $2.6 million, respectively, for the three months ended March 29, 2014. Total restructuring costs related to Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions were $4.8 million, $1.5 million, $5.0 million and $10.3 million, respectively, for the three months ended March 30, 2013.

Activity in the restructuring accrual recorded in Other current liabilities and Employee compensation and benefits in the Condensed Consolidated Balance Sheets is summarized as follows for the three months ended March 29, 2014:

In millions	March 29, 2014
Beginning balance	$78.6
Costs incurred	18.4
Cash payments and other	(17.8)
Ending balance	$79.2

5. Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

	Three months ended	
In millions, except per-share data	March 29, 2014	March 30, 2013
Net income attributable to Pentair Ltd.	$118.6	$51.7
Weighted average common shares outstanding		
Basic	196.2	204.8
Dilutive impact of stock options and restricted stock units	3.5	3.4
Diluted	199.7	208.2
Earnings per common share attributable to Pentair Ltd.		
Basic earnings per common share	$0.60	$0.25
Diluted earnings per common share	$0.59	$0.25
Anti-dilutive stock options excluded from the calculation of diluted earnings per share	0.5	1.0

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Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

6. Supplemental Balance Sheet Information

In millions	March 29, 2014	December 31, 2013
Inventories		
Raw materials and supplies	$564.2	$557.2
Work-in-process	164.8	166.5
Finished goods	542.6	519.6
Total inventories	$1,271.6	$1,243.3
Other current assets		
Cost in excess of billings	$108.7	$100.8
Prepaid expenses	123.8	103.9
Deferred income taxes	160.9	162.0
Other current assets	18.5	22.7
Total other current assets	$411.9	$389.4
Property, plant and equipment, net		
Land and land improvements	$242.5	$251.3
Buildings and leasehold improvements	523.0	516.8
Machinery and equipment	1,238.0	1,208.0
Construction in progress	76.5	72.6
Total property, plant and equipment	2,080.0	2,048.7
Accumulated depreciation and amortization	918.0	878.7
Total property, plant and equipment, net	$1,162.0	$1,170.0
Other non-current assets		
Asbestos-related insurance receivable	$119.3	$119.6
Deferred income taxes	136.3	93.6
Other non-current assets	197.0	217.7
Total other non-current assets	$452.6	$430.9
Other current liabilities		
Deferred revenue and customer deposits	$104.8	$92.4
Dividends payable	48.7	98.7
Billings in excess of cost	42.6	38.1
Accrued warranty	56.0	56.6
Other current liabilities	403.2	378.2
Total other current liabilities	$655.3	$664.0
Other non-current liabilities		
Asbestos-related liabilities	$254.1	$254.7
Taxes payable	50.4	48.9
Other non-current liabilities	145.7	153.8
Total other non-current liabilities	$450.2	$457.4

Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

7. Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill by segment were as follows:

In millions	December 31, 2013	Acquisitions/ divestitures	Foreign currency translation/other	March 29, 2014
Valves & Controls	$1,511.6	$—	$—	$1,511.6
Process Technologies	1,524.5	—	(0.9)	1,523.6
Flow Technologies	940.1	—	(34.7)	905.4
Technical Solutions	1,158.0	—	0.3	1,158.3
Total goodwill	$5,134.2	$—	$(35.3)	$5,098.9

Identifiable intangible assets consisted of the following:

	March 29, 2014			December 31, 2013		
In millions	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Finite-life intangibles						
Customer relationships	$1,286.7	$(267.8)	$1,018.9	$1,286.8	$(243.8)	$1,043.0
Trade names	2.1	(1.0)	1.1	2.1	(0.9)	1.2
Proprietary technology and patents	262.8	(83.6)	179.2	264.6	(80.1)	184.5
Backlog	2.6	(0.9)	1.7	2.6	(1.2)	1.4
Total finite-life intangibles	$1,554.2	$(353.3)	$1,200.9	$1,556.1	$(326.0)	$1,230.1
Indefinite-life intangibles						
Trade names	546.8	—	546.8	546.0	—	546.0
Total intangibles, net	$2,101.0	$(353.3)	$1,747.7	$2,102.1	$(326.0)	$1,776.1

Intangible asset amortization expense was $29.4 million and $41.8 million for the three months ended March 29, 2014 and March 30, 2013, respectively.

Estimated future amortization expense for identifiable intangible assets during the remainder of 2014 and the next five years is as follows:

In millions	Q2 - Q4 2014	2015	2016	2017	2018	2019
Estimated amortization expense	$86.8	$115.4	$114.4	$112.8	$110.2	$102.5

Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

8. Debt
Debt and the average interest rates on debt outstanding were as follows:

In millions	Average interest rate at March 29, 2014	Maturity Year	March 29, 2014	December 31, 2013
Commercial paper	0.504%	2017	$896.3	$528.9
Revolving credit facilities	1.402%	2017	14.5	—
Senior notes - fixed rate	1.350%	2015	350.0	350.0
Senior notes - fixed rate	1.875%	2017	350.0	350.0
Senior notes - fixed rate	2.650%	2019	250.0	250.0
Senior notes - fixed rate	5.000%	2021	500.0	500.0
Senior notes - fixed rate	3.150%	2022	550.0	550.0
Other	1.400%	2014-2030	5.1	4.7
Capital lease obligations	4.017%	2014-2025	20.7	21.5
Total debt			2,936.6	2,555.1
Less: Current maturities and short-term borrowings			(2.8)	(2.5)
Long-term debt			$2,933.8	$2,552.6

The 1.35% Senior Notes due 2015, 1.875% Senior Notes due 2017, 2.65% Senior Notes due 2019, 3.15% Senior Notes due 2022 and $373.0 million of the 5.00% Senior Notes due 2021 (collectively, the “Notes”) were all issued in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. In March 2013, Pentair Ltd. and our 100 percent-owned subsidiary, Pentair Finance S.A. (“PFSA”), filed a Registration Statement with the SEC offering to exchange the Notes for new, registered Notes. The exchange offer expired on April 19, 2013 and did not impact the aggregate principle amount or the terms of the Notes outstanding. The new, registered Notes issued in such exchange offer are guaranteed as to payment by Pentair Ltd.

In September 2012, Pentair, Inc. entered into a credit agreement providing for an unsecured, committed revolving credit facility (the “Credit Facility”) with initial maximum aggregate availability of up to $1,450.0 million. Upon the completion of the Merger, Pentair Ltd. became the guarantor under the Credit Facility and PFSA and certain other of our subsidiaries became affiliate borrowers under the Credit Facility. Borrowings under the Credit Facility generally bear interest at a variable rate equal to the London Interbank Offered Rate plus a specified margin based upon PFSA's credit ratings. PFSA must also pay a facility fee ranging from 10.0 to 30.0 basis points per annum (based upon PFSA's credit ratings) on the amount of each lender's commitment. PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. PFSA uses the Credit Facility as back-up liquidity to support 100% of our outstanding commercial paper. As of March 29, 2014 and December 31, 2013, we had $896.3 million and $528.9 million, respectively, of commercial paper outstanding, all of which was classified as long-term as we have the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

Total availability under the Credit Facility was $539.2 million as of March 29, 2014, which was not limited by any covenants contained in the Credit Facility’s credit agreement.

Our debt agreements contain certain financial covenants, the most restrictive of which are in the Credit Facility, including that we may not permit (i) the ratio of our consolidated debt plus synthetic lease obligations to our consolidated net income (excluding, among other things, non-cash gains and losses) before interest, taxes, depreciation, amortization, non-cash share-based compensation expense, and up to $40.0 million of costs and expenses incurred in connection with the Merger (“EBITDA”) for the four consecutive fiscal quarters then ended (the “Leverage Ratio”) to exceed 3.50 to 1.00 on the last day of each fiscal quarter, and (ii) the ratio of our EBITDA for the four consecutive fiscal quarters then ended to our consolidated interest expense, including consolidated yield or discount accrued as to outstanding securitization obligations (if any), for the same period to be less than 3.00 to 1.00 as of the end of each fiscal quarter. For purposes of the Leverage Ratio, the Credit Facility provides for the calculation of EBITDA giving pro forma effect to the Merger and certain acquisitions, divestitures and

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liquidations during the period to which such calculation relates. As of March 29, 2014, we were in compliance with all financial covenants in our debt agreements.
In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $86.2 million, of which none was outstanding at March 29, 2014. Borrowings under these credit facilities bear interest at variable rates.
Debt outstanding at March 29, 2014 matures on a calendar year basis as follows:

In millions	Q2 - Q4 2014	2015	2016	2017	2018	2019	Thereafter	Total
Contractual debt obligation maturities	$0.3	$350.0	$—	$1,260.8	$—	$250.0	$1,054.8	$2,915.9
Capital lease obligations	1.9	5.5	0.5	0.5	0.5	0.5	11.3	20.7
Total maturities	$2.2	$355.5	$0.5	$1,261.3	$0.5	$250.5	$1,066.1	$2,936.6

Capital lease obligations relate primarily to land and buildings and consist of total future minimum lease payments of $22.3 million less the imputed interest of $1.6 million as of March 29, 2014.
As of March 29, 2014 and December 31, 2013, assets under capital lease were $41.8 million and $41.7 million, respectively, less accumulated amortization of $7.9 million and $7.6 million, respectively, all of which were included in Property, plant and equipment, net on the Condensed Consolidated Balance Sheets.

9. Derivatives and Financial Instruments

Derivative financial instruments

We are exposed to market risk related to changes in foreign currency exchange rates and interest rates on our floating rate indebtedness. To manage the volatility related to these exposures, we periodically enter into a variety of derivative financial instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates and interest rates. The derivative contracts contain credit risk to the extent that our bank counterparties may be unable to meet the terms of the agreements. The amount of such credit risk is generally limited to the unrealized gains, if any, in such contracts. Such risk is minimized by limiting those counterparties to major financial institutions of high credit quality.

Interest rate swaps

In April 2011, we entered into interest rate swap contracts to hedge movement in interest rates through the expected date of a fixed rate debt offering. The swaps had a notional amount of $400.0 million with an average interest rate of 3.65%. In May 2011, upon the sale of the fixed rate debt, the swaps were terminated at a cost of $11.0 million. Because we used the contracts to hedge future interest payments, this was recorded in Accumulated other comprehensive income ("AOCI") in the Condensed Consolidated Balance Sheets and will be amortized as interest expense over the 10 year life of the underlying fixed rate debt. The ending unrealized net loss in AOCI was $7.8 million and $8.1 million at March 29, 2014 and December 31, 2013, respectively.

Foreign currency contracts

We conduct business in various locations throughout the world and are subject to market risk due to changes in the value of foreign currencies in relation to our reporting currency, the U.S. dollar. We manage our economic and transaction exposure to certain market-based risks through the use of foreign currency derivative financial instruments. Our objective in holding these derivatives is to reduce the volatility of net earnings and cash flows associated with changes in foreign currency exchange rates. The majority of our foreign currency contracts have an original maturity date of less than one year. At March 29, 2014 and December 31, 2013, we had outstanding foreign currency derivative contracts with gross notional U.S. dollar equivalent amounts of $131.6 million and $143.0 million, respectively. The impact of these contracts on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) is not material for any period presented.
Gains or losses on foreign currency contracts designated as hedges are reclassified out of AOCI and into Selling, general and administrative expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) upon settlement. Such reclassifications during the three months ended March 29, 2014 and March 30,

2013 were not material.

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Fair value measurements

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

Level 1:	Valuation is based on observable inputs such as quoted market prices (unadjusted) for identical assets or liabilities in active markets.
Level 2:	Valuation is based on inputs such as quoted market prices for similar assets or liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3:	Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

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

Fair value of financial instruments

The following methods were used to estimate the fair values of each class of financial instruments:

- short-term financial instruments (cash and cash equivalents, accounts and notes receivable, accounts and notes payable and variable-rate debt) — recorded amount approximates fair value because of the short maturity period;
- long-term fixed-rate debt, including current maturities — fair value is based on market quotes available for issuance of debt with similar terms, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance; and
- foreign currency contract agreements — fair values are determined through the use of models that consider various assumptions, including time value, yield curves, as well as other relevant economic measures, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance.

The recorded amounts and estimated fair values of total debt were as follows:

	March 29, 2014		December 31, 2013	
In millions	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Variable rate debt	$910.8	$910.8	$528.9	$528.9
Fixed rate debt	2,025.8	2,046.9	2,026.2	2,002.2
Total debt	$2,936.6	$2,957.7	$2,555.1	$2,531.1

Financial assets and liabilities measured at fair value on a recurring and nonrecurring basis were as follows:

	March 29, 2014			
In millions	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Foreign currency contract assets	$—	$2.3	$—	$2.3
Foreign currency contract liabilities	—	(1.5)	—	(1.5)
Deferred compensation plan (1)	25.3	—	—	25.3
Total recurring fair value measurements	$25.3	$0.8	$—	$26.1

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	December 31, 2013			
In millions	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Foreign currency contract assets	$—	$3.6	$—	$3.6
Foreign currency contract liabilities	—	(0.9)	—	(0.9)
Deferred compensation plan [1]	32.1	—	—	32.1
Total recurring fair value measurements	$32.1	$2.7	$—	$34.8
Nonrecurring fair value measurements [2]				

(1) Deferred compensation plan assets include mutual funds and cash equivalents for payment of certain non-qualified benefits for retired, terminated and active employees. The fair value of these assets was based on quoted market prices in active markets.

(2) In the fourth quarter of 2013, we completed our annual intangible assets impairment review. As a result, we recorded a pre-tax non-cash impairment charge of $11.0 million for trade names intangibles. The impairment charge reduced the fair value of the impacted trade name intangible to $0. The fair value of trade names is measured using the relief-from-royalty method. This method assumes the trade name has value to the extent that the owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital.

10. Income Taxes

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

The effective income tax rate for the three months ended March 29, 2014 was 24.3% compared to 28.2% for the three months ended March 30, 2013. Our effective income tax rate was lower due to the mix of global earnings and the timing of losses in jurisdictions where we recognize no tax benefits. The decreases were partially offset by the unfavorable impact of the expiration of certain provisions of the U.S. Internal Revenue Code.

We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

The liability for uncertain tax positions was $62.5 million and $60.8 million at March 29, 2014 and December 31, 2013, respectively. We record penalties and interest related to unrecognized tax benefits in Provision for income taxes and Net interest expense, respectively, on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), which is consistent with our past practices.

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11. Benefit Plans

Components of net periodic benefit cost for our pension plans for the three months ended March 29, 2014 and March 30, 2013 were as follows:

	U.S. pension plans	
	Three months ended	
In millions	March 29, 2014	March 30, 2013
Service cost	$3.3	$3.9
Interest cost	3.8	3.6
Expected return on plan assets	(2.6)	(2.4)
Net periodic benefit cost	$4.5	$5.1

	Non-U.S. pension plans	
	Three months ended	
In millions	March 29, 2014	March 30, 2013
Service cost	$2.0	$2.4
Interest cost	4.7	4.4
Expected return on plan assets	(4.2)	(3.8)
Net periodic benefit cost	$2.5	$3.0

Components of net periodic benefit cost for our other post-retirement plans for the three months ended March 29, 2014 and March 30, 2013 were not material.

12. Shareholders' Equity

Share repurchases

Prior to the closing of the Merger, our board of directors, and Tyco as our sole shareholder, authorized the repurchase of our common shares with a maximum aggregate value of $400.0 million following the closing of the Merger. In October 2012, our board of directors authorized the repurchase of our common shares with a maximum aggregate value of $800.0 million. This authorization expires on December 31, 2015 and is in addition to the $400.0 million share repurchase authorization. There is no remaining availability for repurchase under these 2012 authorizations. In December 2013, our board of directors authorized the repurchase of our common shares up to a maximum dollar limit of $1.0 billion. This authorization expires on December 31, 2016 and is in addition to the combined $1.2 billion prior share repurchase authorizations.

During the three months ended March 29, 2014, we repurchased 3.5 million of our common shares for $269.6 million pursuant to these authorizations. As of March 29, 2014, we had $880.4 million remaining available for share repurchases under the December 2013 authorization.

Dividends payable

At our 2013 annual meeting of shareholders held on April 29, 2013, our shareholders approved a proposal to pay quarterly cash dividends through the second quarter of 2014. The authorization provides that dividends of $1.00 per share will be made out of our Capital contribution reserve equity position in our statutory accounts to our shareholders in quarterly installments of $0.25 for each of the third and fourth quarters of 2013 and first and second quarters of 2014. As a result, the balance of dividends payable included in Other current liabilities on our Condensed Consolidated Balance Sheets was $48.7 million and $98.7 million at March 29, 2014 and December 31, 2013, respectively. Dividends paid per common share were $0.25 and $0.23 for the quarter ended March 29, 2014 and March 30, 2013, respectively.

On February 25, 2014, our board of directors recommended that our shareholders approve at the 2014 annual general meeting of shareholders a proposal to pay quarterly cash dividends through the second quarter of 2015. The proposal provides that dividends of $1.20 per share will be made out of our Capital contribution reserve to shareholders in quarterly installments of $0.30 per share for each of the third and fourth quarters of 2014 and the first and second quarters of 2015.

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13. Segment information

Financial information by reportable segment is shown below:

In millions	Three months ended March 29, 2014	March 30, 2013
Net sales		
Valves & Controls	$534.8	$585.8
Process Technologies	418.3	396.6
Flow Technologies	364.1	390.6
Technical Solutions	415.3	410.0
Other	(7.3)	(8.5)
Consolidated	$1,725.2	$1,774.5
Operating income (loss)		
Valves & Controls	$52.2	$(18.6)
Process Technologies	46.3	43.4
Flow Technologies	27.5	31.4
Technical Solutions	76.2	53.3
Other	(22.3)	(35.2)
Consolidated	$179.9	$74.3

14. Commitments and Contingencies

Asbestos Matters

Our subsidiaries and numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were attached to or used with asbestos-containing components manufactured by third-parties. Each case typically names between dozens to hundreds of corporate defendants. While we have observed an increase in the number of these lawsuits over the past several years, including lawsuits by plaintiffs with mesothelioma-related claims, a large percentage of these suits have not presented viable legal claims and, as a result, have been dismissed by the courts. Our historical strategy has been to mount a vigorous defense aimed at having unsubstantiated suits dismissed, and, where appropriate, settling suits before trial. Although a large percentage of litigated suits have been dismissed, we cannot predict the extent to which we will be successful in resolving lawsuits in the future.

As of March 29, 2014, there were approximately 2,100 lawsuits pending against our subsidiaries. A lawsuit might include several claims, and we have approximately 2,300 claims outstanding as of March 29, 2014. This amount is not adjusted for claims that are not actively being prosecuted, identified incorrect defendants, or duplicated other actions, which would ultimately reflect our current estimate of the number of viable claims made against us, our affiliates or entities for which we assumed responsibility in connection with acquisitions or divestitures. In addition, the amount does not include certain claims pending against third parties for which we have been provided an indemnification.

Periodically, we perform an analysis with the assistance of outside counsel and other experts to update our estimated asbestos-related assets and liabilities. Our estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on our historical claim experience and estimates of the number and resolution cost of potential future claims that may be filed. Our legal strategy for resolving claims also impacts these estimates.

Our estimate of asbestos-related insurance recoveries represents estimated amounts due to us for previously paid and settled claims and the probable reimbursements relating to our estimated liability for pending and future claims. In determining the amount of insurance recoverable, we consider a number of factors, including available insurance, allocation methodologies and the solvency and creditworthiness of insurers.

Our estimated liability for asbestos-related claims was $254.1 million and $254.7 million as of March 29, 2014 and December 31, 2013, respectively, and was recorded in Other non-current liabilities in the Condensed Consolidated Balance Sheets for pending and future claims and related defense costs. Our estimated receivable for insurance recoveries was $119.3

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million and $119.6 million as of March 29, 2014 and December 31, 2013, respectively, and was recorded in Other non-current assets in the Condensed Consolidated Balance Sheets.

The amounts recorded by us for asbestos-related liabilities and insurance-related assets are based on our strategies for resolving our asbestos claims and currently available information as well as estimates and assumptions. Key variables and assumptions include the number and type of new claims filed each year, the average cost of resolution of claims, the resolution of coverage issues with insurance carriers, the amounts of insurance and the related solvency risk with respect to our insurance carriers, and the indemnifications we have provided to and received from third parties. Furthermore, predictions with respect to these variables are subject to greater uncertainty in the latter portion of the projection period. Other factors that may affect our liability and cash payments for asbestos-related matters include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms of state or federal tort legislation and the applicability of insurance policies among subsidiaries. As a result, actual liabilities or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in our calculations vary significantly from actual results.

Environmental Matters

We are involved in or have retained responsibility and potential liability for environmental obligations and legal proceedings related to our current business and, including pursuant to certain indemnification obligations, related to certain formerly owned businesses. Our accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. Based upon our experience, current information regarding known contingencies and applicable laws, we have recorded reserves for these environmental matters of $39.2 million and $39.3 million as of March 29, 2014 and December 31, 2013, respectively. We do not anticipate these environmental conditions will have a material adverse effect on our financial position, results of operations or cash flows.

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.

The changes in the carrying amount of service and product warranties for the three months ended March 29, 2014 were as follows:

In millions	March 29, 2014
Beginning balance	$56.6
Service and product warranty provision	13.3
Payments	(13.9)
Ending balance	$56.0

Stand-by Letters of Credit, Bank Guarantees and Bonds

In certain situations, Tyco guaranteed Flow Control’s performance to third parties or provided financial guarantees for financial commitments of Flow Control. In situations where Flow Control and Tyco were unable to obtain a release from these guarantees in connection with the spin-off, we will indemnify Tyco for any losses it suffers as a result of such guarantees.

In disposing of assets or businesses, we often provide representations, warranties and indemnities to cover various risks including unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities and unidentified tax liabilities and

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legal fees related to periods prior to disposition. We do not have the ability to reasonably estimate the potential liability due to the inchoate and unknown nature of these potential liabilities. However, we have no reason to believe that these uncertainties would have a material adverse effect on our financial position, results of operations or cash flows.

In the ordinary course of business, we are required to commit to bonds, letters of credit and bank guarantees that require payments to our customers for any non-performance. The outstanding face value of these instruments 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 March 29, 2014 and December 31, 2013, the outstanding value of bonds, letters of credit and bank guarantees totaled $527.7 million and $484.0 million, respectively.

15. Financial Statements of Parent Company Guarantor

Pentair Ltd. (the “Parent Company Guarantor”), fully and unconditionally, guarantees the Notes of Pentair Finance S.A. (the “Subsidiary Issuer”). The Subsidiary Issuer is a Luxembourg public limited liability company formed in January 2012 and 100 percent-owned subsidiary of the Parent Company Guarantor.

The following supplemental financial information sets forth the Company’s Condensed Consolidating Statement of Operations and Comprehensive Income (Loss), Condensed Consolidating Balance Sheets and Condensed Consolidating Statement of Cash Flows of:

- Parent Company Guarantor;
- Subsidiary Issuer;
- Non-guarantor subsidiaries of Pentair Ltd. on a combined basis;
- Consolidating entries and eliminations representing adjustments to:
  a. eliminate intercompany transactions between or among the Parent Company Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries;
  b. eliminate the investments in subsidiaries; and
  c. record consolidating entries.
- Pentair Ltd. and subsidiaries on a consolidated basis.

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Pentair Ltd. and Subsidiaries
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
Three months ended March 29, 2014

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Pentair Ltd. and Subsidiaries Consolidated
Net sales	$—	$—	$1,725.2	$—	$1,725.2
Cost of goods sold	—	—	1,146.9	—	1,146.9
Gross profit	—	—	578.3	—	578.3
Selling, general and administrative	(0.3)	3.3	365.4	—	368.4
Research and development	—	—	30.0	—	30.0
Operating income (loss)	0.3	(3.3)	182.9	—	179.9
Loss (earnings) from investment in subsidiaries	(118.6)	(127.1)	—	245.7	—
Other (income) expense:					
Equity income of unconsolidated subsidiaries	—	—	(0.4)	—	(0.4)
Loss on sale of business	—	—	8.0	—	8.0
Net interest expense	0.3	0.9	14.5	—	15.7
Income (loss) before income taxes	118.6	122.9	160.8	(245.7)	156.6
Provision for income taxes	—	—	38.0	—	38.0
Net income (loss) attributable to Pentair Ltd.	$118.6	$122.9	$122.8	$(245.7)	$118.6
Comprehensive income (loss), net of tax					
Net income (loss) attributable to Pentair Ltd.	$118.6	$122.9	$122.8	$(245.7)	$118.6
Changes in cumulative translation adjustment	(27.9)	(27.9)	(27.9)	55.8	(27.9)
Changes in market value of derivative financial instruments	0.2	0.2	0.2	(0.4)	0.2
Comprehensive income (loss) attributable to Pentair Ltd.	$90.9	$95.2	$95.1	$(190.3)	$90.9

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Pentair Ltd. and Subsidiaries
Condensed Consolidating Balance Sheet
March 29, 2014

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Pentair Ltd. and Subsidiaries Consolidated
Assets					
Current assets					
Cash and cash equivalents	$0.2	$0.4	$210.5	$—	$211.1
Accounts and notes receivable, net	14.7	10.2	1,522.1	(136.3)	1,410.7
Inventories	—	—	1,271.6	—	1,271.6
Other current assets	0.9	1.2	409.8	—	411.9
Total current assets	15.8	11.8	3,414.0	(136.3)	3,305.3
Property, plant and equipment, net	—	—	1,162.0	—	1,162.0
Other assets					
Investments in subsidiaries	6,064.8	8,105.1	—	(14,169.9)	—
Goodwill	—	—	5,098.9	—	5,098.9
Intangibles, net	—	—	1,747.7	—	1,747.7
Other non-current assets	31.6	1,700.8	415.3	(1,695.1)	452.6
Total other assets	6,096.4	9,805.9	7,261.9	(15,865.0)	7,299.2
Total assets	$6,112.2	$9,817.7	$11,837.9	$(16,001.3)	$11,766.5
Liabilities and Equity					
Current liabilities					
Current maturities of long-term debt and short-term borrowings	$—	$—	$2.8	$—	$2.8
Accounts payable	108.5	2.9	600.3	(136.3)	575.4
Employee compensation and benefits	0.1	—	294.5	—	294.6
Other current liabilities	49.7	13.9	591.7	—	655.3
Total current liabilities	158.3	16.8	1,489.3	(136.3)	1,528.1
Other liabilities					
Long-term debt	—	2,769.3	1,859.6	(1,695.1)	2,933.8
Pension and other post-retirement compensation and benefits	—	—	318.6	—	318.6
Deferred tax liabilities	—	2.9	596.6	—	599.5
Other non-current liabilities	17.6	—	432.6	—	450.2
Total liabilities	175.9	2,789.0	4,696.7	(1,831.4)	5,830.2
Equity	5,936.3	7,028.7	7,141.2	(14,169.9)	5,936.3
Total liabilities and equity	$6,112.2	$9,817.7	$11,837.9	$(16,001.3)	$11,766.5

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Condensed Consolidating Statement of Cash Flows
Three months ended March 29, 2014

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Pentair Ltd. and Subsidiaries Consolidated
Operating activities					
Net cash provided by (used for) operating activities	$118.0	$125.6	$2.7	$(245.7)	$0.6
Investing activities					
Capital expenditures	—	—	(27.2)	—	(27.2)
Proceeds from sale of property and equipment	—	—	0.4	—	0.4
Other	—	—	(0.5)	—	(0.5)
Net cash provided by (used for) investing activities	—	—	(27.3)	—	(27.3)
Financing activities					
Net receipts (repayments) of short-term borrowings	—	—	0.3	—	0.3
Net receipts (repayments) of commercial paper and revolving long-term debt	—	367.4	14.5	—	381.9
Repayments of long-term debt	—	—	(0.9)	—	(0.9)
Net change in advances to subsidiaries	(69.1)	(539.6)	363.0	245.7	—
Excess tax benefits from share-based compensation	—	—	6.1	—	6.1
Shares issued to employees, net of shares withheld	—	—	24.0	—	24.0
Repurchases of common shares	—	—	(252.2)	—	(252.2)
Dividends paid	(49.2)	—	—	—	(49.2)
Purchase of noncontrolling interest	—	—	(134.7)	—	(134.7)
Net cash provided by (used for) financing activities	(118.3)	(172.2)	20.1	245.7	(24.7)
Effect of exchange rate changes on cash and cash equivalents	—	—	(2.6)	—	(2.6)
Change in cash and cash equivalents	(0.3)	(46.6)	(7.1)	—	(54.0)
Cash and cash equivalents, beginning of period	0.5	47.0	217.6	—	265.1
Cash and cash equivalents, end of period	$0.2	$0.4	$210.5	$—	$211.1

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Pentair Ltd. and Subsidiaries
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
Three months ended March 30, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Pentair Ltd. and Subsidiaries Consolidated
Net sales	$—	$—	$1,774.5	$—	$1,774.5
Cost of goods sold	—	—	1,250.7	—	1,250.7
Gross profit	—	—	523.8	—	523.8
Selling, general and administrative	(1.0)	3.6	413.4	—	416.0
Research and development	—	—	33.5	—	33.5
Operating income (loss)	1.0	(3.6)	76.9	—	74.3
Loss (earnings) from investment in subsidiaries	(50.7)	(54.9)	—	105.6	—
Other (income) expense:					
Equity income of unconsolidated subsidiaries	—	—	(0.2)	—	(0.2)
Gain on sale of business	—	—	(16.7)	—	(16.7)
Net interest expense	0.3	2.6	14.1	—	17.0
Income (loss) before income taxes and noncontrolling interest	51.4	48.7	79.7	(105.6)	74.2
Provision (benefit) for income taxes	(0.3)	—	21.2	—	20.9
Net income (loss) before noncontrolling interest	51.7	48.7	58.5	(105.6)	53.3
Noncontrolling interest	—	—	1.6	—	1.6
Net income (loss) attributable to Pentair Ltd.	$51.7	$48.7	$56.9	$(105.6)	$51.7
Comprehensive income (loss), net of tax					
Net income (loss) before noncontrolling interest	$51.7	$48.7	$58.5	$(105.6)	$53.3
Changes in cumulative translation adjustment	(76.0)	(76.0)	(76.9)	152.0	(76.9)
Changes in market value of derivative financial instruments	0.7	0.7	0.7	(1.4)	0.7
Total comprehensive income (loss)	(23.6)	(26.6)	(17.7)	45.0	(22.9)
Less: Comprehensive income attributable to noncontrolling interest	—	—	0.7	—	0.7
Comprehensive income (loss) attributable to Pentair Ltd.	$(23.6)	$(26.6)	$(18.4)	$45.0	$(23.6)

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Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Pentair Ltd. and Subsidiaries
Condensed Consolidating Balance Sheet
December 31, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Pentair Ltd. and Subsidiaries Consolidated
Assets					
Current assets					
Cash and cash equivalents	$0.5	$47.0	$217.6	$—	$265.1
Accounts and notes receivable, net	2.9	4.0	1,391.0	(63.6)	1,334.3
Inventories	—	—	1,243.3	—	1,243.3
Other current assets	1.4	0.6	387.4	—	389.4
Total current assets	4.8	51.6	3,239.3	(63.6)	3,232.1
Property, plant and equipment, net	—	—	1,170.0	—	1,170.0
Other assets					
Investments in subsidiaries	6,224.7	8,066.6	—	(14,291.3)	—
Goodwill	—	—	5,134.2	—	5,134.2
Intangibles, net	—	—	1,776.1	—	1,776.1
Other non-current assets	31.6	1,302.7	393.3	(1,296.7)	430.9
Total other assets	6,256.3	9,369.3	7,303.6	(15,588.0)	7,341.2
Total assets	$6,261.1	$9,420.9	$11,712.9	$(15,651.6)	$11,743.3
Liabilities and Equity					
Current liabilities					
Current maturities of long-term debt and short-term borrowings	$—	$—	$2.5	$—	$2.5
Accounts payable	48.1	8.6	603.5	(63.6)	596.6
Employee compensation and benefits	0.5	—	346.6	—	347.1
Other current liabilities	99.6	11.7	552.7	—	664.0
Total current liabilities	148.2	20.3	1,505.3	(63.6)	1,610.2
Other liabilities					
Long-term debt	—	2,401.9	1,447.4	(1,296.7)	2,552.6
Pension and other post-retirement compensation and benefits	—	—	324.8	—	324.8
Deferred tax liabilities	—	2.2	578.4	—	580.6
Other non-current liabilities	17.6	—	439.8	—	457.4
Total liabilities	165.8	2,424.4	4,295.7	(1,360.3)	5,525.6
Equity					
Shareholders’ equity attributable to Pentair Ltd. and subsidiaries	6,095.3	6,996.5	7,294.8	(14,291.3)	6,095.3
Noncontrolling interest	—	—	122.4	—	122.4
Total equity	6,095.3	6,996.5	7,417.2	(14,291.3)	6,217.7
Total liabilities and equity	$6,261.1	$9,420.9	$11,712.9	$(15,651.6)	$11,743.3

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Pentair Ltd. and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Pentair Ltd. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
Three months ended March 30, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Pentair Ltd. and Subsidiaries Consolidated
Operating activities					
Net cash provided by (used for) operating activities	$95.1	$50.9	$(20.1)	$(106.0)	$19.9
Investing activities					
Capital expenditures	—	—	(49.7)	—	(49.7)
Proceeds from sale of property and equipment	—	—	0.9	—	0.9
Proceeds from sale of businesses, net	—	—	30.0	—	30.0
Other	—	—	0.3	—	0.3
Net cash provided by (used for) investing activities	—	—	(18.5)	—	(18.5)
Financing activities					
Net receipts (repayments) of short-term borrowings	—	—	2.9	—	2.9
Net receipts (repayments) of commercial paper and revolving long-term debt	—	102.6	37.0	—	139.6
Repayments of long-term debt	—	—	(1.7)	—	(1.7)
Debt issuance costs	—	(1.1)	(0.2)	—	(1.3)
Net change in advances to subsidiaries	(47.9)	(152.4)	94.3	106.0	—
Shares issued to employees, net of shares withheld	—	—	11.8	—	11.8
Repurchases of common shares	—	—	(140.3)	—	(140.3)
Dividends paid	(47.2)	—	—	—	(47.2)
Distributions to noncontrolling interest	—	—	(2.0)	—	(2.0)
Net cash provided by (used for) financing activities	(95.1)	(50.9)	1.8	106.0	(38.2)
Effect of exchange rate changes on cash and cash equivalents	—	—	(10.0)	—	(10.0)
Change in cash and cash equivalents	—	—	(46.8)	—	(46.8)
Cash and cash equivalents, beginning of period	—	—	261.3	—	261.3
Cash and cash equivalents, end of period	$—	$—	$214.5	$—	$214.5

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

Forward-looking Statements

This report contains statements that we believe to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact are forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets," "plans," "believes," "expects," "intends," "will," "likely," "may," "anticipates," "estimates," "projects," "should," "would," "positioned" or words, phrases or terms of similar substance or the negative thereof, are forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include the ability to successfully complete the Redomicile (as defined below) and achieve the expected benefits from the Redomicile; the ability to successfully integrate Pentair, Inc. and the Flow Control (as defined below) business and achieve expected benefits from the Merger (as defined below); overall global economic and business conditions; competition and pricing pressures in the markets we serve; the strength of housing and related markets; volatility in currency exchange rates and commodity prices; inability to generate savings from excellence in operations initiatives consisting of lean enterprise, supply management and cash flow practices; increased risks associated with operating foreign businesses; the ability to deliver backlog and win future project work; failure of markets to accept new product introductions and enhancements; the impact of changes in laws and regulations, including those that limit U.S. tax benefits; the outcome of litigation and governmental proceedings; and the ability to achieve our long-term strategic operating goals. Additional information concerning these and other factors is contained in our filings with the U.S. Securities and Exchange Commission ("SEC"), including in our 2013 Annual Report on Form 10-K. All forward-looking statements speak only as of the date of this report. Pentair Ltd. assumes no obligation, and disclaims any obligation, to update the information contained in this report.

Overview

Pentair Ltd. is a company organized under the laws of Switzerland. The terms "us," "we" or "our" refer to Pentair Ltd. and its consolidated subsidiaries and the term "Flow Control" refers to Pentair Ltd. prior to the Merger (defined below). Our business took its current form on September 28, 2012 as a result of a reverse acquisition (the "Merger") involving Pentair, Inc. and an indirect, wholly-owned subsidiary of Flow Control, with Pentair, Inc. surviving as an indirect, wholly-owned subsidiary of ours. Prior to the Merger, Tyco International Ltd. ("Tyco") engaged in an internal restructuring whereby it transferred to Flow Control certain assets related to the flow control business of Tyco, and Flow Control assumed from Tyco certain liabilities related to the flow control business of Tyco. On September 28, 2012 prior to the Merger, Tyco effected a spin-off of Flow Control through the pro-rata distribution of 100% of the outstanding common shares of Flow Control to Tyco's shareholders (the "Distribution"), resulting in the distribution of 110.9 million of our common shares to Tyco's shareholders. The Merger was accounted for as a reverse acquisition under the purchase method of accounting with Pentair, Inc. treated as the acquirer.

We are a focused diversified industrial manufacturing company comprising four reporting segments: Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions. During the fourth quarter of 2013, we reorganized our business segments to reflect a new operating structure and management of our Global Business Units, resulting in a change from three reporting segments to four. All prior period amounts related to the segment change have been retrospectively reclassified throughout this Quarterly Report on Form 10-Q to conform to the new presentation. For the first three months of 2014, Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions represented approximately 31 percent, 24 percent, 21 percent and 24 percent of total revenues, respectively. We classify our operations into business segments based primarily on types of products offered and markets served:

- Valves & Controls — The Valves & Controls segment designs, manufactures, markets and services valves, fittings, automation and controls and actuators for the energy and industrial verticals and operates as a stand-alone Global

Business Unit ("GBU").

- Process Technologies — The Process Technologies segment designs, manufactures, markets and services innovative water system products and solutions to meet filtration, separation and fluid process management challenges in food and beverage, water, wastewater, swimming pools and aquaculture applications. The Filtration & Process and Aquatic Systems GBUs comprise this segment.

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- Flow Technologies — The Flow Technologies segment designs, manufactures and markets products and services designed for the transfer and flow of clean water, wastewater and a variety of industrial applications. The Flow Technologies segment operates as a stand-alone GBU.
- Technical Solutions — The Technical Solutions segment designs, manufactures, markets and services products that guard and protect some of the world's most sensitive electronics and electronic equipment, as well as heat management solutions designed to provide thermal protection to temperature sensitive fluid applications. The Technical Solutions segment operates as a stand-alone GBU.

Key Trends and Uncertainties Regarding Our Existing Business

The following trends and uncertainties affected our financial performance in 2013 and the first three months of 2014 and will likely impact our results in the future:

- In September 2012, we completed the Merger. With an acquisition of this magnitude and complexity, there are uncertainties and risks associated with realizing the amount and timing of anticipated growth opportunities and cost and tax synergies as described in ITEM 1A – Risk Factors of our 2013 Annual Report on Form 10-K.
- We have identified specific product and geographic market opportunities that we find attractive and continue to pursue, both within and outside the United States. We are reinforcing our businesses to more effectively address these opportunities through research and development and additional sales and marketing resources. Unless we successfully penetrate these markets, our organic growth will likely be limited.
- Despite the overall strength of our end-markets, we experience differing levels of volatility depending on the end-market and may continue to do so over the medium and longer term. While we believe the general trends are favorable, factors specific to each of our major end-markets may negatively affect the capital spending plans of our customers and lead to lower sales volumes for us.
- Economic uncertainty in Australia has negatively impacted business results and may continue to do so for the foreseeable future.
- Through 2013 and the first three months of 2014, we experienced material and other cost inflation. We strive for productivity improvements, and we implement increases in selling prices to help mitigate this inflation. We expect the current economic environment will result in continuing price volatility for many of our raw materials. Commodity prices have begun to moderate, but we are uncertain as to the timing and impact of these market changes.
- We have a long-term goal to consistently generate free cash flow that equals or exceeds 100 percent of our net income. We define free cash flow as cash flow from operating activities less capital expenditures plus proceeds from sale of property and equipment. Our free cash flow for the full year 2013 was $751.3 million. Our free cash flow for the first three months of 2014 was a usage of $26.2 million; we continue to expect to generate free cash flow in excess of 100 percent of our net income in 2014. We are continuing to target reductions in working capital, particularly inventory as a percentage of sales. See the discussion of "Other financial measures" under "Liquidity and Capital Resources" in this report for a reconciliation of our free cash flow.

In 2014, our operating objectives include the following:

- Continued integration of Pentair, Inc. and the Flow Control business;
- Increasing our presence in both fast growth and developed regions and vertical focus to grow in those markets in which we have competitive advantages;
- Focusing on developing global talent in light of our increased global presence;
- Optimizing our technological capabilities to increasingly generate innovative new products; and
- Driving operating excellence through lean enterprise initiatives, with specific focus on sourcing and supply management, cash flow management and lean operations.

We may seek to meet our objectives of expanding our geographic reach internationally and expanding our presence in our various channels to market by acquiring technologies and products to broaden our businesses' capabilities to serve additional

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markets and through acquisitions. We may also consider the divestiture of discrete business units to further focus our businesses on our most attractive markets.

Proposed Redomicile

On December 10, 2013, Pentair Ltd. entered into a Merger Agreement (the “Merger Agreement”) with Pentair plc, a newly-formed Irish public limited company and subsidiary of Pentair (“Pentair-Ireland”). Under the Merger Agreement, and subject to the conditions set forth in the Merger Agreement, Pentair will merge with and into Pentair-Ireland, with Pentair-Ireland being the surviving company (the “Redomicile”), thereby changing the jurisdiction of organization of the publicly-traded parent company from Switzerland to Ireland. Pentair shareholders will receive one ordinary share of Pentair-Ireland for each common share of Pentair held immediately prior to the Redomicile.

Upon completion of the Redomicile, Pentair-Ireland intends to manage its affairs so that it is centrally managed and controlled in the United Kingdom (the “U.K.”) and therefore have its tax residency in the U.K. Pentair-Ireland will continue to own and conduct the same businesses as Pentair owned and conducted prior to the Merger, except that Pentair-Ireland will replace Pentair as the publicly-traded parent company. Pentair-Ireland will remain subject to U.S. Securities and Exchange Commission (“SEC”) reporting requirements and the applicable corporate governance rules of the New York Stock Exchange ("NYSE").

The Redomicile is subject to Pentair shareholder approval of the Merger Agreement and certain other conditions. Pentair’s shareholders will be asked to vote to approve the Merger Agreement at an extraordinary general meeting of shareholders to be held on May 20, 2014.

We anticipate that having our publicly-traded parent company incorporated in Ireland and tax resident in the U.K. will provide us the following benefits:

- Incorporation of our publicly-traded parent company in Ireland would enable us to benefit by being subject to a legal and regulatory structure in a jurisdiction with a well-developed legal system and corporate law with established standards of corporate governance.
- The U.K. has a developed, stable and internationally competitive tax system.
- The legal requirements we will be subject to as a company incorporated in Ireland, listed on the NYSE and subject to SEC disclosure and shareholder voting requirements strike the right balance between robust external governance oversight and regulation of our executive and director pay practices and the ability of our compensation committee consisting of independent directors to determine executive compensation to provide incentives to our executive management and to offer competitive salaries and benefits.

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CONSOLIDATED RESULTS OF OPERATIONS

The consolidated results of operations for the three months ended March 29, 2014 and March 30, 2013 were as follows:

In millions	Three months ended March 29, 2014		March 30, 2013		$ change		% / point change	
Net sales	$1,725.2		$1,774.5		$(49.3	)	(2.8	)%
Cost of goods sold	1,146.9		1,250.7		(103.8	)	(8.3	)%
Gross profit	578.3		523.8		54.5		10.4	%
% of net sales	33.5	%	29.5	%			4.0	pts
Selling, general and administrative	368.4		416.0		(47.6	)	(11.4	)%
% of net sales	21.4	%	23.4	%			(2.0	) pts
Research and development	30.0		33.5		(3.5	)	(10.4	)%
% of net sales	1.7	%	1.9	%			(0.2	) pts
Operating income	179.9		74.3		105.6		142.1	%
% of net sales	10.4	%	4.2	%			6.2	pts
Loss (gain) on sale of businesses	8.0		(16.7	)	24.7		(147.9	)%
Net interest expense	15.7		17.0		(1.3	)	(7.6	)%
Net income before income taxes and noncontrolling interest	156.6		74.2		82.4		111.1	%
Provision for income taxes	38.0		20.9		17.1		81.8	%
Effective tax rate	24.3	%	28.2	%			(3.9	) pts

Net sales

The components of the consolidated net sales change from the prior period were as follows:

	Three months ended March 29, 2014 over the prior year period	
Volume	(0.9	)%
Acquisition (divestiture)	(0.7	)
Price	0.6	
Currency	(1.8	)
Total	(2.8	)%

The 2.8 percent decrease in consolidated net sales in the first quarter of 2014 from 2013 was primarily driven by:

- decreased sales volume in Valves & Controls;
- unfavorable foreign currency effects;
- Australian project revenue realized in the first quarter of 2013 that did not recur in 2014; and
- loss of revenue related to the 2013 divestiture of businesses in Technical Solutions and Flow Technologies.

These decreases were partially offset by:

- organic sales growth in Process Technologies related to higher sales of certain pool products primarily serving the North American residential housing market and increased demand for global food & beverage solutions; and
- selective increases in selling prices to mitigate inflationary cost increases.

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Gross profit

The 4.0 percentage point increase in gross profit as a percentage of sales in the first quarter of 2014 from 2013 was primarily driven by:

- a decrease in cost of goods sold of $76.8 million in the first quarter of 2013 as a result of inventory fair value step-up and customer backlog recorded as part of the Merger purchase accounting that did not recur in the first quarter of 2014;
- higher contribution margin as a result of savings generated from our Pentair Integrated Management System ("PIMS") initiatives including lean and supply management practices; and
- selective increases in selling prices across all business segments to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases related to raw materials and labor costs; and
- Australian project revenue realized in the first quarter of 2013 that did not recur in 2014.

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

The 2.0 percentage point decrease in SG&A expense as a percentage of sales in the first quarter of 2014 from 2013 was primarily driven by:

- savings generated from back-office consolidation, reduction in personnel and other lean initiatives.

These decreases were partially offset by:

- lower sales volume and the resultant loss of leverage on fixed operating expenses.

Research and development ("R&D")

The 0.2 percentage point decrease in R&D expense as a percentage of sales in the first quarter of 2014 from 2013 was primarily driven by:

- increased sales volume in Process Technologies and Technical Solutions, which resulted in increased leverage on R&D expenses.

These decreases were partially offset by:

- continued investments in innovative new products for future growth.

Loss (gain) on sale of businesses

During the first quarter of 2014 we sold a business that was part of Flow Technologies, resulting in a loss of $8.0 million.

During the first quarter of 2013 we sold a business that was part of Technical Solutions for a cash purchase price of $30.0 million, net of transaction costs, resulting in a net gain of $16.7 million recorded during the first quarter of 2013. An additional $0.1 million was received as part of a working capital adjustment in the third quarter of 2013, resulting in a final gain on sale of $16.8 million.

Net interest expense

The 7.6 percent decrease in net interest expense in the first quarter of 2014 from 2013 was primarily driven by:

- reduced overall interest rates in effect on our outstanding debt.

The decrease was partially offset by:

- the impact of higher debt levels.

Provision for income taxes

The 3.9 percentage point decrease in the effective tax rate in the first quarter of 2014 from 2013 was primarily driven by:

- the mix of global earnings toward lower tax jurisdictions; and
- the timing of losses in jurisdictions where we recognize no tax benefits.

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The decrease was partially offset by:
- the unfavorable impact of the expiration of certain provisions of the U.S. Internal Revenue Code.

SEGMENT RESULTS OF OPERATIONS
This summary that follows provides a discussion of the results of operations of each of our four reportable segments (Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions). Each of these segments is comprised of various product offerings that serve multiple end markets.
Valves & Controls
The net sales and operating income (loss) for Valves & Controls for the three months ended March 29, 2014 and March 30, 2013 were as follows:

In millions	Three months ended March 29, 2014	Three months ended March 30, 2013	% / point change
Net sales	$534.8	$585.8	(8.7)%
Operating income (loss)	52.2	(18.6)	(380.6)%
% of net sales	9.8%	(3.2)%	13.0 pts

Net sales
The components of the change in Valves & Controls net sales from the prior period were as follows:

	Three months ended March 29, 2014 over the prior year period
Volume	(7.3)%
Acquisition (divestiture)	—
Price	0.4
Currency	(1.8)
Total	(8.7)%

The 8.7 percent decrease in net sales for Valves & Controls in the first quarter of 2014 from 2013 was primarily driven by:
- decreased sales volume related to lower shipments for both our energy and industrial products; and
- unfavorable foreign currency effects.

These decreases were partially offset by:
- selective increases in selling prices to mitigate inflationary cost increases.

Operating income (loss)
The 13.0 percentage point increase in operating income for Valves & Controls as a percentage of net sales in the first quarter of 2014 from 2013 was primarily driven by:
- a decrease in cost of goods sold of $70.6 million in the first quarter of 2013 as a result of inventory fair value step-up and customer backlog recorded as part of the Merger purchase accounting, which did not recur in the first quarter of 2014; and
- savings generated from our PIMS initiatives, including lean and supply management practices.

These increases were offset by:
- sales volume related to lower shipments for both our energy and industrial products;
- restructuring costs of $9.8 million in the first quarter of 2014, compared to $4.8 million in the first quarter of 2013; and
- costs related to the operational model transformation ("OMT") investment in the first quarter of 2014.

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Process Technologies

The net sales and operating income for Process Technologies for the three months ended March 29, 2014 and March 30, 2013 were as follows:

In millions	Three months ended March 29, 2014	Three months ended March 30, 2013	% / point change
Net sales	$418.3	$396.6	5.5 %
Operating income	46.3	43.4	6.7 %
% of net sales	11.1 %	10.9 %	0.2 pts

Net sales

The components of the change in Process Technologies net sales from the prior period were as follows:

	Three months ended March 29, 2014 over the prior year period
Volume	5.3 %
Acquisition (divestiture)	—
Price	0.9
Currency	(0.7)
Total	5.5 %

The 5.5 percent increase in net sales for Process Technologies in the first quarter of 2014 from 2013 was primarily driven by:

- organic sales growth related to higher sales of certain pool products primarily serving the North American residential housing market and increased demand for global food & beverage solutions;
- growth in developed regions led by strength in the United States and Western Europe; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- sales declines in our energy and industrial businesses;
- weak sales in the emerging geographies of Eastern Europe, Southeast Asia and the Middle East; and
- unfavorable foreign currency effects.

Operating income

The 0.2 percentage point increase in operating income for Process Technologies as a percentage of net sales in the first quarter of 2014 from 2013 was primarily driven by:

- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases related to certain raw materials.

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Flow Technologies

The net sales and operating income for Flow Technologies for the three months ended March 29, 2014 and March 30, 2013 were as follows:

In millions	Three months ended March 29, 2014	Three months ended March 30, 2013	% / point change
Net sales	$364.1	$390.6	(6.8)%
Operating income	27.5	31.4	(12.4)%
% of net sales	7.5 %	8.0 %	(0.5) pts

Net sales

The components of the change in Flow Technologies net sales from the prior period were as follows:

	Three months ended March 29, 2014 over the prior year period
Volume	(1.1)%
Acquisition (divestiture)	(1.5)
Price	(0.2)
Currency	(4.0)
Total	(6.8)%

The 6.8 percent decrease in net sales for Flow Technologies in the first quarter of 2014 from 2013 was primarily driven by:

- unfavorable foreign currency effects;
- Australian project revenue realized in the first quarter of 2013 that did not recur in 2014; and
- loss of revenue related to the divestiture of Flow Technologies businesses in the second half of 2013.

These decreases were partially offset by:

- higher sales in the United States and Western Europe in our industrial and commercial businesses.

Operating income

The 0.5 percentage point decrease in operating income for Flow Technologies as a percentage of net sales in the first quarter of 2014 from 2013 was primarily driven by:

- inflationary increases related to labor costs and certain raw materials;
- Australian project revenue realized in the first quarter of 2013 that did not recur in 2014; and
- restructuring costs of $8.2 million in the first quarter of 2014, compared to $5.0 million in the first quarter of 2013.

These decreases were partially offset by:

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

Technical Solutions

The net sales and operating income for Technical Solutions for the three months ended March 29, 2014 and March 30, 2013 were as follows:

In millions	Three months ended March 29, 2014	Three months ended March 30, 2013	% / point change
Net sales	$415.3	$410.0	1.3 %
Operating income	76.2	53.3	43.0 %
% of net sales	18.4 %	13.0 %	5.4 pts

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Net sales

The components of the change in Technical Solutions net sales from the prior period were as follows:

	Three months ended March 29, 2014 over the prior year period	
Volume	2.4	%
Acquisition (divestiture)	(1.6	)
Price	1.2	
Currency	(0.7	)
Total	1.3	%

The 1.3 percent increase in net sales for Technical Solutions in the first quarter of 2014 from 2013 was primarily driven by:

- higher sales volume in the United States and Western Europe; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- a weak Canadian market;
- loss of revenue related to the divestiture of a business at the end of the first quarter of 2013; and
- unfavorable foreign currency effects.

Operating income

The 5.4 percentage point increase in operating income for Technical Solutions as a percentage of net sales in the first quarter of 2014 from 2013 was primarily driven by:

- restructuring costs of $2.6 million in the first quarter of 2014, compared to $10.3 million in the first quarter of 2013;
- a decrease in cost of goods sold of $5.7 million in the first quarter of 2013 as a result of inventory fair value step-up and customer backlog recorded as part of the Merger purchase accounting that did not recur in the first quarter of 2014;
- savings generated from our PIMS initiatives including lean and supply management practices; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases related to labor costs and certain raw material.

LIQUIDITY AND CAPITAL RESOURCES

We generally fund cash requirements for working capital, capital expenditures, equity investments, acquisitions, debt repayments, dividend payments and share repurchases from cash generated from operations, availability under existing committed revolving credit facilities and in certain instances, public and private debt and equity offerings. We have grown our businesses in significant part in the past through acquisitions financed by credit provided under our revolving credit facilities and from time to time, by private or public debt and equity issuances. Our primary revolving credit facilities have generally been adequate for these purposes, although we have negotiated additional credit facilities as needed to allow us to complete acquisitions. We intend to issue commercial paper to fund our financing needs on a short-term basis and to use our revolving credit facility as back-up liquidity to support commercial paper. We are focusing on increasing our cash flow and repaying existing debt, while continuing to fund our research and development, marketing and capital investment initiatives. Our intent is to maintain investment grade ratings and a solid liquidity position.

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

Operating activities

Cash provided by operating activities was $0.6 million in the first three months of 2014 compared to cash provided by operating activities of $19.9 million in the same period of 2013.

The $0.6 million in net cash provided by operating activities in the first three months of 2014 primarily reflects an increase in net working capital. Operating cash flows in the first three months of 2014 were negatively impacted by $184.3 million due to the increase in net working capital, primarily the result of increases in accounts receivable due to increased sales and increases in inventories in anticipation of our peak sales season in the second and third quarters. The increase in net working capital was offset by $193.3 million of net income before noncontrolling interest, net of non-cash depreciation and amortization and the loss on sale of a business within Flow Technologies.

The $19.9 million in net cash provided by operating activities in the first three months of 2013 primarily reflects an increase in net working capital. Operating cash flows in the first three months of 2013 were negatively impacted by $117.9 million due to the increase in net working capital, primarily the result of increases in accounts receivable due to increased sales. The increase in net working capital was offset by $116.5 million of net income before noncontrolling interest, net of non-cash depreciation and amortization and the gain on sale of a business within Technical Solutions.

Investing activities

Cash used for investing activities was $27.3 million in the first three months of 2014 compared to cash used for investing activities of $18.5 million in the same period of 2013. Net cash used for investing activities in the first three months of 2014 primarily relates to capital expenditures of $27.2 million.

Net cash used for investing activities in the first three months of 2013 relates primarily to $49.7 million of capital expenditures, offset by $30.0 million of proceeds, net of transaction costs, from the sale of a business within Technical Solutions.

Capital expenditures in the first three months of 2014 were $27.2 million compared with $49.7 million in the prior year period. We anticipate capital expenditures for fiscal 2014 to be approximately $185 million, primarily for capacity expansions of manufacturing facilities located in our low-cost countries, developing new products and general maintenance.

Financing activities

Net cash used for financing activities was $24.7 million in the first three months of 2014 compared with net cash used for financing activities of $38.2 million in the prior year period. Net cash used for financing activities in the first three months of 2014 included share repurchases, the acquisition of the remaining 19.9 percent ownership interest in Pentair Residential Filtration as part of Process Technologies and payment of dividends, partially offset by net receipts from commercial paper and revolving long-term debt. Net cash used for financing activities in the first three months of 2013 included share repurchases and payment of dividends, partially offset by net receipts of commercial paper and revolving long-term debt.

The 1.35% Senior Notes due 2015, 1.875% Senior Notes due 2017, 2.65% Senior Notes due 2019, 3.15% Senior Notes due 2022 and $373.0 million of the 5.00% Senior Notes due 2021 (collectively, the “Notes”) were all issued in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. In March 2013, Pentair Ltd. and our 100 percent-owned subsidiary, Pentair Finance S.A. (“PFSA”), filed a Registration Statement with the SEC offering to exchange the Notes for new, registered Notes. The exchange offer expired on April 19, 2013 and did not impact the aggregate principle amount or the terms of the Notes outstanding. The new, registered Notes issued in such exchange offer are guaranteed as to payment by Pentair Ltd.

In September 2012, Pentair, Inc. entered into a credit agreement providing for an unsecured, committed revolving credit facility (the "Credit Facility") with initial maximum aggregate availability of up to $1,450.0 million. Upon the completion of the Merger, Pentair Ltd. became the guarantor under the Credit Facility and PFSA and certain other of our subsidiaries became affiliate borrowers under the Credit Facility. Borrowings under the Credit Facility generally bear interest at a variable rate equal to the London Interbank Offered Rate plus a specified margin based upon PFSA's credit ratings. PFSA must also pay a facility fee ranging from 10.0 to 30.0 basis points per annum (based upon PFSA's credit ratings) on the amount of each lender's commitment. PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. PFSA uses the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. As of March 29,

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2014 and December 31, 2013, we had $896.3 million and $528.9 million, respectively, of commercial paper outstanding, all of which was classified as long-term as we have the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

Total availability under the Credit Facility was $539.2 million as of March 29, 2014, which was not limited by any covenants contained in the Credit Facility’s credit agreement.

Our debt agreements contain certain financial covenants, the most restrictive of which are in the Credit Facility, including that we may not permit (i) the ratio of our consolidated debt plus synthetic lease obligations to our consolidated net income (excluding, among other things, non-cash gains and losses) before interest, taxes, depreciation, amortization, non-cash share-based compensation expense, and up to $40.0 million of costs and expenses incurred in connection with the Merger (“EBITDA”) for the four consecutive fiscal quarters then ended (the “Leverage Ratio”) to exceed 3.50 to 1.00 on the last day of each fiscal quarter, and (ii) the ratio of our EBITDA for the four consecutive fiscal quarters then ended to our consolidated interest expense, including consolidated yield or discount accrued as to outstanding securitization obligations (if any), for the same period to be less than 3.00 to 1.00 as of the end of each fiscal quarter. For purposes of the Leverage Ratio, the Credit Facility provides for the calculation of EBITDA giving pro forma effect to the Merger and certain acquisitions, divestitures and liquidations during the period to which such calculation relates. As of March 29, 2014, we were in compliance with all financial covenants in our debt agreements.

In anticipation of the Redomicile, PFSA entered into an amendment to the Credit Facility on April 22, 2014. Pursuant to this amendment, the lenders consented to the Redomicile and PFSA agreed Pentair-Ireland would become a guarantor under the Credit Facility effective upon the completion of the Redomicile. We are in the process of completing documentation that would require Pentair-Ireland to become a guarantor of the PFSA and Pentair, Inc. senior notes that are currently outstanding effective upon completion of the Redomicile.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $86.2 million, of which none was outstanding at March 29, 2014. Borrowings under these credit facilities bear interest at variable rates.

As of March 29, 2014, we have $76.3 million of cash held in certain countries in which the ability to repatriate is limited due to local regulations or significant potential tax consequences.

We expect to continue to have cash requirements to support working capital needs and capital expenditures, to pay interest and service debt and to pay dividends to shareholders quarterly. We believe we have the ability and sufficient capacity to meet these cash requirements by using available cash and internally generated funds and to borrow under our committed and uncommitted credit facilities.

Prior to the closing of the Merger, our board of directors, and Tyco as our sole shareholder, authorized the repurchase of our common shares with a maximum aggregate value of $400.0 million following the closing of the Merger. In October 2012, our board of directors authorized the repurchase of our common shares with a maximum aggregate value of $800.0 million. This authorization expires on December 31, 2015 and is in addition to the $400.0 million share repurchase authorization. There is no remaining availability for repurchase under these 2012 authorizations. In December 2013, our board of directors authorized the repurchase of our common shares up to a maximum dollar limit of $1.0 billion. This authorization expires on December 31, 2016 and is in addition to the combined $1.2 billion prior share repurchase authorization.

During the three months ended March 29, 2014, we repurchased 3.5 million of our common shares for $269.6 million pursuant to these authorizations. As of March 29, 2014, we had $880.4 million remaining available for share repurchases under the December 2013 authorization.

We paid dividends in the first three months of 2014 of $49.2 million, or $0.25 per common share, compared with $47.2 million, or $0.23 per common share, in the prior year period. At our 2013 annual meeting of shareholders held on April 29, 2013, our shareholders approved a proposal to pay quarterly cash dividends through the second quarter of 2014. The authorization provided that dividends of $1.00 per share be made in quarterly installments of $0.25 for each of the third and fourth quarters of 2013 and first and second quarters of 2014 and we expect to continue paying dividends on a quarterly basis.

On February 25, 2014, our board of directors recommended that our shareholders approve at the 2014 annual general meeting of shareholders a proposal to pay quarterly cash dividends through the second quarter of 2015. The proposal provides that dividends of $1.20 per share will be made out of our Capital contribution reserve to shareholders in quarterly installments of $0.30 per share for each of the third and fourth quarters of 2014 and the first and second quarters of 2015.

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Other financial measures

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

The following table is a reconciliation of free cash flow:

In millions	Three months ended March 29, 2014	Three months ended March 30, 2013
Net cash provided by (used for) operating activities	$0.6	$19.9
Capital expenditures	(27.2)	(49.7)
Proceeds from sale of property and equipment	0.4	0.9
Free cash flow	$(26.2)	$(28.9)

CRITICAL ACCOUNTING POLICIES

In our 2013 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not changed these policies from those previously disclosed in our Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the quarter ended March 29, 2014. For additional information, refer to Item 7A of our 2013 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended March 29, 2014 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarter ended March 29, 2014 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

(b) Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the quarter ended March 29, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

There have been no material developments from the disclosures contained in our 2013 Annual Report on Form 10-K.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in ITEM 1A. of our 2013 Annual Report on Form 10-K.

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

The following table provides information with respect to purchases we made of our common shares during the first quarter of 2014:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Dollar value of shares that may yet be purchased under the plans or programs
January 1 — January 25, 2014	1,064,122	$76.63	1,033,000	$1,070,878,251
January 26 — February 22, 2014	947,041	75.15	946,639	1,000,000,039
February 23 — March 29, 2014	1,508,684	79.76	1,500,000	880,378,211
Total	3,519,847		3,479,639	

(a) The purchases in this column include 31,122 shares for the period January 1 — January 25, 2014, 402 shares for the period January 26 — February 22, 2014 and 8,684 shares for the period February 23 — March 29, 2014 deemed surrendered to us by participants in our 2012 Stock and Incentive Plan (the “2012 Plan”) and earlier stock incentive plans that are now outstanding under the 2012 Plan (collectively “the Plans”) to satisfy the exercise price or withholding of tax obligations related to the exercise of stock options and vesting of restricted shares.

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

(c) The number of shares in this column represents the number of shares repurchased as part of our publicly announced plans to repurchase our common shares up to a maximum dollar limit of $2.2 billion.

(d) Prior to the closing of the Merger, our board of directors, and Tyco as our sole shareholder, authorized the repurchase of our common shares with a maximum aggregate value of $400 million following the closing of the Merger. This authorization does not have an expiration date. In October 2012, our board of directors authorized the repurchase of our common shares with a maximum aggregate value of $800 million. This authorization expires on December 31, 2015 and is in addition to the $400 million share repurchase authorization. There is no remaining availability for repurchase under the 2012 authorizations of $1.2 billion. In December 2013, our board of directors authorized the repurchase of our common shares up to a maximum dollar limit of $1.0 billion. This authorization expires on December 31, 2016 and is in addition to the combined $1.2 billion prior share repurchase authorizations.

ITEM 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 22, 2014.

PENTAIR LTD.
Registrant

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

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

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Exhibit Index to Form 10-Q for the Period Ended March 29, 2014

2	Merger Agreement, dated December 10, 2013, between Pentair Ltd. and Pentair plc (Incorporated by reference to Exhibit 2.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on December 10, 2013 (File No. 011-11625)).
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Pentair Ltd.'s Quarterly Report on Form 10-Q for the quarter ended March 29, 2014 are filed herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 29, 2014 and March 30, 2013, (ii) the Condensed Consolidated Balance Sheets as of March 29, 2014 and December 31, 2013, (iii) the Condensed Consolidated Statements of Cash Flows for the three months ended March 29, 2014 and March 30, 2013, (iv) the Condensed Consolidated Statements of Changes in Equity for the three months ended March 29, 2014 and March 30, 2013, and (v) Notes to Condensed Consolidated Financial Statements.