

OMNICOM GROUP INC.  
Form 10-Q  
July 22, 2014

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

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FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

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Commission File Number: 1-10551

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OMNICOM GROUP INC.  
(Exact name of registrant as specified in its charter)

New York 13-1514814  
(State or other jurisdiction of incorporation or (IRS Employer Identification No.)  
organization)

437 Madison Avenue, New York, New York 10022  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 415-3600

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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As of July 15, 2014, there were 251,157,165 shares of Omnicom Group Inc. Common Stock outstanding.

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OMNICOM GROUP INC.  
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, including statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, from time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of the Company's management as well as assumptions made by, and information currently available to the Company's management. Forward-looking statements may be accompanied by words such as "aim," "anticipate," "believe," "plan," "could," "would," "should," "estimate," "expect," "forecast," "future," "guidance," "intention," "possible," "potential," "predict," "project" or similar words, phrases or expressions. These forward-looking statements are subject to various risks and uncertainties, many of which are outside the Company's control. Therefore, you should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include international, national or local economic, social or political conditions that could adversely affect the Company or its clients; losses on media purchases and production costs incurred on behalf of clients; reductions in client spending, a slowdown in client payments and changes in client communications requirements; failure to manage potential conflicts of interest between or among clients; unanticipated changes relating to competitive factors in the advertising, marketing and corporate communications industries; ability to hire and retain key personnel; ability to attract new clients and retain existing clients in the manner anticipated; reliance on information technology systems; changes in legislation or governmental regulations affecting the Company or its clients; conditions in the credit markets; risks associated with assumptions the Company makes in connection with its critical accounting estimates and legal proceedings; and the Company's international operations, which are subject to the risks of currency fluctuation and currency repatriation restrictions. The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that affect the Company's

business, including those described in the “Risk Factors” in Omnicom's Annual Report on Form 10-K, Current Reports on Form 8-K and other documents filed from time to time with the SEC. Except as required under applicable law, the Company does not assume any obligation to update these forward-looking statements.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

OMNICOM GROUP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In millions)

	June 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$1,534.7	\$2,710.5
Short-term investments, at cost	9.9	18.2
Accounts receivable, net of allowance for doubtful accounts of \$30.6 and \$32.6	6,499.2	6,632.6
Work in process	1,462.9	1,288.0
Other current assets	1,039.8	1,003.0
Total Current Assets	10,546.5	11,652.3
Property and Equipment at cost, less accumulated depreciation of \$1,277.1 and \$1,230.1	737.2	737.4
Equity Method Investments	155.9	131.8
Goodwill	9,092.4	8,916.0
Intangible Assets, net of accumulated amortization of \$597.1 and \$552.3	402.1	386.0
Other Assets	285.3	275.2
<b>TOTAL ASSETS</b>	<b>\$21,219.4</b>	<b>\$22,098.7</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$8,015.4	\$8,358.9
Customer advances	1,169.5	1,242.2
Current portion of debt	253.1	0.4
Short-term borrowings	24.7	5.9
Taxes payable	162.1	293.3
Other current liabilities	2,186.3	2,377.0
Total Current Liabilities	11,811.1	12,277.7
Long-Term Notes Payable	3,785.2	3,780.7
Convertible Debt	—	252.7
Long-Term Liabilities	733.7	685.1
Long-Term Deferred Tax Liabilities	745.1	832.6
Commitments and Contingent Liabilities (See Note 12)		
Temporary Equity - Redeemable Noncontrolling Interests	195.7	202.0
Equity:		
Shareholders' Equity:		
Preferred stock	—	—
Common stock	59.6	59.6
Additional paid-in capital	854.3	817.1
Retained earnings	9,257.1	8,961.2
Accumulated other comprehensive income (loss)	(96.5)	(191.6)
Treasury stock, at cost	(6,618.2)	(6,063.9)
Total Shareholders' Equity	3,456.3	3,582.4
Noncontrolling interests	492.3	485.5
Total Equity	3,948.6	4,067.9

TOTAL LIABILITIES AND EQUITY	\$21,219.4	\$22,098.7
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The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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OMNICOM GROUP INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In millions, except per share amounts)  
 (Unaudited)

	Three Months Ended		Six Months Ended June 30,	
	June 30, 2014	2013	2014	2013
Revenue	\$3,870.9	\$3,637.0	\$7,373.0	\$
Operating Expenses	3,322.5	3,114.0	6,441.9	6,141.1
Operating Income	548.4	523.0	931.1	894.8
Interest Expense	45.5	49.2	93.1	98.2
Interest Income	11.8	8.5	20.4	16.5
Income Before Income Taxes and Income From Equity Method Investments	514.7	482.3	858.4	813.1
Income Tax Expense	160.3	163.6	276.5	272.7
Income From Equity Method Investments	4.0	2.9	4.6	6.1
Net Income	358.4	321.6	586.5	546.5
Net Income Attributed To Noncontrolling Interests	(33.2 )	(32.1 )	(55.8 )	(51.8 )
Net Income - Omnicom Group Inc.	\$325.2	\$289.5	\$530.7	\$
Net Income Per Share - Omnicom Group Inc.:				
Basic	\$1.24	\$1.09	\$2.02	

### Purchase of Stock

Funds contributed under the Outside Directors Plan are used to purchase shares in the open market. There is no limit on the number of shares of Common Stock that may be purchased. Shares purchased are not allocated to the directors and the directors do not have

shares are held by Pentair as an investment to assist the Company to meet its needs as they arise from time to time.

### **Distributions**

Upon making an election to defer the Board retainer or other fees and before receiving compensation, the director must make an irrevocable election of the time when the director may elect one or more of the following options: (i) a specific date; (ii) the occurrence of an identified event, such as retirement, resignation, death, disability or termination from Pentair. Deferred compensation and equity compensation must be distributed upon termination from Pentair. Upon termination from Pentair, if the director elects to receive equity compensation, the

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director also may select a pay-out schedule from the following options: (i) a lump sum; (ii) distributions in five equal annual installments; or (iii) distribution in 10 equal

### **Term; Amendments and Termination**

The term of the Plan is 10 years from the effective date of May 1, 2004. The Board may amend or terminate the Outside Directors Plan, but it cannot affect rights of directors or officers as of the date of such amendment or termination without their consent. Current NYSE listing requirements require the approval of any other changes that would materially amend the Outside Directors Plan.

### **Change in Control**

If a Change in Control (as defined in the Company's Key Executive Employment Agreement, effective August 23, 2000) occurs, a director or former director is entitled to receive a cash lump sum on the first business day of the third calendar month following the date a Change in Control occurs, except that, for directors who remain in office on the date of a Change in Control, the lump sum is payable on the first business day of the third calendar month following the date such director leaves office. A director or former director may elect to forego the lump sum payments to such director continue in accordance with the elections previously made under the Plan. Upon a Change in Control, share units are converted into a deferred compensation account credited with a dollar amount using the value of the share units immediately before the Change in Control is effective. The deferred compensation account is credited with interest at a rate of 5% per annum, compounded annually, from the date of the Change in Control.

large corporate under-payment interest rate as set forth in the Plan.

**New Plan Benefits**

The Company cannot currently determine the number of shares of Common Stock that will be available under the Plan in the future.

**The Board or Directors unanimously recommends a vote FOR approval of the election of the Non-Employee Directors.**

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**SECURITY OWNERSHIP OF MANAGEMENT AND BENEFICIAL OWNERSHIP**

The following table contains information concerning the beneficial ownership of the Company's Common Stock as of December 31, 2004 by each director, by each executive officer listed in the Summary Compensation Table, by each non-executive director, by each executive officer as a group and, as of December 31, 2003, by each person known to own more than 5% of its Common Stock.

<b>Name of Beneficial Owner</b>	<b>Common Stock<sup>(a)</sup></b>	<b>Share Units<sup>(b)</sup></b>	<b>Right to Acquire within 60 days<sup>(c)</sup></b>	<b>Restricted Stock<sup>(d)</sup></b>
Louis L. Ainsworth	34,201		93,851	13,083
Glynis A. Bryan		107		
Richard J. Cathcart	39,678		149,414	19,934
Barbara B. Grogan	2,500	18,823	14,131	
Charles A. Haggerty	19,200	23,885	14,131	
David D. Harrison	47,449		129,792	25,496
Randall J. Hogan	129,930		412,194	82,697
David A. Jones		499		
Stuart Maitland	5,000	8,027	11,581	



<b>Name of Beneficial Owner</b>	<b>Common Stock<sup>(a)</sup></b>	<b>Share Units<sup>(b)</sup></b>	<b>Right to Acquire within 60 days<sup>(c)</sup></b>	<b>Restricted Stock<sup>(d)</sup></b>
Augusto Meozzi	200	11,369	10,281	
William T. Monahan	500	6,968	8,331	
Michael V. Schrock	28,762		78,843	29,503
Directors, Executive Officers and other officers	5,965	16,453	14,131	
as a group (16 persons)	335,601	86,131	977,194	207,314

(a)

Unless otherwise noted, all shares are held either directly or indirectly by individual owners. Beneficial ownership of an individual owner's spouse and children has been disclaimed in some instances. Amounts listed include shares held by the Pentair, Inc. Master Trust for various pension plans of the Company and its subsidiaries. The Investment Committee of such Master Trust includes Randall J. Hogan, David D. Harrison and other members of management. Although these individuals could be deemed under applicable Securities and Exchange Act rules to beneficially own all of the shares held by these Plans because of their relationship to the Plans with respect to those shares, they disclaim beneficial ownership of such shares.

(b)

Represents share units paid under the Compensation Plan for Non-Employee Directors. The beneficial owner has no voting or investment power.

(c)

Represents stock options exercisable within 60 days from March 1, 2004.

(d)

Restricted shares issued pursuant to incentive plans as to which the beneficial owner has no voting or investment power.

(e)

Represents shares owned as a participant in the Pentair Retirement Savings and Investment Plan (an ESOP). As of March 1, 2004, Fidelity Management Trust Company (Fidelity) held 2,346,432 shares of Common Stock (4.7%). Fidelity disclaims beneficial ownership of such shares. ESOP participants have the right to direct the Trustee to vote their shares although the Trustee has no power over such shares. The Trustee, except as otherwise required by law, has received no direction from participants, in the same proportion on each issue of stock. Fidelity has received voting directions from participants.

(f)

Less than 1% unless otherwise indicated.

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## COMPARATIVE STOCK PERFORMANCE

The following graph sets forth the cumulative total shareholder return on the Company's common stock over the five-year period from December 31, 1998 to December 31, 2003, assuming the investment of \$100 on December 31, 1998 and the reinvestment of dividends to December 31, 2003. The graph also contains for comparison purposes the cumulative total shareholder return on the S&P MidCap 400 Index, assuming the same investment level and reinvestment of dividends to December 31, 2003.

By virtue of its market capitalization, Pentair is a component of the S&P MidCap 400 Index. Due to the Company's size and diversification of businesses, a readily identifiable peer group does not exist. The Company believes the S&P MidCap 400 Index is an appropriate comparison. The Company has reviewed other published indices, but has determined that the results are skewed by significant volatility in these indices. The Company believes such a comparison would not be meaningful.

### Comparison of Five-Year Cumulative Return

Fiscal Year Ended December 31

Company / Index	Base	Years Endin		
	Period	Dec99	Dec00	Dec01
	Dec98			
Pentair Inc	100	98.21	62.96	97.11
S&P 500 Index	100	121.04	110.02	96.91
S&P Midcap 400 Index	100	114.72	134.81	133.91

**REPORT OF THE COMPENSATION COMMITTEE**

**Executive Compensation**

### ***Committee Role***

The Compensation Committee (the Committee) is responsible for setting and reviewing executive compensation. This includes establishing and reviewing executive compensation, the Management Incentive Compensation Plan and administering equity-based compensation and the Management Incentive Plan. The Committee also sets the Chief Executive Officer's compensation and oversees the annual evaluation of the Chief Executive Officer's performance. Reports of the Committee's recommendations are reviewed with the full Board. The Committee is composed of independent non-employee directors.

On February 26, 2004, the Committee revised its Charter, which is attached as an exhibit to this report, to comply with NYSE rules. The Board considers all of the members of the Committee to be independent in accordance with the SEC and NYSE standards for independence of directors.

The purpose of this report is to summarize the philosophical principles, specific objectives and policies considered by the Committee in making decisions about executive compensation.

### ***Pentair's Compensation Philosophy***

The principles guiding the executive compensation program are designed to ensure that the program is consistent with executive compensation and creation of shareholder value and provide a framework for the program. The specific objectives include:

to motivate and reward executives for the achievement of financial and strategic objectives and the creation of long-term shareholder value;

to encourage innovation and growth;

to recognize outstanding performance;

to attract and retain top-quality executives and key employees by providing co  
opportunities;

to encourage broad-based employee stock ownership; and thereby

to align management and shareholder interests to foster a shared sense of dire

### ***Comparative Framework***

The Committee has established external competitive benchmarks for each ele  
supports the guiding principles outlined above. The market for assessing com  
manufacturing companies with revenue comparable to the Company (revenue  
group of specific comparator companies (the Comparator Group ). These c  
Committee and its compensation consultant and include business competitors  
similarly structured broadly diversified organizations, and competitors for ex

In making its recommendations to the Board concerning executive officer con  
reviews and evaluates the Company's performance and the compensation and  
officers. In conducting the review for 2003, the Committee considered comp  
Human Resources & Investor Solutions, the Committee's outside consultant

Comparative data was obtained from a number of sources, including proxy sta  
information and surveys by consulting firms. The comparative data was used  
compensation levels relative to the Company's target pay position objectives

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The Committee's target pay objectives are as follows:

Base salary – focusing on the market value of each job, the executives' base salary will be at the 50<sup>th</sup> percentile of the Comparator Group.

Annual incentives – reinforcing the need to successfully achieve annual business goals, the Management Incentive Plan (MIP) or the Executive Officer Performance Plan (EOPP) will provide competitive total cash compensation (base salary plus annual incentives) based on the Company's performance relative to its goals at the Company or business unit level. If the Company attains its target performance goals, total cash compensation levels will be approximately halfway between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of the Comparator Group. If the Company attains superior performance levels, total cash compensation will be at the 75<sup>th</sup> percentile of the Comparator Group.

Long-term incentives – emphasizing compensation that is tied to building and sustaining long-term value through stock performance over time, opportunities provided under the long-term incentive plans will be competitive. If the Company's stock performance falls between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of ongoing long-term incentive value, the long-term incentive will be at the 50<sup>th</sup> percentile of the Comparator Group. If the Company's stock attains superior performance levels, ongoing long-term incentive will be at the 75<sup>th</sup> percentile of the Comparator Group.

Employee and executive benefits – benefit levels will reflect competitive market practices.

***Program Elements***

**Base salaries** the Company has developed base salary ranges specific to each position of the position. Based on various factors, including individual performance, the executive's salary is established within the range of 20% of the midpoint.

**Annual incentive compensation plan** executives are eligible for annual performance bonuses through the Company's MIP or EOPP. Participants are eligible for cash bonuses depending on their level of responsibility in the organization. The Compensation Committee has the sole authority to determine which eligible employees will participate. No employee may participate in both the MIP and EOPP in the same performance period.

Actual awards are paid in cash following the final audit of the year's performance. Awards are determined by the Compensation Committee. All executive awards are calculated individually based on performance against pre-established goals and weighting each goal in accordance with the importance of the goal. Awards are to be self-funded through performance improvements and awards generally are not profitable. Participants can elect to defer all or a part of their payout. The Compensation Committee has the discretion to increase (MIP only) or decrease (MIP and EOPP) awards, which are based on the achievement of objectives of the MIP and EOPP.

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**MIP** MIP awards are based on actual performance against four performance measures: Revenue Growth, Cash Flow, Return On Invested Capital ( ROIC ) and individual goals tied to the business unit. The weighting of the four measures varies by business unit and grade level to reinforce the business unit's line-of-sight responsibilities and the performance expectations of each unit. The Compensation Committee sets aggressive performance targets that are reviewed and approved by the Compensation Committee each Plan year.

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**EOPP** EOPP awards are based on five performance measures: Revenue Growth, Cash Flow, Return On Invested Capital ( ROIC ), Earnings Before Interest, Depreciation and Amortization ( EBITDA ) and Strategy Deployment ( the successful execution of long term strategies). If the EBITDA performance threshold is not met, no EOPP award will be paid. The achievement of Strategy Deployment initiatives. The Chief Executive Officer is eligible for EOPP in 2003.

**Long-term incentives** to encourage ownership in the Company and to align shareholders, the Company provides equity grants under the Omnibus Stock Incentive Plan. Long-term incentive compensation is awarded in the form of stock options and

On an annual basis, individual grant levels are established based on market value. In 2003, the target grant approximates halfway between the market 50<sup>th</sup> and 75<sup>th</sup>

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term target incentive grant value has an associated minimum and maximum award target, respectively. The Compensation Committee determines the actual grant levels for the CEO, and approves grant levels for other executive officers.

Actual awards are allocated between stock options and restricted stock. Approximately 60% of the award value is targeted to be delivered in the form of stock options, with the remaining 40% in the form of restricted stock. Options vest over four years in three equal installments. The remaining portion of the total award value is targeted to be delivered in the form of restricted stock, with the number of shares based on the stock price on the date of grant. The restricted stock vests in one-half increments, on the third and fourth anniversaries of the date of grant.

### **Stock Ownership Guidelines**

The Committee has established stock ownership guidelines for executive officers to motivate them to become significant shareholders and to further encourage long-term growth. The Committee determined that, over a period of no less than five years, executive officers should accumulate and hold Company stock equal to a multiple of base salary

#### **Stock Ownership Guidelines**

Executive Level	(as a multiple of salary)
Chief Executive Officer	At least 3x base salary
Senior Corporate Officers	2-3x base salary



Corporate Officers and Subsidiary Presidents 1-2x base salary

The Committee considers making incentive grants of restricted stock based on the preceding year. These grants (made under the current Omnibus Stock Incentive Plan) are made on the third and fourth anniversaries of the grant. The size of the grant is equal to the percentage of Common Stock owned by the individual during the year if the annual ownership target has not been achieved, or the targeted ownership level if the targeted ownership level has been achieved. For 2002, 5,666 shares of Common Stock were granted under these guidelines to nine key

### **Compensation of the Chief Executive Officer**

The base salary, annual bonus and long-term equity incentives paid to Mr. Hogan are determined in accordance with the guidelines described above, and his compensation is based on the same general elements as for all executive officers. The Compensation Committee reviews and evaluates the performance of the CEO. The rating process includes a self-evaluation by the CEO, along with an evaluation and rating (with commentary) from all directors. The Chair of the Committee chairs a consolidated rating report and chairs a discussion with the Board members with respect to the discussion, the performance rating is finalized and the Committee Chair reviews the performance commentary with the CEO. This is then used as the basis of a personal development plan for the following year.

#### ***Base Salary***

Mr. Hogan's base salary was \$755,000 as of January 1, 2003, in accordance with the guidelines for establishing the CEO's base salary at the 50th percentile for companies of a similar size based on 2002 performance. This resulted in a 9% increase in Mr. Hogan's base salary over 2002.

#### ***Bonus***

Mr. Hogan's bonus was determined under the EOPP. During 2003, Mr. Hogan's bonus was determined under the EOPP. EOPP awards are determined based on a participant's bonus opportunity and a rating for achievement of Strategy Deployment initiatives once the EOPP award is made. The maximum individual bonus for Mr. Hogan was \$3,500,000. In administering the EOPP awards thereunder, the Committee does not have the discretion to pay participant bonuses in excess of the amount indicated by the pre-established goals. The Committee has the discretion and authority, in its sole and best business judgment, to reduce this amount.

For 2003, the EOPP measured performance in the same categories as those described in the Strategy Document, with the understanding that an EBITDA threshold must be met before consideration of the Strategy Document. The Compensation Committee assigns to each performance measure a weighting to reflect the relative challenges and opportunities. In accordance with the terms of the EOPP, Mr. Hogan earned a bonus for 2003 equal to \$1,119,023, which was

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paid in cash. The bonus was paid in 2004 following final calculation of the bonus by the Compensation Committee.

### *Long-Term Equity Incentives*

The Committee computed Mr. Hogan's grants in 2003 under the current Omnibus Stock Incentive Plan, which is based on an average of the 50th and 75th percentile of comparable grant practices at comparable companies. The grants were delivered in a combination of 27,000 restricted shares and 119,100 stock options.

### **Changes in Certain Compensation Plans**

#### *Overview*

The Compensation Committee periodically reviews the methods and formulas used to determine executive compensation to ensure they are aligned with the Company's compensation philosophy. In 2003, the Company revised the Omnibus Stock Incentive Plan, the Employee Stock Purchase Plan, the International Stock Purchase and Bonus Plan, which the Company is asking shareholders to approve. These changes are borne out of practical and market-based considerations driven by the Company's compensation philosophy, current plan design and current market pay levels and as evaluated against the marketplace. Over the past three years, the Compensation Committee has refined its process to better correlate compensation for executives with the Comparator Group. The Committee has also implemented changes in its practices in making compensation decisions, thereby limiting the amount of deferred compensation that can be exercised:

the Committee's compensation philosophy governs the Company's compensation

the Committee follows the methods of determining incentive grants outlined in the Omnibus Stock Incentive Plan as proposed (see Appendix G); and

independent consultant reports establish parameters for executive pay decisions.

### ***Outline of Plan Changes***

Omnibus Stock Incentive Plan changed annual individual award limits to 75% of restricted stock and \$3,000,000 on performance awards; established three-year time-vesting minimums, which currently exceed the stated minimums under the restricted shares; gave the Compensation Committee discretion to permit deferral of transfer of vested stock-based compensation for estate planning purposes.

Employee Stock Purchase and Bonus Plan added 10 year term and restated the

International Stock Purchase and Bonus Plan added 10 year term and restated the

### **Compliance with Internal Revenue Code Section 162(m)**

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction for compensation over \$1 million paid to a corporation's Chief Executive Officer and other highly compensated officers. Performance-based compensation that has been approved by the Board of Directors is excluded from the \$1 million limit if, among other requirements, the compensation is based on pre-established, objective performance goals and the Board committee that approved the compensation consists of outside directors (as defined under Section 162(m)). All members of the

outside directors.

The Company's policy is to maximize the deductibility of executive compensation compatible with the more important objectives of retaining executives and motivating performance-based compensation.

**Compensation Committee**

Charles A. Haggerty, Chair

Barbara B. Grogan

Stuart Maitland

William T. Monahan

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**EXECUTIVE COMPENSATION**

**Summary Compensation Table**

The following table sets forth the cash and noncash compensation awarded to the Chief Executive Officer of the Company and the four other highest paid executive officers of the Company whose compensation earned in 2003 exceeded \$100,000.

<u>Annual Compensation</u>	<u>Long-Term Awards</u>	
Other Annual Compensation	Restricted Stock Awards <sup>(c)</sup>	Securities Underlying Awards

<b>Name and</b>		<b>Salary</b>	<b>Bonus<sup>(a)</sup></b>	<b>Restriction<sup>(b)</sup></b>	<b>(\$)</b>	<b>Opt</b>
<b><u>Principal</u></b>	<b><u>Year</u></b>	<b><u>(\$)</u></b>	<b><u>(\$)</u></b>			
<b><u>Position</u></b>						
Randall J. Hogan	2003	755,000	1,119,023	--	1,034,309	
<i>Chief Executive Officer</i>	2002	692,500	692,500	--	133,135	
	2001	625,000	403,125	--	1,766,772	
Richard J. Cathcart	2003	388,000	375,000	--	244,580	
<i>President and Chief Operating Officer, Water Technologies Segment</i>	2002	374,750	167,752	--	14,803	
	2001	365,000	75,920	46,397 <sup>(f)</sup>	574,936	
David D. Harrison	2003	390,000	302,047	--	400,696	
<i>Executive Vice President, Chief Financial Officer</i>	2002	376,250	227,514	--	28,939	
	2001	365,000	172,501	100,376 <sup>(g)</sup>	476,637	
Michael V. Schrock	2003	350,000	341,582	--	259,327	
<i>President and Chief Operating Officer, Enclosures Segment</i>	2002	318,125	135,566	140,359 <sup>(h)</sup>	9,659	
	2001	273,854	71,275	--	188,486	
Louis L. Ainsworth	2003	315,000	179,191	--	181,896	
<i>Senior Vice President and General Counsel; Secretary</i>	2002	302,850	162,782	--	--	
	2001	296,400	48,165	--	251,453	

(a)

Represents cash bonuses accrued by the Company for the year even if paid after the year end. Bonus paid in restricted shares is included in the Restricted Stock Awards column.

(b)

Other annual compensation includes perquisites and other personal benefits, some of which are required only if the amount exceeds the lesser of \$50,000 or 10% of the total compensation of the named executive officer. Information has been included only for those named executive officers above the reporting threshold.

(c)

The restricted stock awards reflected in the table were made pursuant to the Company's stock award programs, including any restricted stock portion of a bonus earned in 2003. Restricted stock awards vesting as determined by the Committee. The value of restricted stock awards is based on the closing market price of the Common Stock on the date of grant. As of December 31, 2003, restricted stock awards (not yet earned) were held by each of the named executives (based on a closing price of \$45.70): Hogan 67,300 shares or \$3,075,610; Cathcart 17,300 shares or \$790,751; Schrock 23,984 shares or \$1,096,069; Ainsworth 8,865 shares or \$403,218. All restricted stock awards are entitled to receive dividends paid on such shares.

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(d)

Option grants in 2003 included options for an aggregate of 18,708 shares granted under the Company's Reload Options. See footnote (a) to Option Grants in 2003 Table below.

(e)

Includes Company contributions to the Retirement Savings and Stock Incentive Plan, the Employee Stock Purchase and Bonus Plan and life insurance premiums paid for the named executive officer.

(f)

This amount reflects the value of benefits provided under the Flexible Perquisite Program.

(g)

Includes relocation expenses of approximately \$32,991 and the balance of this amount ( Flexible Perquisite Program Benefits ) provided under a flexible perquisite program for the reimbursement of certain business-related expenses, including automobile expenses and professional fees (including tax preparation costs). The program includes an annual one-time benefit of up to \$50,000 for certain membership fees.

(h)

Includes relocation expenses of approximately \$120,452 and the balance of the Flexible Perquisite Program Benefits.

### Stock Options

The following tables summarize option grants to and exercises by the Chief Executive officers named in the Summary Compensation Table above during 2003, and persons at the end of 2003. Option grants shown in the table below include both non-qualified stock options.

#### Option Grants in 2003

<u>Name</u>	<u>Number of Securities Underlying Options Granted<sup>(a)</sup></u>	<u>% of Total Options Granted to Employees in Fiscal 2003</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
Randall J. Hogan	119,100	14.40%	\$34.94	01/02/2008
Richard J. Cathcart	32,000	3.87%	\$34.94	01/02/2008
	<u>18,081</u>	<u>2.19%</u>	\$40.26	01/02/2008
	50,081	6.06%		
David D. Harrison	44,000	5.32%	\$34.94	01/02/2008
Michael V. Schrock	32,000	3.87%	\$34.94	01/02/2008
Louis L. Ainsworth	23,000	2.78%	\$34.94	01/02/2008
	<u>627</u>	<u>0.08%</u>	\$43.53	01/02/2008
	23,627	2.86%		

(a)

Generally one-third of each grant becomes exercisable on each of the first three years of the grant. The exercise price for the options granted was the closing market price of the stock on the date of the grant. Stock options can be granted for terms up to 10 years. If the employee exercises the option during the first five years of the option term by tendering Company common shares owned by the employee, the Company can grant to the employee an option ( Reload Option ) to purchase common shares of the Company equal to the shares tendered. The Reload Option may be exercised during the remaining term of the option. The Reload Option exercise price is equal to the market price per share on the date of exercise.

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**Aggregate Option Exercises in 2003 and Value at End of 2003**

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at End of 2003 Unexercised
Randall J. Hogan			E 265,999 U 274,100
Richard J. Cathcart	31,999	\$ 560,302	E 111,411 U 70,666
David D. Harrison			E 83,499 U 95,000
Michael V. Schrock			E 59,999 U 67,500
Louis L. Ainsworth	1,200	\$ 24,936	E 74,250 U 49,166



### **Retirement Benefit Plans**

The Company maintains a tax-qualified defined benefit pension plan covering employees and an excess benefit plan covering certain highly-paid employees on a participant's high five-year average eligible earnings, which generally in

The Company maintains an unfunded, nonqualified Supplemental Executive Plan for officers and subsidiary presidents. The annual retirement benefit, expressed as a percentage of 15 percentage points for each year of service times the high five year average earnings, less reductions for Social Security or qualified pension benefits. SERP benefits are payable at age 55 and completion of five years of service under the most recent plan in the form of a term certain or joint and survivor annuity.

The following estimated aggregate amounts are payable from the qualified pension plan and SERP (as a fifteen year term annuity) upon retirement to the named executives at age 65 and each final salary is the same as that at January 1, 2004: Hogan (\$268,470); Harrison (\$268,470); Schrock (\$233,141); Ainsworth (\$199,598).

### **Employment Agreement and Change in Control Arrangements**

The Company has an Employment Agreement with Richard J. Cathcart, the President of the Water Technologies segment. The Employment Agreement provides that the agreement is terminated at any time prior to his normal retirement date (as determined under the pension plan applicable to Mr. Cathcart), unless terminated For Cause as defined in the agreement. Mr. Cathcart is entitled to receive certain severance benefits. Prior to reaching age 62, he is entitled to an amount equal to his annual cash compensation, at age 62 he is entitled to an amount equal to his annual cash compensation, at age 63 on there is no cash payment amount. The amount of this payment is based on the performance of the Water Technologies segment (or any other segment for which he was employed during the applicable period) for the three fiscal years preceding termination of the agreement. Mr. Cathcart is also entitled to receive outplacement services, medical benefits and life insurance under the Supplemental Executive Retirement Plan plus any additional benefits that he would have received if employment had continued until age 62. In addition, the agreement provides for stock options, awards and stock options, as well as a formula for calculating payment of outstanding options. The Employment Agreement also contains a covenant against competition by Mr. Cathcart.

The Company's key corporate executives and business unit leaders (including into agreements with the Company that provide for contingent benefits in the Company (except in certain very limited circumstances). Such benefits include

a.

bonus awards for the year in question to be made under the MIP or EOPP;

b.

immediate vesting of all unvested stock options, termination of all restrictions under the Stock Incentive Plan, and payment for ICUs and performance units without regard to the provisions;

c.

reimbursement of any excise taxes triggered by payments to the executive;

d.

the cost of an executive search agency;

e.

short-term replacement coverage for Company-provided group medical, dental, and vision;

f.

amount of non-vested benefits under any of the Company's tax-qualified deferred compensation plans;

g.

the accelerated accrual and vesting of benefits under the Supplemental Executive Retirement Plan (for executives who have been made participants of such plan); and

h.

severance pay equal to 300% (for the CEO), 250% (for the Company's other presidents) or 200% (for all other applicable executives) of annual compensation plus guaranteed salary, benefit and bonus levels for continuing employees for up to

Each of these agreement also requires the executive to devote his or her best efforts to the Company or its successor during the three-year period, to maintain the confidentiality of Company information following employment and to refrain from competitive activities for a period of three years following employment with the Company or its successor.

The MIP and the EOPP also contain provisions that apply in the event of a change in control. In the event a change in control occurs, awards for such year are determined by using the performance target in effect immediately before the change in control and by assuming the performance target was fully attained. Outstanding awards must be paid to the participant within 10 days of the change in control, unless certain requirements are modified or eliminated, including the requirement that the award be paid through the end of the applicable incentive period, completion of an annual audit by the Compensation Committee and the minimum operating income requirement. The EOPP also contains a provision that eliminates the Compensation Committee's discretion to reduce awards.

In addition, the Omnibus Stock Incentive Plan (both as currently in effect and as amended) permits the Compensation Committee, upon a change in control of the Company, to accelerate the vesting of options granted under the plan, whether or not exercisable, and authorize payment of the cash value of the options and the then current market value of the underlying stock.

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## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY

The following table summarizes, as of December 31, 2003, information about the equity securities of Pentair are authorized for issuance:

## Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options,  warrants and rights (a)	Weighted-average exercise price of outstanding options  warrants and rights (b)
Equity compensation plans approved by security holders	2,914,480 <sup>(1)</sup>	\$34.07
Equity compensation plans not approved by security holders	230,000 <sup>(3)</sup>	\$35.67
Total	3,144,480	\$34.19

(1)

Represents options to purchase shares of Common Stock granted under the Outside Directors Nonqualified Stock Option Plan.

(2)

Represents securities remaining available for issuance under the Omnibus Stock Incentive Plan. No more than 20% of the shares available under the Omnibus Stock Incentive Plan (approximately 273,000 under the current plan) are available for issuance under the Outside Directors Nonqualified Stock Option Plan than stock options.

(3)

Represents options to purchase Common Stock granted pursuant to certain individual stock option agreements described below.

*Individual Stock Option Agreements.* On January 2, 2001, the Company awarded an option to purchase 24,000 shares of Common Stock to (currently the Company's Chairman and Chief Executive Officer) and Winslow H. Hogan (currently a member of the Board effective April 30, 2002) an option to purchase 24,000 shares of Common Stock pursuant to individual stock option agreements. These options have an exercise price of \$22.75 per share. Winslow H. Hogan vest in three equal annual installments, commencing one year after the date of grant. On April 27, 2002, the Company awarded Mr. Buxton an option to purchase 182,000 shares of Common Stock pursuant to an individual stock option agreement in lieu of any compensation, fees or other benefits that Mr. Buxton would have otherwise been entitled as a non-employee member of the Board. The exercise price of the option is \$39.0781 per share and vests in three equal annual installments, commencing one year after the date of grant. In each case, the options expire 10 years after the date of grant and the exercise price is the market price of Common Stock on the date of grant. If a Change in Control (as defined in the Company's Employment and Severance Agreements) of the Company occurs, then all the

exercisable.

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### **PROPOSAL 3: APPROVAL OF THE OMNIBUS STOCK**

The Company is asking shareholders to approve an amended and restated Pentair Performance Incentive Plan (the "Revised Omnibus Plan"), which will replace the existing plan and is authorized thereunder. The Revised Omnibus Plan balances the need for a compensation program that provides appropriate incentives and encourages alignment of employee and shareholder interests, while providing restrictive provisions to encourage retention. Our stock-based compensation program is a key component of our overall compensation system, which includes significant performance-based compensation to provide long-term incentives supports the creation of long-term value for our shareholders.

#### **Purpose**

The purpose of the Revised Omnibus Plan is to more effectively align the plan with the Company's compensation philosophy, and thereby:

**promote the growth and success** of Pentair by linking a significant portion of executive compensation to the increase in value of Pentair Common Stock;

**attract and retain top quality, experienced executives and key employees** through the plan's compensation program;

**reward innovation and outstanding performance** as important contributing progress; and

**align the interests of executives and key employees with those of shareholders** between participant rewards and shareholder gains obtained through the achievement of short-term objectives and long-term goals.

### **Key Terms**

*Plan term:*

10 years

*Participation:*

Approximately 200 key employees were participants as of December 31, 2008.

*Shares Authorized:*

5,000,000, plus remaining authorized shares not yet awarded (approximately 1,000,000).

*Award types:*

(1)

Stock Options

(2)

Restricted Stock (and Units)

(3)

Stock Appreciation Rights ( SARs )

(4)

Performance Shares (and Units)

(5)

Rights to Restricted Stock

*Award limits:*

(1)

Limitations on annual awards of 750,000 options, 500,000 restricted shares (or performance shares with a value in excess of \$3,000,000

(2)

No more than 20% of the shares may be used for awards of restricted shares or

*Vesting Requirements:*

As determined by the Compensation Committee, with minimum vesting period of three years (no shares can vest until three years after the grant) and stock options (one third of the award).

*Prohibitions:*

(1)

No repricing of options

(2)

No discounted options

*Amendments:*

Material amendments require shareholder approval

*Administration:*

By Compensation Committee

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If the Revised Omnibus Plan is not approved by shareholders, there will be no existing plan to make annual awards next year or to provide grants to new hires. We would then be required to substantially revise its compensation philosophy and to retain and compensate its management employees. We believe the Revised Omnibus Plan is the best way to balance between rewarding performance and limiting shareholder dilution. The Company's equity-based compensation is a critical component of executive pay that aligns with shareholder interests.

We are asking shareholders to authorize 5,000,000 additional shares under the Plan. This represents an estimate of the number of authorized shares that will be needed to provide awards to Pentair executives and key employees over the next three years, with a provision for contingencies. We expect to achieve. If consummated, the recently announced acquisition of Wipac will result in a substantial number of new participants to the Plan. It has been our practice to provide awards for new hires and new employees resulting from acquisitions. The Company expects to continue this practice in the future if the Revised Omnibus Plan is approved by shareholders. This is an important step in protecting and promoting shareholder value.

The Plan includes other important restrictions and limitations to protect shareholder value:

- limitations on annual awards of 750,000 options, 500,000 restricted shares (or options with a value in excess of \$3,000,000);

- no more than 20% of the shares may be used for awards of restricted shares or options;

- minimum vesting schedule for grants of restricted stock and stock options;

- no option repricing; and



no discounted options.

In addition,

the Compensation Committee's compensation philosophy described in the Report of the Compensation Committee (see pages 14 to 17) governs the Company's compensation programs;

the Compensation Committee sets the award levels, determines performance targets and the amount of awards;

the methods of determining incentive grants are outlined in the Report of the Compensation Committee in the Revised Omnibus Plan; and

independent consultant reports establish parameters for executive pay decisions.

Following is a summary of the material features of the Revised Omnibus Plan. The meanings set forth in the Revised Omnibus Plan, a copy of which is attached as Appendix A, description is qualified in its entirety by reference to the attached plan document. The closing price per share of Common Stock on the New York Stock Exchange was \$54.40 on the date of the filing of this report.

### **Eligibility**

Key managerial, administrative or professional employees of Pentair (including employees of acquired companies) who are generally evaluated at salary grade 25 or higher and who are in a position to contribute to the Company's continued profitable growth and long term success. Based on current employment, all full-time employees will be eligible to participate in the Revised Omnibus Plan in 2004 (including employees of acquisitions).

### **Awards**

**Options.** The exercise price of an option, both incentive stock options and no less than the Fair Market Value as of the date of grant. Without shareholder approval, the Committee may reprice any option or cancel any outstanding option and replace it with a new option at the same exercise price, if such action would have the same economic effect as reducing the option price. The term of the option is set by the Compensation Committee at the time of grant and may not exceed five years. No one participant may receive options or tandem SARs under the Revlon Plan in excess of 750,000 shares in the aggregate in any calendar year.

**SARs.** The Committee may make awards of SARs. Tandem SARs may be issued in addition to the total number of shares the participant could acquire by exercise of the underlying options at the same time as the underlying options and for which the payment amount equals the difference between the exercise price and the Fair Market Value of the shares underlying the SAR is exercised.

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**Restricted Stock Awards.** The Committee may make awards of Restricted Stock (including Restricted Stock for non-U.S. employees), which are subject to a vesting period before they become fully vested. The vesting period is set at the time of grant, with a minimum of three years. The Committee has the discretion to impose additional conditions or restrictions on Restricted Stock (but not Rights to Restricted Stock) have the right to vote and receive dividends on shares. The Committee may attach an award of Units to an award of Restricted Stock, and the change in the fair market value of Common Stock over a period tied to the award may be paid in cash, Restricted Stock or rights as specified by the Committee.

**Performance Shares.** The Committee may make awards of Performance Shares based on the achievement of identified performance goals over a specified period, which may include goals are business or financial objectives specified by the Committee, such as stock price appreciation, earnings per share, ROIC, return on investment, EBITDA, and others, on either a Company level or specific segment, group or business unit. Payment is made before the measurement period begins or while achievement of the goals is still in progress. The Committee also may attach an award of Units to an award of Performance Shares, and the degree of attainment of the performance targets. Payment is to be made as soon as possible after a Performance Cycle. Payment may be made in cash, Common Stock, Restricted Stock, or Rights to Restricted Stock, as determined by the Committee at the time of grant.

## **Transferability**

Generally, awards cannot be assigned, transferred (other than by will or the law), pledged, or otherwise encumbered (whether by operation of law or otherwise), and the Committee must approve transfers of non-qualified stock options made to certain family members.

### **Change in Control**

If a Change in Control (as defined in the Company's Key Executive Employment Agreement, effective August 23, 2000) occurs, all options granted to a participant then become exercisable, Restricted Stock, Rights and Performance Share awards and Performance Units are valued assuming all goals are met. All payments must be made within 90 days of the Change in Control.

### **Termination, Retirement, Death and Disability**

***Termination of Employment.*** If a participant's employment ends for any reason other than (i) Cause, (ii) Retirement, (iii) death or (iv) Disability, outstanding options and SARs remain exercisable for ninety (90) days following the termination of employment (or the expiration date of the option or SAR). Other awards, to the extent not then earned, are forfeited at the time of termination of employment. If a participant is terminated for cause, then all awards, whether earned or not, are forfeited as of the participant's last day of employment, subject to the Committee's discretion under this provision.

***Retirement.*** Except as noted below, upon Retirement, any options or SARs remain exercisable for ninety (90) days following the date of Retirement (or the expiration date of the option or SAR). The length of employment restrictions applicable to Restricted Stock, Rights to Restricted Stock or Restricted Units lapse on a prorated basis based on the portion of the restriction period which the participant has completed at the time of Retirement. The amount of an outstanding award of Performance Shares or Performance Units is also prorated based on the portion of the performance targets that have been met and the amount of the Performance Cycle completed at the time of Retirement. Upon Retirement of an executive officer or business unit president, all options and SARs remain exercisable for five years (or, if earlier, the expiration date of the option or SAR). Restricted Stock awards (or Rights) fully vest and Performance Shares are pro-rated based on the portion of the performance targets that have been met as of the date of Retirement.

***Death of Participant.*** If a participant dies while employed, then all such outstanding awards are exercisable by, or paid to, the participant's estate or heirs, as applicable. Such heirs have 90 days to exercise any outstanding options or SARs to the same extent exercisable by the participant at the time of death. The length of employment restrictions applicable to an outstanding award of Restricted Stock (or Rights or Units) lapse based on the portion of the restriction period that has elapsed at the time of death.

amount payable on outstanding Performance Shares (including units) are pro-rated based on performance targets measured as of the date of death.

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***Disability of Participant.*** If a participant's employment with Pentair and all other employment ends due to a Disability, the participant has up to twelve (12) months to exercise SARs to the same extent exercisable as of the date the Disability determination is made, to the extent not earned or otherwise payable on the date the participant is deemed disabled on such date.

### **Administration**

The Revised Omnibus Plan is administered by the Compensation Committee, which consists of independent directors. In its discretion, the Committee also can reduce any award payable to a participant.

### **Modification of Awards**

While the Committee has authority generally to make modifications to individual awards, including vesting or removing restrictions, the Committee does not have discretion to increase the amount a participant could earn by application of pre-established performance goals and targets, or to increase the award, although the Committee does have discretion to decrease such an award.

### **Amendment**

The Board and the Compensation Committee may amend the Revised Omnibus Plan and awards; however, the following amendments require shareholder approval:

increasing the number of shares authorized to be granted under the Plan,

repricing any outstanding option,

cancelling any outstanding option and replacing it with a new option with a lower exercise price that would have the same economic effect as reducing the option price of such a cancelled option,

changing the limits on awards that may be made under the Plan,

materially expanding the class eligible to receive awards under the Plan,

materially increasing the benefits accruing to participants under the Plan,

extending the period during which an option may be exercised beyond 10 years,

extending the termination date of the Plan.

Current NYSE rules also require shareholder approval of any other changes to the Plan.

### **Certain Federal Income Tax Consequences**

**Section 162(m).** As discussed in the Compensation Committee Report on Executive Compensation, under Section 162(m) of the Code, the Company is not entitled to a deduction for excess compensation in excess of \$1 million. This limitation, however, does not apply to compensation under Section 162(m). If the shareholders approve the Revised Compensation Policy, any awards awarded under the objective performance criteria established under the Revised Compensation Policy will be treated as such treatment.

**Stock Options.** The grant of a stock option under the Plan creates no federal income tax liability for the participant or the Company. A participant who is granted a non-qualified stock option will recognize ordinary income at the time of exercise for each underlying share of common stock in an amount equal to the excess of the fair market value of the common stock at such time over the exercise price. The participant will generally be entitled to a deduction in the same amount and at the same time as the ordinary income is recognized by the participant. A subsequent disposition of common stock will generally give rise to capital gain to the extent the amount realized from the disposition differs from the tax basis (i.e., the exercise price plus the stock on the date of exercise). This capital gain or loss will be a long-term capital gain or loss depending upon the length of time common stock is held prior to the disposition.

In general, a participant will recognize no income or gain as a result of exercising a stock option for regular tax purposes (income equal to the excess of the fair market value of the common stock at the time of exercise over the exercise price is recognized for alternative minimum tax purposes). Except as otherwise provided, the gain realized by the participant on the disposition of common stock acquired pursuant to the exercise of a stock option will be treated as a long-term capital gain or loss and no deduction will be allowed if the participant fails to hold the shares of common stock acquired pursuant to the exercise of a stock option for at least two years from the date of grant of the incentive stock option and one year from the date of exercise, the participant will recognize ordinary income at the time of the disposition in an amount equal to the gain realized on the disposition or (b) the excess of the fair market

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value of the shares of common stock on the date of exercise over the exercise price. The participant will be entitled to a deduction in the same amount and at the same time as ordinary income is recognized by the participant. Any additional gain realized by the participant over the fair market value at the time of exercise will be treated as capital gain. This capital gain will be a long-term capital gain if the common stock is held for one year from the date of exercise.

**Stock Appreciation Rights.** The grant of a stock appreciation right will create no federal income tax liability for the participant or the Company. Upon exercise of a stock appreciation right, the participant will recognize ordinary income equal to the amount of any cash and the fair market value of any property received, except that if the participant receives an option or shares of common stock upon exercise of a stock appreciation right, recognition of income may be determined by the rules applicable to such other awards. The Company will generally be entitled to a deduction in the same amount and at the same time as income is recognized by the participant.

**Restricted Stock.** A participant will not recognize income at the time an award of restricted stock (or other related award of Units) is made under the Plan, unless the election described below is made. If the election is not made such an election will recognize ordinary income at the time the restricted stock is sold in an amount equal to the fair market value of such shares at such time reduced by the exercise price. The Company will generally be entitled to a corresponding deduction in the same amount.

participant recognizes income. Any otherwise taxable disposition of shares at generally result in capital gain or loss (long-term or short-term depending upon held after the time the restrictions lapse). Dividends paid in cash and received restrictions lapse will constitute ordinary income to the participant in the year be entitled to a corresponding compensation deduction for such dividends. A treated as an award of additional restricted stock subject to the tax treatment of within thirty days after the date of the award of restricted stock, elect to recognize the award in an amount equal to the fair market value of such restricted stock any amount paid for the restricted stock. The Company will generally be entitled the same amount and at the same time as the participant recognizes income. If dividends received with respect to the restricted stock will be treated as dividends year of payment and will not be deductible by the Company. Any otherwise taxable stock (other than by forfeiture) will result in capital gain or loss (long-term or period). If the participant who has made an election subsequently forfeits shares, entitled to recognize a capital loss equal to the amount the participant paid for upon forfeiture. In addition, the Company would then be required to include a deduction it originally claimed with respect to such shares.

***Performance Shares.*** The grant of performance shares (including any related income tax consequences for the participant or the Company. Upon the receipt at the end of the applicable performance period, the participant will recognize of cash or the fair market value of the shares of Common Stock received, except shares of restricted stock or restricted stock units in payment of performance. recognition of income may be deferred in accordance with the rules applicable generally be entitled to a deduction in the same amount and at the same time as participant.

***Dividend Equivalents.*** Any participant receiving dividend equivalents generally equal to the dividend equivalents paid with respect to awards under the Plan. entitled to a deduction in the same amount and at the same time as income is recognized.

### **New Plan Benefits**

The Company cannot currently determine the number or type of awards that may be made under the Revised Omnibus Plan in the future. Such determinations will be made by the Compensation Committee. In 2003, the Committee approved awards of stock options and restricted stock in effect to executive officers, which awards are not conditioned on shareholder approval of the Plan. See Directors Compensation and Executive Compensation. The awards will require that require shareholder approval of the Revised Omnibus Plan to be effective.

**The Board of Directors unanimously recommends a vote FOR approval of the Plan.**

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**PROPOSAL 4: APPROVAL OF THE EMPLOYEE STOCK PURCHASE PLAN**

The Company is asking shareholders to approve the Pentair, Inc. Employee Stock Purchase Plan (ESPP), originally adopted in 1977. The Compensation Committee approved the restated ESPP on February 25, 2004 to be effective May 1, 2004, subject to receiving shareholder approval. The restated ESPP will replace the version of this plan currently in effect. The new ESPP will become effective unless approved by the shareholders. If the ESPP is not approved, the Compensation Committee will consider alternative means of incentivizing employees and shareholders of the Company.

As articulated in the Company's compensation philosophy, the Company uses the ESPP designed to enable all employees to be shareholders. The ESPP provides an incentive (in the form of a matching contribution) for all employees to become shareholders, thereby encouraging employee ownership with shareholder interests. The ESPP currently has approximately 2,300 participants. The amount of the Company matching contributions for all participants was approximately \$1.5 million. The benefits achieved through this plan are well worth this cost. The plan operates at a cost of approximately 0.1% of the prevailing market prices.

This plan has been in existence for over 25 years and is a highly visible and highly successful plan. The ESPP is the only broad-based contributory employee plan that specifically supports the Company's compensation philosophy to align the interests of all employees with the interests of the shareholders. The ESPP is an effective tool in driving broad-based stock participation for all employees.

The key points of the ESPP are:



Company matches 25% of the first \$750 contributed by each employee per month (with a maximum match of \$187.50 per employee per month) effectively a 20% discount on the purchase price.

Company match encourages employees to become shareholders;

broad-based participation;

not dilutive to existing shareholders through direct issuance of shares of Common Stock;

amount of Company match is capped; and

independent Compensation Committee oversight.

The Compensation Committee has adopted an amended and restated ESPP to comply with NYSE regarding equity compensation plans, to clarify administrative procedures made since the most recent restatement and to limit the term of the plan to 10 years. The meanings set forth in the ESPP, a copy of which is attached as Appendix H. The ESPP is qualified in its entirety by reference to the attached plan documents.

### **Eligibility**

After 12 consecutive months of employment, U.S. employees of the Company who are at least 18 years of age, other than those covered by a collective bargaining agreement, are eligible to participate in the ESPP. Currently, the Company has approximately 9,300 employees who may be eligible to participate in the ESPP.

service requirements.

### **Contributions.**

Participation in the ESPP is voluntary. Upon making the appropriate election, contributions under the Plan either through payroll deductions (minimum \$100 per month or 15% of the participant's base salary) or by lump sum contributions (minimum \$750 per month or 15% of the participant's base salary) or by lump sum contributions (minimum \$750 per quarter). Persons who terminate participation may be restricted in the timing of their contributions.

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### **Employer Matching Contribution**

Each month the Company (or the Affiliated Company that employs the participant) makes a matching contribution on behalf of each participant equal to 25% of the contribution made by such participant (a maximum of \$187.50 per employee per month). No matching contribution is made on contributions in excess of the matching contribution. The matching contribution is taxable to the employee. If a participant terminates employment while still an employee that results in the sale of shares acquired within the previous 12 months, the participant's employer may cease to make matching contributions for the next 12 months.

### **Purchase of Stock**

The Plan Agent uses contributions to purchase shares of Common Stock on behalf of the participants' Accounts. There is no limit on the number of shares of Common Stock that can be purchased. Each participant is fully vested in his or her Account.

### **Voting and Dividends**

Participants are entitled to vote the shares allocated to their respective Accounts and to receive dividends on the shares, unless they otherwise encumber the shares allocated to their Accounts. Cash dividends received on the shares allocated to their Accounts are automatically reinvested in the Plan.

Accounts are used to buy additional shares of Common Stock on behalf of su

### **Ending Participation; Distributions**

A participant may elect to cease participation at any time. A person who ceas because they cease to be an Eligible Employee may request a full or partial ca Account. Eligible Employees who voluntarily cease participation may be rest until the following year. A participant who ceases to be an Employee of the C receives a distribution from his or her Account and may elect whether to take stock distribution being made if no election is made.

### **Term; Amendments and Termination**

The term of the Plan is 10 years from the effective date of May 1, 2004. The the Compensation Committee, has the power to amend or terminate the ESPP shareholder approval of any other changes that would materially amend the E

### **New Plan Benefits**

The Company cannot currently determine the number of shares of Common S Plan in the future.

**The Board of Directors unanimously recommends a vote FOR approval of the ESPP and Bonus Plan.**

**PROPOSAL 5:**

**APPROVAL OF THE INTERNATIONAL STOCK PURCHASE**

The Company is asking shareholders to approve the Pentair, Inc. International Stock Purchase Plan (ISPP). The Compensation Committee adopted an amended and restated ISPP on May 1, 2004, subject to receiving shareholder approval. Like the ESPP, this plan is part of the Company's overall strategy to more closely align employee and shareholder interests. The plan provides employees of Pentair's international branches and subsidiaries an opportunity to purchase shares of common stock on comparable terms to those available to U.S. employees under the ESPP, thereby helping the Company achieve goals increasing shareholder value and further aligning our employee interests with those of our shareholders. The ISPP currently has approximately 165 participants. For 2004, the Company's matching contributions were \$68,586. The amended and restated ISPP is currently in effect. The amended and restated ISPP will not become effective until the next shareholder meeting. If the ISPP is not approved by the shareholders, the Compensation Committee will explore alternative means of incentivizing employees to become and remain shareholders.

The Company first adopted an International Stock Purchase and Bonus Plan in 1998. The Compensation Committee has adopted an amended and restated ISPP to comply with rules regarding non-qualified compensation plans, to clarify administrative procedures, to incorporate prior amendments, and to extend the plan to 10 years. Capitalized terms have the meanings set forth in the ISPP document in Appendix I. The following summary description of the ISPP is qualified in its entirety by the plan document.

**Eligibility**

After one year of continuous employment, employees of the Company's non-United States subsidiaries identified in the ISPP (the Participating International Affiliates) who are at least 21 years of age and are scheduled to work a minimum of 15 hours per week are eligible to participate in the ISPP. The Company estimates that there are approximately 1,900 employees who work for Participating International Affiliates and are eligible to participate in the ISPP if they meet the age and service requirements.

**Contributions**

Participation in the ISPP is voluntary. Upon making the appropriate election, employees may contribute to the ISPP either through payroll deductions or by lump sum contributions. The maximum contributions comparable to those for the ESPP, but specified in the ISPP document for each Participating International Affiliate. Persons who terminate participation may re-enroll in the ISPP.

### **Employer Matching Contribution**

Each month the Participating International Affiliate who employs the participant makes a matching contribution on behalf of each participant equal to 25% of the contribution made by such participant. No matching contribution is made with respect to lump sum contributions. If a participant receives a distribution while still an employee that results in the sale of shares acquired through payroll deductions, the participant's employer may cease to make matching contributions.

### **Purchase of Stock**

The Plan Agent uses contributions to purchase shares of Common Stock at the prevailing market price, which are allocated to the participant Accounts. The Plan is not diluted through direct issuance of Common Stock. There is no limit on the number of shares that may be purchased.

### **Voting and Dividends**

A participant is fully vested in his or her Account. Participants are entitled to vote on behalf of their respective Accounts. Participants may not pledge or otherwise encumber the shares held in their Accounts. Cash dividends received on shares held in participant Accounts are used to purchase additional shares of Common Stock on behalf of such participants.

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### **Ending Participation; Distributions**

A participant may elect to cease participation at any time. A person who ceases participation because they cease to be an Eligible Employee may request a full or partial distribution from their Account. Eligible Employees who voluntarily cease participation may request a distribution until the following year. A participant who ceases to be an employee of a Participating International Affiliate may request a distribution from his or her Account and may elect to take a cash or

distribution being made if no election is made. The Trustee may terminate a p  
dies or terminates employment with a Participating International Affiliate.

### **Term; Amendments and Termination**

The term of the Plan is 10 years from the effective date of May 1, 2004. The  
the Compensation Committee, has the power to amend or terminate the ISPP.  
shareholder approval of any other changes that would materially amend the IS

### **New Plan Benefits**

The Company cannot currently determine the number of shares of Common S  
Plan in the future.

**The Board of Directors unanimously recommends a vote FOR approval of the Plan and Bonus Plan.**

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## **REPORT OF THE AUDIT COMMITTEE**

The Audit Committee is responsible for assisting the Board with oversight of  
financial reporting processes and audits of the Company's financial statements.  
Company's financial statements, the Company's compliance with legal and  
independence and qualifications of the Company's external auditor and the p  
audit function and of the external auditor. The Audit Committee is directly re  
compensation, terms of engagement (including retention and termination) and  
auditor.

On February 25, 2004, the Audit Committee revised its Charter, which is attached as an exhibit to this Statement, to comply with NYSE and SEC rules.

The Board has determined that all of the members of the Audit Committee are independent under NYSE and SEC rules for independence of Audit Committee members.

The Audit Committee has (a) reviewed and discussed the Company's audited financial statements with management; (b) discussed with the Company's independent auditors, Deloitte & Touche LLP, the matters to be discussed by Statement on Auditing Standards No. 61; (c) received from the auditors a statement of independence in accordance with Independence Standards Board No. 1; (d) reviewed the auditors' independence; and (d) considered whether the level of services provided by Deloitte & Touche LLP is compatible with maintaining the independence of the auditors.

Based on the review and discussions described above, the Audit Committee recommended that the Company's audited financial statements for the year ended December 31, 2003 be included in the Company's Annual Report on Form 10-K for filing with the SEC. In addition, the Audit Committee reviewed the Company's 2003 quarterly results prior to public release.

The Audit Committee also reviews and approves the external auditor's engagement letter, the scope, staffing and timing of work. In addition, the Audit Committee Charter sets forth the requirements that may be provided by the independent auditor. Any permitted non-audit services to be provided by the independent auditor must be pre-approved by the Audit Committee after the Company has approved the engagement and particular services to be provided. The Committee pre-approved the non-audit services of the independent auditor in 2003. Responsibility for this approval was assigned to one or more members of the Committee; all such approvals, however, must be discussed and approved at the next regularly scheduled meeting. The Audit Committee may not delegate its authority to management.

**Audit Committee**

Karen E. Welke, Chair

Glynis A. Bryan

David A. Jones

Augusto Meozzi

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**PROPOSAL 6: RATIFICATION OF APPOINTMENT OF DELOITTE & TOUCHE LLP AS  
INDEPENDENT AUDITORS OF THE COMPANY**

Deloitte & Touche LLP, independent certified public accountants, have been the independent auditors of the Company since 1977. The Audit Committee has selected Deloitte & Touche LLP to continue as the independent auditors for 2004. The Board requests that the shareholders ratify such appointment. If Deloitte & Touche LLP is not ratified by the shareholders, the Audit Committee will select a new independent auditor effective for the subsequent fiscal year. Even if the selection is ratified, the Audit Committee reserves the right to select a new independent auditor at anytime it believes such change would be in the best interests of the Company and its shareholders.

Representatives of Deloitte & Touche LLP are expected to attend the Annual Meeting and make a statement if they so desire, and they will be available to respond to appropriate questions about the services of Deloitte & Touche, including the fees paid in 2002 and 2003.

**The Board of Directors unanimously recommends a vote FOR the ratification of Deloitte & Touche LLP.**

**INDEPENDENT AUDITOR FEES**

During fiscal year 2003, Deloitte & Touche LLP, the member firms of Deloitte & Touche, and their respective affiliates (collectively, the Deloitte Entities), provided various audit and non-audit services to the Company as follows (in thousands):

a)



	Audit fees, including aggregate fees for the audit of the Company's annual financial statements, reviews of the Company's quarterly financial statements, statutory audits and review of SEC filings	\$2
b)	Audit-related fees, including acquisitions and divestitures, systems internal control assessments, employee benefit plan audits, accounting research and certain other attest services	
	Total audit and audit-related fees	2
c)	Tax fees, including tax consulting and tax return preparation*	1
d)	All other fees, including actuarial services (2002 and 2003) and systems consulting and internal audit services (2002)	
	Total fees paid to Deloitte Entities*	\$4

\*Due to clerical error, approximately \$113,000 of the fees for work performed services were inadvertently omitted from the fees disclosed in the Company Meeting.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORT**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's file with the SEC initial reports of ownership and reports of changes in ownership equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms the

Based solely on its review of the copies of such forms furnished to the Company by the Company's officers and directors, the Company believes that all of its directors have complied on a timely basis with Section 16(a) filing requirements for the fiscal year ended D

**FUTURE PROPOSALS**

The deadline for submitting a shareholder proposal for inclusion in the Company's proxy for the Company's 2005 Annual Meeting of Shareholders pursuant to the Exchange Commission is November 19, 2004. A shareholder who otherwise proposes a proposal for the 2005 Annual Meeting must comply with the requirements set forth in the Company's By-Laws, among other things, that to bring business before an annual meeting, a shareholder must file a proposal with the Secretary of the Company not less than 45 days before the first annual anniversary of the date the Company first mailed its proxy statement with the immediately preceding annual meeting. Accordingly, the Company will not consider a proposal submitted other than pursuant to Rule 14a-8 by February 2, 2005. If a proposal is submitted after February 2, 2005, then the notice will be considered untimely and the Company is not required to present the proposal at the 2005 Annual Meeting. If the Board chooses to present a proposal submitted after February 2, 2005 at the 2005 Annual Meeting, then the persons named in the proxies solicited by the Company at the 2005 Annual Meeting may exercise discretionary voting power with respect to such proposal. Shareholder proposals should be sent to the Company at its principal executive offices: 5500 Wayzata Boulevard, Minneapolis, Minnesota 55416, Attention: Secretary.

#### **APPOINTMENT, REVOCATION AND VOTING**

Shareholders whose shares are registered directly with the Company may vote by telephone, by Internet or by mailing their signed proxy card in the enclosed envelope. The instructions included on the accompanying proxy to vote by proxy. Shareholders who vote through a bank, broker or other record holder may vote by the methods that that record holder permits. In which case the bank or broker will include instructions with this proxy statement. Shareholders who vote by Internet should understand that there may be costs associated with electronic voting. Shareholders who use Internet access providers and telephone companies, that the shareholders must understand that there may be costs associated with electronic voting.

Any shareholder giving a proxy may revoke it prior to its use at the meeting by (1) filing a written instrument expressly revoking the proxy to the Secretary at the Company's offices, (2) signing a new proxy, or (3) attending the Annual Meeting and casting a vote.

A majority of the outstanding shares will constitute a quorum at the Annual Meeting. For the election of directors, non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. The affirmative vote of a majority of the outstanding shares of the Company is required for the election of directors and other proposals presented to shareholders and presented to the Annual Meeting is required for the election to the Board of each director nominee and for the adoption of any proposal. Pursuant to Minnesota law and the Company's Articles of Incorporation, abstentions are counted as non-votes for the total number of the votes cast on proposals presented to shareholders, but abstentions are not counted for purposes of determining the number of votes required to approve proposals presented to shareholders.

Unless otherwise directed in the accompanying proxy, the persons named therein and the other proposals set forth in this Notice of Annual Meeting of Shareholders properly come before the meeting, they will vote in accordance with their best interests as presently know of any other business.

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## **SOLICITATION**

The cost of soliciting proxies and the notices of the meeting, including the preparation of proxies and this statement, will be borne by the Company. In addition to this, the Company is soliciting proxies personally or by telephone or electronic communication by regular employees. The cost of solicitation of proxies is also being rendered by Morrow & Co., 445 Park Avenue, New York, New York, to the Company of \$8,500 plus expenses. Furthermore, arrangements may be made with other organizations to send proxies and proxy materials to beneficial owners for voting purposes. The Company will reimburse such organizations for their expense in so doing and for the preparation of proxies.

## **2003 ANNUAL REPORT ON FORM 10-K**

Any security holder wishing to receive, without charge, a copy of the Company's 2003 Annual Report on Form 10-K (without exhibits) filed with the Securities and Exchange Commission should contact: Secretary, Wayzata Boulevard, Suite 800, Golden Valley, MN 55416, Attention: Secretary.

## **REDUCE DUPLICATE MAILINGS**

To reduce duplicate mailings, we are now sending only one copy of any proxy statement to multiple shareholders sharing an address unless we receive contrary instructions from the shareholders. Upon written or oral request, the Company will promptly deliver a copy of the proxy statement or proxy statement to a shareholder at a shared address.

If you wish to receive separate copies of each proxy statement and annual report, please contact: Secretary, Pentair, Inc., 5500 Wayzata Boulevard, Suite 800, Golden Valley, MN 55416.

Telephone: (763) 545-1730 or (800) 328-9626.

If you are receiving duplicate mailings, you may authorize us to discontinue our quarterly and annual reports. To discontinue duplicate mailings, notify us by writing or calling 1-800-328-9626, Attention: Secretary, Telecommunications Department, 10000 Golden Valley Boulevard, Suite 800, Golden Valley, MN 55416, Attention: Secretary, Telephone: (763) 545-1730 or (800) 328-9626.

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**PENTAIR, INC.**

**CORPORATE GOVERNANCE PRINCIPLES**

**Selection and Composition of the Board**

**1)**

**Board Membership Criteria**

The Governance Committee is responsible for reviewing with the Board, on an annual basis, the qualifications and characteristics required of Board members in the context of the current market conditions. The contribution of the Board will depend not only on the character and capacity of individual members, but also on their collective strengths, the Board should be composed of members who are

a.

Directors chosen with a view to bringing to the Board a variety of experience

b.

Directors who will form a central core of business executives with financial e

c.

Directors who have substantial experience outside the business community communities, for example;

d.

Directors who will represent the balanced, best interests of the shareholders and groups or constituencies;

e.

At least one Director who has the requisite experience and expertise to be described as a financial expert as defined by applicable rules of the Securities and Exchange

f.

A majority of Directors who are Independent (as defined below).

The Governance Committee and the full Board believe the following minimum qualifications for a Director nominee to be recommended by the Governance Committee to the full

a.

each Director should be chosen without regard to sex, race, religion or national

b.

each Director should be an individual of the highest character and integrity and the ability to work well with others;

c.

each Director should be free of any conflict of interest which would violate or interfere with the proper performance of the responsibilities of a director;

d.

each Director should possess substantial and significant experience which would be helpful to the Company in the performance of the duties of a director;

e.

each Director should have sufficient time available to devote to the affairs of the Company and the responsibilities of a director; and

f.

each Director should have the capacity and desire to represent the balanced, best interests of the whole and not primarily a special interest group or constituency and be committed to the long-term shareholder value.

2)

### **Selection and Orientation of New Directors**

The Board itself is responsible for selecting its own members and recommending them to the shareholders. The Board delegates the screening process involved to the Governance Committee, which recommends to the Board the names of qualified candidates to be nominated for election in accordance with the criteria set forth in these Corporate Governance Principles and the Board Charter. The Board and the Company have implemented an orientation process for new directors, including background material, meetings with senior management and visits to Company

The Governance Committee will consider persons recommended by shareholders as Directors in accordance with the criteria set forth in these Corporate Governance Guidelines. All nominations for consideration by the Governance Committee should be sent to the Secretary of the Company with appropriate biographical information concerning each proposed nominee. The Guidelines set forth certain requirements for shareholders wishing to nominate director candidates. For more information, see the Guidelines for Shareowners.

3)

#### **Extending the Invitation to a Potential Director to Join the Board**

The invitation to join the Board should be extended by the Board itself via the Secretary of the Company or an Executive Officer of the Company, together with an independent director, who

#### **Board Leadership**

4)

#### **Selection of Chairman and Chief Executive Officer**

The By-Laws of the Company permit the Chairman of the Board and the Chief Executive Officer to be different persons. The Board is free to make this choice in any way that the Board deems to be in the best interests of the Company and its shareholders.

Therefore, the Board does not have a policy, one way or the other, on whether the Board and Chief Executive Officer should be separate or combined and, if separate, whether the Chairman should be selected from the non-employee Directors or be an employee of the Company.

#### **Board Composition and Performance**

5)

#### **Size of the Board**

The Board is limited to ten members by the By-Laws of the Company. The Board will determine the appropriate size. Any change to the size of the Board would require an amendment to the By-Laws in such a way that shareholder approval of that change would be required.

6)

**Mix of Management and Independent Directors**

At least a majority of the Board shall be Independent Directors. The Board shall encourage executive officers to understand that Board membership is not necessarily a management position in the Company. Executive officers other than the Chief Executive Officer shall attend portions of Board meetings on a regular basis even though they are not members of the Board.

7)

**Board Definition of What Constitutes Independence for Directors**

For a Director to qualify as Independent :

a.

The Board of Directors must affirmatively determine that the Director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization or other entity with the Company) that would prevent the Director from acting independently in the best interests of the Company, taking into account all relevant facts and circumstances. The Board shall consider the relationship from the perspective of the Director and from the standpoint of the persons or organizations with which the Director has a relationship. Material relationships can include commercial, industrial, banking, consulting, or other relationships, including familial relationships, among others.

b.

Presently and within the immediately preceding three (3) year period:

(i)

the Director shall not be or have been an employee of the Company or any affiliate of the Company; an interim CEO or Chairman; an Immediate Family Member shall not be an executive officer or an affiliate of the Company;

(ii)

the Director shall not be or have been affiliated with or employed by a present or former (within the immediately preceding three (3) year period) internal or external auditor of the Company; or



not be or have been affiliated with or employed in a professional capacity by (including, but not limited to, immediately preceding three (3) year period) internal or external auditor of the

(iii)

neither the Director nor an Immediate Family Member shall be or have been (including, but not limited to, immediately preceding three (3) year period) as an executive officer of another company with which the Company serves on the compensation committee of such other company;

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(iv)

the Director shall not be an executive officer or an employee of another company with consolidated gross revenues of at least \$1 million or two percent (2%), whichever is greater, of the Company's consolidated gross revenues; an Immediate Family member shall not be an executive officer or an employee of another company (A) that accounts for at least \$1 million or two percent (2%), whichever is greater, of the Company's consolidated gross revenues or (B) for which the Company accounts for at least \$1 million or two percent (2%), whichever is greater, of such other company's consolidated gross revenues; or

(v)

neither the Director nor an Immediate Family Member shall receive or have received (including, but not limited to, during the immediately preceding three (3) year period) in direct compensation (including, but not limited to, director and committee fees and pension or other forms of deferred compensation) that is not contingent in any way on continued service).

c.

For purposes of the independence determination,

Immediate Family Member includes a Director's spouse, parents, children, grandchildren, brothers and sisters-in-law and anyone who shares the same household with the Director (other than domestic employees).

Company includes any parent or subsidiary in a consolidated group with the

8)

### **Former Chairman/Chief Executive Officer's Board Membership**

The Board believes this is a matter to be decided in each individual instance. If a former Chairman or Chief Executive Officer resigns from that position, he or she shall submit his or her resignation to the Board at the same time. Whether the individual continues to serve on the Board is a matter to be decided by the Governance Committee and the Board. A former Chairman or Chief Executive Officer shall not be considered an independent Director.

9)

### **Directors Who Change Their Present Job Responsibility**

When a Director's principal occupation or business association changes substantially from the time he or she was held when originally invited to join the Board, the Director shall tender a letter to the Governance Committee. The Committee will review whether the new occupation, or retirement, is consistent with the specific rationale for originally selecting that individual and the guidance of the Governance Committee. The Committee will recommend to the Board any action to be taken in connection with the change.

All Directors are encouraged to limit the number of other boards (excluding non-profit organizations) on which they are serving, taking into account potential board attendance, participation and effectiveness. To ensure the most effective participation by every Director, the Board has determined to limit the number of other boards on which any Director may sit to four Boards in addition to the Company's Board. The Chairman of the Board and the Chairman of the Governance Committee in addition to the Director shall not serve on another board. If a Director desires to accept a position on the Board of another company, the Director must confirm to the Board of the Company that he or she has the time and resources to fulfill the new position, to fulfill his or her responsibilities as a Director of the Company.

10)

### **Term Limits**

The Board has adopted term limits for non-employee Directors. Each non-employee Director shall stand for election at the first annual meeting of the Company's shareholders immediately following the Director's initial election to the Board by the shareholders.

11)

### **Election of Directors Following Appointment**

The Board may, but need not, appoint Directors at any time to fill vacancies on the Board. The Company's Incorporation require that each appointed Director must stand for election at the next annual meeting of the shareholders for the remaining term of the class of Directors to which he or she was appointed.

12)

**Retirement Age**

A Director must retire at the first annual meeting of the Company's shareholders following the Director's 70<sup>th</sup> birthday.

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13)

**Board Compensation**

It is appropriate for the staff of the Company to report once a year to the Governance Committee the Company's Board compensation in relation to its peers and the targeted comparables, total compensation and to create a direct linkage with corporate performance, and a portion of a Director's compensation should be provided and held in stock options.

Compensation for non-employee Directors and Committee chairpersons shall be based on the compensation practices of other reasonably comparable companies, but shall not be at a level that would raise questions about the Board's objectivity. Directors who are employees of the Company shall not receive compensation for serving as a Director of the Company.

Changes in Board compensation, if any, should come at the suggestion of the Governance Committee and discussion and concurrence by the Board.

14)

**Executive Sessions of Independent Directors**

The non-management Directors of the Board will meet in Executive Sessions separate from the Board. If the non-management Directors include directors who are not Independent Directors, the Independent Directors will meet at least once a year in Executive Session and the Executive Sessions will be chaired by the Independent Lead Director selected by the Independent Directors.

15)

### **Assessing the Board's Performance**

The Governance Committee is responsible to report annually to the Board on its performance. In addition, each Committee is responsible to report annually to the Board on its performance. These assessments will be discussed with the full Board and its committees are functioning effectively. This should be done annually and at the same time as the report on Board membership criteria.

These assessments should be of the Board's contribution as a whole and specifically Board and/or the management believes a better contribution could be made in the Board.

**16)**

### **Director Continuing Education**

All Directors are encouraged to attend appropriate director continuing education programs, and reasonable travel and out-of-pocket expenses, will be paid by the Company and reimbursed by any other organization.

### **Responsibilities of the Board**

**17)**

### **Responsibilities and Duties**

The primary responsibility of the Board is to oversee the performance of the Company as well as immediate issues facing the Company. Directors are expected to attend all meetings and the Committees on which they serve and all meetings of shareholders. In addition to management, the Board (either directly or through its committees) also performs the following duties including:

a.

Representing the interests of the Company's shareholders in maintaining and growing the Company's business, including optimizing long-term returns to increase shareholder value.

b.

Selecting, evaluating and compensating a well-qualified Chief Executive Officer;  
Chief Executive Officer succession planning;

c.

Providing counsel and oversight on the selection, evaluation, development and  
management;

d.

Reviewing, approving and interacting with senior management with respect to  
and business strategies and major corporate actions, including strategic planning,  
succession, operating performance and shareholder returns;

e.

Assessing major risks facing the Company and reviewing options for their mi

f.

Ensuring processes are in place for maintaining the integrity of the Company,  
statements, the integrity of its compliance with law and ethics, the integrity of  
suppliers and the integrity of its relationships with other stakeholders; and

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g.

Providing general advice and counsel to the Chairman of the Board, Chief Ex  
management personnel.

18)

**Board Access to Independent Advisors**

Directors are authorized to retain and consult with independent advisors, as is consulting management.

19)

#### **Shareholder Communications with Directors**

Shareholders and other interested parties may communicate with the full Board group or individual Directors, including the Lead Director, if any, or the Director by providing such communication in writing to the Company's Secretary, who will forward the communication to the full Board or specified Directors, as the case may be.

#### **Board Relationship to Senior Management**

20)

#### **Regular Attendance of Non-Directors at Board Meetings**

Senior management non-Board members may attend the meetings of the Board. The Board may request the attendance of other individuals as necessary or appropriate.

21)

#### **Board Access to Senior Management**

Board members have complete access to the Company's management. Board members ensure that this contact is not distracting to the business operation of the Company.

Furthermore, the Board encourages the management to, from time to time, bring to the Board's attention individuals who: (a) can provide additional insight into the items being discussed because of their expertise in certain areas, and/or (b) are managers with future potential that the senior management believes should be brought to the Board.

#### **Meeting Procedures**

22)

#### **Selection of Agenda Items for Board Meetings**

The Chairman of the Board will establish the agenda for each Board meeting. Each Director. Each Board member is free to request the inclusion of additional items on the agenda.

23)

#### **Board Materials Distributed in Advance**

Information and data that is important to the Board's understanding of the business is distributed to the Board before the Board meets with reasonable time provided for review.

24)

#### **Board Presentations**

As a general rule, presentations on specific subjects should be sent to the Board members are adequately informed and prepared and discussion time focused on the material.

#### **Committee Matters**

25)

#### **Number, Structure and Independence of Committees**

From time to time, the Board may want to form a new committee or disband a committee under the circumstances. The current four committees are Audit and Finance, Compensation and Governance, International. The Audit and Finance, Compensation and Governance committee consists of Independent directors.

26)

#### **Assignment and Rotation of Committee Members**

The Governance Committee is responsible, after consultation with the Chairman, in the consideration of the desires of individual Board members, for the assignment of members to committees.

It is the sense of the Board that consideration should be given to rotating Committee members. The Board does not believe that such a rotation should be mandated as a policy since it is a point in time to maintain an individual Director's committee membership for a period of time.

Any Board member is welcome to attend the meetings of any Committee of the Board, and such Committee.

27)

**Frequency and Length of Committee Meetings**

The Committee Chair, in consultation with committee members, will determine the frequency and length of meetings of the Committee.

28)

**Committee Agenda**

The Chair of the Committee, in consultation with the appropriate members of the Committee, will develop the Committee's agenda.

**Leadership Development**

29)

**Formal Evaluation of the Chairman and the Chief Executive Officer**

The Compensation Committee and the other Independent Directors shall make formal evaluations of the Chairman and the Chief Executive Officer. The results of these evaluations should be communicated to the Chief Executive Officer by the Chair of the Compensation Committee. The evaluation should be based on objective criteria including performance of the Chairman and Chief Executive Officer against long-term strategic objectives, development of management, etc. The evaluation should be based on the course of its deliberations when considering the compensation of the Chief Executive Officer.

30)

**Succession Planning**

The Governance Committee and the Chief Executive Officer will provide to the Board of Directors a succession plan for the Chief Executive Officer.

There should also be available to the Governance Committee, on a continuing basis, a list of potential successors. A recommendation as a successor should the Chief Executive Officer be unexpectedly resign or die, the Governance Committee shall recommend a successor, whether internal or external.

\* \* \*



Nothing in these Corporate Governance Principles is intended to expand the fiduciary obligations of Board members or officers of the Company beyond those provided by applicable law and regulation.

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**PENTAIR, INC.**  
**AUDIT COMMITTEE CHARTER**

The Audit and Finance Committee is responsible for:

- (a) assisting the Board of Directors with oversight of the accounting and financial reporting process and audits of the financial statements of the Company, including
  - (i) the integrity of the Company's financial statements,
  - (ii) the Company's compliance with legal and regulatory requirements,
  - (iii) the independence and qualifications of the Company's external auditor; and

(iv)

the performance of the Company's internal audit function and of the external  
and

(b)

preparing the report that Securities and Exchange Commission ( SEC ) rules  
annual proxy statement.

The Committee at least quarterly shall meet separately as a committee with the  
management, with the Company's senior internal audit staff, and with the external  
Committee shall meet separately or with management, other personnel, and it  
determine necessary or appropriate in its reasonable judgment to perform its duties  
periodically with the Company's General Counsel to review legal matters that  
financial statements, the Company's compliance policies and any material reports  
regulators or government agencies.

The Committee shall generally be referred to as the Audit Committee.

1.

Committee Composition. The Audit Committee shall consist of at least three  
Independent, as defined below, and financially literate. All members of the C  
Company. In addition, at least one member of the Committee shall be an Audit  
determined by the Board of Directors. The members of the Audit Committee  
appointed by the Board of Directors on the recommendation of the Governance  
Audit Committee may be removed by a majority vote of the Board of Directors  
simultaneously serves on the audit committee of more than two other public c  
that such simultaneous service would not impair the ability of such member to  
Committee and disclose such determination in the Company's annual proxy s

Each Committee member will submit an annual statement to the Board of Directors  
these independence requirements.

*Qualifications*

Audit Committee Financial Expert shall mean a person who has, through

(i)

education and experience as a public accountant, auditor, principal financial officer, or principal accounting officer or experience in one or more positions that involve the performance of similar

(ii)

experience actively supervising a public accountant, auditor, principal financial officer, or principal accounting officer or other person performing similar functions,

(iii)

experience overseeing or assessing the performance of companies or public accountants in the preparation, auditing or evaluation of financial statements, or

(iv)

other relevant experience,

the following attributes:

(a)

an understanding of generally accepted accounting principles ( GAAP ) and

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(b)

an ability to assess the general application of such principles in connection with the recognition of accruals, and reserves;

(c)

experience preparing, auditing, analyzing or evaluating financial statements the complexity of accounting issues that are generally comparable to the breadth of issues reasonably be expected to be raised by the Company's financial statements, or for one or more persons engaged in such activities;

(d)

an understanding of internal controls and procedures for financial reporting; and

(e)

an understanding of audit committee functions.

For a director to qualify as "Independent" for the purposes of this Charter, the director must be Independent as set forth in the Company's Corporate Governance Principles.

(a)

The director may not, other than in his or her capacity as member of the Board of Directors thereof, accept directly or indirectly any consulting, advisory or other compensation from or for any affiliate (as defined and interpreted pursuant to SEC rules).

(b)

Other than in his or her capacity as a member of the Board of Directors or any committee thereof, the director may not be an affiliated person of the Company or any of its subsidiaries (as defined in the SEC rules).

2.

Hiring and Independence of External Auditors. The Audit Committee is directed to oversee the compensation, evaluation, terms of engagement (including retention and term of engagement) of the independent registered public accounting firm chosen to serve as external auditor of the Company, and for rendering opinions on the firm's compliance with GAAP and various financial accounting standards. The external auditor shall report to the Audit Committee.

(a)

The external auditor appointed by the Committee shall, in the opinion of the Company, be independent of the Company. An external auditor does not meet the independence requirement if the auditor is, or is related to, an officer, controller, chief financial officer, chief accounting officer, any person performing similar functions for the Company or any person in a position to, or that does, exercise influence over the Company's financial statements or anyone who prepares them, was employed by the external auditor in any capacity in the audit of the Company during the one year period preceding the

(b)

The Committee shall require the external auditor to submit to the Committee a written statement delineating all relationships between the external auditor and the Company, and to engage in a dialogue with the external auditor with respect to any disclosed relationships that may affect the objectivity and independence of the external auditor.

(c)

On an annual basis, the Committee shall be responsible for obtaining and reviewing information describing: (i) the external auditor's internal quality-control procedures; (ii) a recent internal quality-control review, or peer review, of the external auditor, by governmental or professional authorities, within the preceding five years, respectively; and (iii) any steps taken to deal with deficiencies identified in audits carried out by the external auditor, and

(d)

In appointing an external auditor, the Committee shall require audit partner rotation and shall require the external auditor to disclose the effective date of any transition time periods under applicable SEC and other rules.

(e)

The Committee shall report periodically to the Board regarding its determination of the independence and qualifications of the external auditor.

(f)

The Committee shall set clear policies for the hiring by the Company of employees of external auditors who participated in any capacity in the audit of the Company.

3.

Audit Services and Permitted Non-Audit Services; Conduct of Audit. The Audit Committee shall be responsible for reviewing and approving all auditing services (including providing comfort letters in connection with the audit) and all Permitted Non-Audit Services, proposed to be provided by the external auditor, and for monitoring the performance of such services.

(a)

The Committee shall review and approve the external auditor's audit plan in connection with the audit work.

(b)

Permitted Non-Audit Services shall mean such non-audit services, including those permitted by applicable rules and regulations, but *shall not include* the following services during the transition time periods under applicable SEC and other rules and regulations:

(i)

bookkeeping or other services related to the accounting records or financial statements;

(ii)

financial information systems design and implementation;

(iii)

appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

(iv)

actuarial services related to financial statement amounts or disclosures;

(v)

internal audit outsourcing services;

(vi)

management functions or human resources;

(vii)

broker or dealer, investment adviser, or investment banking services;

(viii)

legal services; or

(ix)

expert services unrelated to the audit.

(c)

The Committee may delegate authority to approve Permitted Non-Audit Services to the Audit Committee, provided that such approvals are disclosed to the Audit Committee at the next Audit Committee meeting, and shall cause such approved non-audit services to be disclosed in the audit reports in accordance with SEC rules.

(d)

The Committee shall receive reports from the external auditor regarding:

(i)

all critical accounting policies and practices to be used in the audit;

(ii)

all alternative treatments of financial information within GAAP that have been used by the Company, ramifications of the use of such alternative disclosures and treatments, and the effect on the external auditor;

(iii)

other material written communications between the external auditor and management, including the management letter or schedule of unadjusted differences.

(e)

The Committee shall review with the external auditor any audit problems or deficiencies, the auditor's response, including any restrictions on the scope of the external auditor's activities, the auditor's audit information, and any significant disagreements with management, such as

(i)

any accounting adjustments that were noted or proposed by the auditor but were not recorded;

(ii)

any communications between the audit team and the external auditor's national office regarding significant accounting issues presented by the engagement; or

(iii)

any management or internal control letter issued or proposed to be issued by the external auditor.

(f)

Discuss with the external auditor such other matters as it deems relevant in its professional judgment, including those discussed by applicable laws, rules, regulations and accounting standards, including the AICPA Code of Professional Standards No. 61, relating to the conduct of the audit.

4.

Financial Statements; Accounting Practices and Policies. With regard to the Company's financial statements and accounting practices and policies, the Committee shall:

(a)

Meet with management to review the annual audited financial statements and the Company's accounting and auditing principles and practices as well as the adequacy of internal controls that may affect the Company's financial statements.

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(b)



Review significant financial reporting issues and judgments made in connection with the Company's financial statements.

(c)

Review and discuss with management and the external auditor the Company's annual and quarterly financial statements, including the Company's disclosures under Item 7 of the Analysis of Financial Condition and Results of Operations.

(d)

Review major changes to the Company's auditing and accounting principles and policies with the external auditor, internal auditor or management.

(e)

Discuss earnings press releases, as well as financial information and earnings forecasts with the Company's rating agencies.

(f)

Be responsible for resolution of disagreements between management of the Company and its external auditor regarding financial reporting.

5.

Risk Management. The Committee shall review and discuss policies with management, and advise management of any suggested additions or changes to the policies that govern the process by which risk assessment and risk management is handled. The Committee shall have the responsibility to meet periodically with management to review the Company's risk management process and the steps management has taken to monitor and control such exposures.

6.

Internal Audit Function. With regard to the Company's internal audit practices,

(a)

Perform a general oversight function assuring adequate competent staff and staff to ensure the integrity of the Company's financial reporting process.

(b)

Review the performance of the internal audit department.

(c)

As appropriate, review significant reports to management prepared by the internal audit department and management's responses.

(d)

Discuss with the external auditor, the appropriate responsibilities, budget and scope of the internal audit function, as well as any limitation on the internal audit that the external auditor has identified.

7.

Procedure for Reporting Accounting and Auditing Concerns. The Audit Committee shall review and approve the procedures for the receipt, retention and treatment of complaints received by the internal accounting controls or auditing matters; and for the confidential, anonymous reporting by the Company of concerns regarding questionable accounting or auditing matters.

8.

Disclosures Regarding Controls. The Audit Committee shall review disclosures regarding the Company's Chief Executive Officer and Chief Financial Officer, or their equivalent, in the process for the Form 10-K and Form 10-Q about any significant deficiencies in internal controls or material weaknesses therein and any fraud involving management or a person performing a significant role in the Company's internal controls.

9.

Outside Advisors. The Audit Committee shall have the authority to retain and engage outside advisers, as it deems necessary to advise the Committee. The Audit Committee shall have the authority to engage outside advisers as the Audit Committee deems necessary to carry out its duties. The Committee shall determine the funding, as determined by the Committee, for payment of compensation to the outside advisers rendering or issuing an audit report and to any advisers employed by the Company.

request any officer or employee of the Company or the Company's or Company's auditor, or other consultants and advisors to attend a meeting of the Committee or the Committee.

10.

Other Duties and Responsibilities. The Audit Committee shall:

(a)

Review and reassess at least annually the adequacy of this Charter and recommend to the Board for its review and approval.

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(b)

Prepare the report required by the rules of SEC to be included in the Company's annual report and shall submit all required certifications regarding the activities of the Audit Committee and shall submit all required certifications.

(c)

Perform an annual performance evaluation of the Audit Committee.

(d)

Reports its activities to the Board of Directors at each Board meeting.

(e)

Perform such other duties as delegated to it from time to time by the Board of Directors.

11.

Finance Oversight. In addition to its responsibilities for oversight of the Company's financial reporting process, the Audit Committee also provides oversight for the financial condition of the Company. The Committee shall conduct reviews, provide management and counsel to the Board of Directors concerning matters within

In order to accomplish its objectives, in consultation with management and where necessary or appropriate, the Committee shall have the following specific responsibilities:

(a)

Shall conduct reviews jointly with management prior to making recommendations

(i)

Changes in company capital structure.

(ii)

Sales or repurchases of equity and long-term debt.

(iii)

The financing of major capital expenditure programs.

(iv)

The financing of acquisitions, divestitures, joint ventures,

partnerships or other combinations of business interests.

(v)

Annual financial performance objectives as developed by management.

(vi)

Dividend policy and declarations.

(vii)

The use of any derivative related instruments, including its use to manage currency risk.

(viii)

Foreign currency positions.

(b)

Shall review investment policies and practices as follows:

(i)

Review investment policies relating to the Company's qualified employee plan and report to such policies.

(ii)

Receive and review written semi-annual investment performance reports.

(iii)

Review annually management's reports regarding the effectiveness of trustee investment managers relative to established benchmarks.

(iv)

Report investment results to the Board of Directors annually and, as conditionally required, in response to any specific inquiries and analysis.

(v)

As to the 401(k) plans, review (a) the criteria for selecting funds to be offered performance and related risks of each fund.

(c)

If appropriate and necessary to receive information not otherwise available, contact managers and advisors and such other persons within or outside of the company.

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**PENTAIR, INC.**

**COMPENSATION COMMITTEE CHARTER**

The Compensation Committee has overall responsibility for compensation actions of the chief executive officer (the "CEO") and other officers elected by the Board of Directors (the "Officers"). Each member of the Committee shall be (a) an Independent Director (as defined in the Corporate Governance Principles), (b) a Non-Employee Director (as defined in the Corporate Governance Principles promulgated under the Securities Exchange Act of 1934 and (c) an individual who is not a "covered person" under 162(m)(4)(C) of the Internal Revenue Code. The members of the Compensation Committee shall be three in number, and its Chairperson will be appointed by the Board of Directors.

Governance Committee. Any member of the Compensation Committee may be a member of the Board of Directors.

The Committee shall meet separately or with management, other personnel and independent outside professional compensation advisors to determine necessary or appropriate in its reasonable judgment to perform its duties.

The Committee shall provide assistance to the Board of Directors in fulfilling its duties relating to the Company's compensation philosophy and practices for Officers and various employee benefit plans. In so doing, it is the responsibility of the Committee to facilitate the means of communication between the directors, the Company's financial management and independent outside professional compensation advisors.

In carrying out these responsibilities, the Committee will:

1.

Adopt an executive compensation strategy consistent with the Company's plan and the Company's pay for performance philosophy. The Committee shall review and approve the objectives relevant to the CEO's compensation.

2.

Review and establish all compensation arrangements and agreements between the Company and senior executives, and take all necessary salary actions in the form of written compensation contracts that include, but not be limited to cash compensation, bonuses, stock options, restricted stock, retirement, other benefits and other perquisites.

3.

With respect to the CEO, be responsible for evaluating, at least annually, the CEO's performance against the Company's goals and objectives, and shall set the CEO's compensation level.

(a)

In determining the long-term incentive component of the CEO's compensation, the Committee shall consider the Company's performance and relative shareholder return, the value of similar awards given to comparable companies, and the awards given to the CEO in prior years.

(b)

All Independent directors on the Board of Directors shall be given the opportunity of the CEO in connection with the annual performance review conducted by the

4.

Supervise participation in all stock plans (Omnibus Stock Incentive Plan, Stock Option Plan, etc.) and grant awards under these stock plans consistent with each plan's intent

5.

Periodically review the competitiveness of major compensation, bonus, stock option plans, the Company's retirement program philosophy, and the adequacy of retirement and retirement planning programs for all categories of employees.

6.

Meet with the CEO, Human Resources management, legal counsel, and if deemed appropriate, professional compensation advisors to review current trends and practices in compensation disclosure requirements under various securities and exchange rules and regulations, and authority to retain and terminate any outside compensation advisors, including compensation fees and other retention terms, hired for the purpose of assisting the Committee on Officer compensation.

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7.

Review incentive-compensation plans and stock-based compensation programs presented to the Board of Directors with respect to such programs and the relative weighting of such compensation in overall Officer compensation.

8.



Review annually with the CEO and the Governance Committee, the recruitment programs of candidates expected to assume senior management positions as well as

9.

Within the scope of its duties, to investigate or have investigated any matter on which the Committee determines to be necessary or appropriate. The Committee may consult with outside advisors for this purpose if, in its judgment, that is appropriate.

10.

Conduct an annual evaluation of the performance of the Committee.

11.

Report its activities to the Board of Directors at each Board meeting.

12.

Prepare annually a report on executive compensation for inclusion in the Company's proxy statement with applicable rules and regulations of the Securities and Exchange Commission.

13.

The Committee has the power and authority to delegate such of its powers and responsibilities to subcommittees of the Committee, as it from time to time determines to be necessary. The Committee also performs other functions that are delegated by the Board from time to time.

In carrying out its responsibilities, the Committee believes its policies and procedures are designed in order that it can best react to changing conditions and environment, and to assure the satisfaction of shareholders that the executive compensation and stock plan practices of the Company are of the highest quality and are of the highest quality.

**PENTAIR, INC.****GOVERNANCE COMMITTEE CHARTER**

The Governance Committee is responsible for developing and implementing policies and procedures intended to assure that the Board of Directors will be appropriately constituted to meet its obligations to the Company and its shareholders on an ongoing basis. The Board of Directors designates annually three or more Independent directors, as defined in the Company's Corporate Governance Principles, to constitute members of the Governance Committee, one of whom shall be the Chairperson of the Committee. Any member of the Governance Committee shall be appointed by the vote of the Board of Directors. The Committee holds meetings as necessary upon the request of any members of the Committee or the Company's Chief Executive Officer (CEO).

**Powers and Duties**

1.

The Committee evaluates the current and future composition and governance of the Board, including the appropriate size of the Board. It is the Committee's responsibility to review the Board corporate governance principles applicable to the Company as a whole and to recommend for the review of the Company's policies and procedures regarding the disclosure of information.

2.

The Committee establishes standards for membership on the Board of Directors and recommends the following and the Corporate Governance Principles:

**Composition of the Board**

Recognizing that the contribution of the Board will depend not only on the choices made individually, but also on their collective strengths, the Board should be

a.

Directors chosen with a view to bringing to the Board a variety of experience

b.

Directors who will form a central core of business executives with financial e

c.

Directors who have substantial experience outside the business community communities, for example;

d.

Directors who will represent the balanced, best interests of the shareholders and groups or constituencies; and

e.

A majority of directors who are Independent (all references in this Charter to Company's Corporate Governance Principles).

#### Selection Criteria

In considering possible candidates for election as a director, the Committee will be guided in general by the composition guidelines established above and in part

a.

each director should be chosen without regard to sex, race, religion or national

b.

each director should be an individual of the highest character and integrity and the ability to work well with others;

c.

each director should be free of any conflict of interest which would violate and interfere with the proper performance of the responsibilities of a director;

d.

each director should possess substantial and significant experience which would be helpful to the Company in the performance of the duties of a director;

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e.

each director should have sufficient time available to devote to the affairs of the Company and to the responsibilities of a director; and

f.

each director should have the capacity and desire to represent the balanced, best interests of the whole and not primarily a special interest group or constituency and be committed to the long-term shareholder value.

3.

Consistent with the standards set forth above, the Committee (a) identifies and recommends a list of qualified persons to be nominated for election or re-election as directors at the next annual meeting, to fill interim vacancies, and (b) considers suggestions for Board membership submitted by shareholders in accordance with the notice provisions and procedures set forth in the Company's

a.

The Committee is responsible for maintaining a list of persons who may be potential candidates and seeking out possible candidates and to otherwise aid in attracting highly qualified candidates.

b.

The Committee has sole authority to retain and terminate any search firm to be used by the Company, including sole authority to approve the search firm's fees and other terms of its engagement.

c.

Consistent with the Company's Corporate Governance Principles, the Committee oversees the Company's orientation program for new directors, and for ongoing education and training of directors that the Committee deems appropriate in its judgment.

d.

The Committee is responsible for reviewing potential conflicts of interest of potential directors, for reviewing and assessing matters which may be deemed to present an actual or potential conflict of interest between an incumbent director and the Company or its shareholders, and for recommending the removal of a director's employment in determining whether to recommend the removal of a director.

4.

The Committee evaluates Company policies affecting the recruitment of directors and Board and committee members in accordance with the Company's Corporate Governance Principles, insurance and indemnification bylaws, and make recommendations to the Board of Directors and the Board committee, regarding such matters.

5.

The Committee also:

a.

recommends the term of office for directors;

b.

recommends retirement policies for non-employee directors;

c.

recommends the desirable ratio of employee and non-employee directors, subject to the requirements of applicable law; the majority of the directors must be Independent; and

d.

reviews the format of Board meetings and makes recommendations for the improvement of the same;

6.

The Committee makes recommendations to the Board of Directors about the appointment and removal of members of Board committees, required expertise and qualifications for members of Board committees, and the selection of the chairperson of each Board committee. The Committee reviews the Board regarding the nature and duties of Board committees, including without limitation:

a.

evaluating the charter, duties and powers of Board committees (including authority to call meetings and report to the Board) as well as the reporting requirements of each committee to the Board as a whole; and recommending changes to the Board regarding Company objectives and recommending changes with respect thereto;

b.

recommending the term of office for committee members; and

c.

considering whether there should be a policy of periodic rotation of directors and, if so, the terms of such policy; and recommending limitations on the number of consecutive years a director should serve as a member of the Board;

7.

The Committee is responsible for the establishment and administration of an evaluation process and the oversight of the ongoing evaluation process of the Committee reviews the CEO's nomination of corporate officers and makes recommendations to the Board of Directors regarding persons to be elected officers by the Board of Directors and proposed persons to be elected officers by the Board of Directors. In addition, the Committee:

a.

reviews and approves (or disapproves) officers' requests to stand for election to the boards of directors.

b.

receives periodically recommendations from the CEO regarding succession planning for executive talent and the executive management needs of the Company. Consistent with the Company's Governance Principles, the Committee shall be responsible for Company succession planning, in cooperation with the CEO and the Compensation Committee, and report to the Board of Directors on succession planning activities on an annual basis.

c.

after meeting with all Independent directors on the Board, recommends to the Board of Directors a candidate for a vacancy occurs.

8.

The Committee reviews periodically with the Company's General Counsel, in light of new legislation, regulations and other developments, the Company's Code of Business Conduct and make recommendations to the Board for any changes, amendments and modifications that the Committee deems desirable or necessary to comply with New York Stock Exchange and Securities Exchange Commission rules. In addition, the Committee will consider and approve any provision of the foregoing for any executive officer or director of the Company.

9.

The Committee conducts an annual performance evaluation of the Committee

10.

The Committee reports on its activities to the Board of Directors at each Board

11.

The Committee is responsible for oversight of the Company's Share Rights A

12.

The Committee has the power and authority to delegate such of its powers and  
subcommittees of the Committee, as it from time to time determines to be nec  
Committee also performs other functions that are delegated by the Board from

13.

Within the scope of its duties, the Committee has the power and authority to i  
brought to its attention as the Committee determines to be necessary or appro  
has the power to retain outside advisors for this purpose if, in its judgment, th

14.

The Governance Committee shall also serve as the Company's Public Policy  
responsibility for review of performance of the public policy functions of the  
role assists the Company's Board of Directors and management in addressing  
global corporate citizen. The Committee does not have executive responsibilit  
areas.

The Company recognizes that significant public policy issues impact every sta  
committed to managing its businesses in a manner that is sensitive to these iss  
reinforced in the Company's Code of Business Conduct and Ethics (the "Co

(a)

With regard to business conduct, the Committee will:



(i)

Review how stakeholders are impacted as the Company manages its operations.

(ii)

Review whether effective programs are in place to communicate the beliefs and values of the Company.

(iii)

Monitor management's response to stakeholders' comments regarding Code of Ethics.

(b)

With regard to corporate compliance, the Committee will:

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(i)

Review the Company's compliance with domestic and international environmental laws and regulations.

(ii)

Review management's responses to major health and safety issues facing the Company.

(iii)

Review the Company's policies and practices related to equal employment opportunity, diversity, and labor relations.

(iv)

With respect to major litigation, product liability, and potential claims affecting the Committee will provide management with support and counsel as necessary.

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**PENTAIR, INC.**

**INTERNATIONAL COMMITTEE CHARTER**

The purposes of the International Committee are to (a) develop and oversee internal procedures for the Company's operations outside of North America, (b) provide advice to the Board and (c) assist management in formulating growth, development and organizational strategies for international business units.

**Composition**

The Committee shall consist of up to 5 directors, subject to the authority of the Board to increase or decrease the number of Committee members. Members of the Committee need not be directors as defined by the Governance Committee. Any member of the International Committee shall be appointed by a majority vote of the Board of Directors.

**Powers and Duties**

The Committee shall meet at least once per year. One meeting per year shall be held at one of the Company's international business units. Management of the Company shall determine the agenda for the meeting. At least annually, management shall report to the Committee a strategic plan for the operations of the Company outside of North America. The Committee shall report on its activities to the Board of Directors at the next Board meeting following the meeting.

Committee.

The Committee will have the following topics, among other matters, within its strategic focus of international business units, growth opportunities, joint ventures, international acquisitions, international issues of domestic business units, facility rationalization, business structures, global taxation, compliance with local laws and regulations, and compliance with extraterritorial laws and regulations of the United States, Canada, and operations outside of North America.

In performing its responsibilities, the Committee will coordinate its activity with other committees having subject matter responsibility generally, e. g., Audit and Finance, Compensation

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**PENTAIR, INC.**

**COMPENSATION PLAN FOR NON-EMPLOYEE**

**As Amended and Restated**

**Effective May 1, 2004**

**SECTION 1**

**BACKGROUND AND PURPOSE**

**1.1**

**Background.** Effective as of January 17, 1986, Pentair, Inc. adopted a Compensation Plan for Non-Employee Directors. This plan permits such directors to elect to receive, at some future date, compensation in shares of Pentair common stock of the fees which would otherwise be paid to them for services performed as a director. The plan has been amended and restated several times since its adoption. The most recent such restatement made effective February 26, 1997.

Pentair is again amending the plan, by way of restatement, to comply with the requirements of the Securities and Exchange Commission regarding equity compensation plans, to clarify certain administrative provisions of the plan, and to limit the plan to non-employee directors. The amendments adopted since the plan's last restatement, and to limit the plan to non-employee directors, of this restated plan is contingent on shareholder approval of the plan. If such approval is obtained, the plan will be effective May 1, 2004, or such other date as may be specifically provided in the plan's approval.

**1.2**

**Purpose.** Pentair has created this plan for the following purposes:

(a)

to permit its non-employee directors to receive retainer and meeting fees or other compensation for future payment in shares of Pentair common stock, together with a long-term component of compensation as measured by changes in the value of said stock; and

(b)

to assure its non-employee directors receive a competitive total compensation package with a long-term component tied to long-term growth in shareholder value.

**SECTION 2**  
**DEFINITIONS**

Unless the context clearly requires otherwise, when capitalized the terms have the following meanings when used in this Section or other parts of the Plan:

(a)

**Account** is an account maintained under the Plan by the Plan Agent to receive contributions.

(b)

**Administrator** is Pentair.

(c)

**Board** is the Board of Directors of Pentair, as elected from time to time.

(d)

**Change in Control** is a change in control of Pentair as defined in the KEE Plan.

(e)

**Deferred Compensation** is an amount of Fees, the payment of which a Director is entitled to receive at some future time pursuant to the terms of the Plan, together with any market appreciation of such amount, payable to the Director by Pentair.

(f)

**Director** is a non-employee member of the Board.

(g)

**Equity Compensation** is that portion, if any, of a Director's total compensation consisting of additional Share Units and deferred for payment to the Director until such time as determined by the Board.

(h)

**Fees** are a Director's annual retainer, meeting, chair retainer, and chair monthly installments by Pentair.

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(i)

**KEESA** is the Key Executive Employment and Severance Agreement approved by the Board effective August 23, 2000.

(j)

**Pentair** is Pentair, Inc., a Minnesota corporation.

(k)

**Plan** is the Pentair, Inc. Compensation Plan for Non-Employee Directors effective May 1, 2004, and as it may be amended from time to time thereafter.

(l)

**Plan Agent** is the entity duly appointed by Pentair to receive funds resulting from Pentair matching contributions, from dividends declared on Stock or to purchase shares of Stock with such funds and to maintain Plan Accounts.

(m)

**Share Units** are the units used to credit Deferred or Equity Compensation with reference to the market value per share of Stock on the date the Share Units

Agent.

(n)

**Stock** is Pentair common stock, par value \$0.16-2/3 per share.

(o)

**Year** is the twelve (12) consecutive month period beginning January thereof during which an individual serves as a Director, over which a Director election will apply.

### SECTION 3

#### DEFERRAL OF FEES

##### 3.1

**Eligibility.** Upon becoming a member of the Board, a Director may elect to c of the Fees paid on account of service as a Director until such future time Director does not make a deferral election with respect to the Fees paid for a shall be paid in monthly cash installments to the Director.

##### 3.2

**Deferral Election.** Each Year a Director may elect to defer receipt of a desig Fees, with any percentage designation being made in ten percent (10%) in (100%) of such Fees, and to receive such amount as Deferred Compensation. Compensation shall be valid unless entered into prior to the time a Director Fees. For current Directors, a deferral election must be made prior to the fir become Directors during a Year, any such deferral election must be made n Board service begins. A deferral election is irrevocable with respect to the To the extent a Director who has made a deferral election for a Year does no immediately following Year, the last deferral election made shall remain in submits a new deferral election.

##### 3.3

**Matching Contribution.** Pentair shall make a matching contribution each month for each Director who has elected to defer payment of some or all of the annual retainer paid after the end of the year in cash to the Director. Said matching contribution shall be equal to fifteen percent of the annual retainer as the Director shall have elected to defer hereunder.

### 3.4

**Accounting for Deferred Compensation.** The Administrator shall cause the Plan to be funded for each Director who elects to receive Deferred Compensation. All Fees and contributions made with respect thereto, shall be allocated to such Account on a monthly basis each month when Stock purchases are made by the Plan Agent. All Deferred Compensation Accounts as Share Units.

### 3.5

**Purchase of Stock.** The Plan Agent shall purchase Stock on the open market using the funds received from Pentair. The Plan Agent shall make all such purchases on a monthly basis each month, as agreed to by the Plan Agent and Pentair. All Stock so purchased shall be in the nominee name and not allocated to Accounts; no Director shall have voting rights with respect to any Stock acquired for purposes of the Plan. Stock purchased under the Plan shall be owned by Pentair as an investment to assist Pentair in meeting its obligation to pay Deferred Compensation.

Share Units allocated to Accounts shall be adjusted to reflect Stock dividends. Cash dividends paid with respect to Stock purchased for purposes of the Plan shall be used for Deferred Compensation for purposes of purchasing Stock and allocated to Accounts as Share Units.

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### 3.6

**Time of Distribution of Deferred Compensation.** When making an election to receive Deferred Compensation, the Director shall also designate the time at which such Deferred Compensation shall be irrevocable.

The Director may elect the time he or she wishes to receive payment of Deferred Compensation from more of the following options:



(i)

On a specific date;

(ii)

Upon attainment of a specific age; or

(iii)

Upon the occurrence of a stated event, such as death, retirement from principal services as a Director, disability or any other event or occurrence stipulated by the Administrator.

No payment election may result in a Director receiving payment of Deferred Compensation six (6) months after the date of the Director's election to defer Fees. In the event a Director elects to receive payment of Deferred Compensation, the Deferred Compensation authorization shall terminate six (6) months after the date the individual ceases to be a Director, or the date the Director dies or, if later, a date that is at least six (6) months after the date the Director ceases to be a Director.

### 3.7

**Form of Distribution of Deferred Compensation.** A Director's Deferred Compensation shall be distributed in a single payment and, except as otherwise described herein, shall be distributed to the Director pursuant to the provisions of Section 3.6. The Stock so distributed shall be distributed to the Director's dividend reinvestment account, if any, in which case any fractional shares shall be rounded up to the nearest whole share, or (ii) delivered directly to said Director, in which case the Plan Administrator shall allocate the Stock into which the Share Units allocated to such Director's Account can be sold at the current market price of the Stock. Any fractional shares allocated to such Account shall be sold at the current market price and the cash proceeds of such sale delivered to the Director.

## SECTION 4

### EQUITY COMPENSATION

#### 4.1

**Determination of Equity Compensation.** In the discretion of the Board of Directors, the Board may determine the amount of Equity Compensation for any Year beginning on or after May 1, 2004 in which all or

account of their service on the Board, as herein detailed, does not equal the total amount of Equity Compensation that Pentair has determined shall apply for such year. The amount of Equity Compensation shall be calculated by subtracting from the total Board compensation amount (i) the amount of any matching contributions made by Pentair, (ii) any matching contributions made by Pentair, (iii) the value of all options granted to the Director for such Year pursuant to the Directors Non-Qualified Stock Option Plan. Any balance remaining is the amount of Equity Compensation for such Year. Equity Compensation shall be allocated to a Director's Account during each Year, or any part thereof, the individual serves as a Director, and the Board shall determine whether Equity Compensation shall be available for such Year.

#### 4.2

**Accounting for Equity Compensation.** Equity Compensation shall be allocated to Accounts. The Plan Agent shall purchase Stock on the open market with the Equity Compensation. If Equity Compensation is to be allocated as an annual amount, the Plan Agent shall purchase the number of business days during one month of the year as shall be agreed. If Equity Compensation is to be allocated in monthly installments, the Plan Agent shall use the funds received from Pentair to purchase Stock on the open market at the same time as the Deferred Compensation funds. All Stock so purchased shall be held in a trust for the benefit of the Director. The Director shall have voting or other ownership rights with respect to any Stock purchased under the Plan. Stock purchased by the Plan Agent shall be held by Pentair as an agent in fulfillment of its obligation to pay Equity Compensation.

Share Units allocated to Accounts shall be adjusted to reflect Stock dividends. Cash dividends paid with respect to Stock purchased for purposes of the Plan shall be used for Equity Compensation for purposes of purchasing Stock, and allocated to Accounts as follows:

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#### 4.3

**Time of Distribution of Equity Compensation.** Each Director shall, prior to receiving an award of Equity Compensation, make a one time, irrevocable election for the payment of all Equity Compensation which may be awarded to the Director. A Director shall be entitled to receive payment of Equity Compensation if he or she is no longer a Director or

(i)

a date specified by the Director;

(ii)

an age specified by the Director; or

(iii)

upon the occurrence of an event specified by the Director and approved by the

No Director may elect a distribution date which will result in the Director's Equity Compensation prior to the date he or she ceases to be a member of the Board. If a Director elects a time of distribution, then his or her Equity Compensation will be paid on the date such individual ceases to be a Director.

#### 4.4

**Form of Payment of Equity Compensation.** At the same time as a Director elects the form of payment of Equity Compensation, he or she may also elect the form in which the payment is made. This election is a one-time, irrevocable election which shall apply to all Equity Compensation paid to the Director's Account.

All Equity Compensation shall be paid as Stock in one of the following forms:

(i)

a single payment;

(ii)

annual installments paid over five (5) years; or

(iii)

annual installments paid over ten (10) years.

Such Stock, when paid, shall be either (i) deposited into the Director's dividend account, in which case fractional shares shall also be allocated to such account; or (ii) delivered to the Director, in which case the Plan Agent shall deliver the whole shares of Stock into which the fractional shares in the Director's Account can be converted at the then current market price of the Stock. The shares allocated to such Account shall be sold at the Stock's then current market price and the proceeds shall be paid to the Director. In the event a Director shall fail to elect a form of payment, Compensation shall be distributed in a single payment. If a Director elects a form of payment, unpaid amounts allocated to such Director's Account shall continue to be subject to the same terms and conditions as if such Director had elected a form of payment.

## **SECTION 5**

### **DISTRIBUTION IN EVENT OF DEATH**

In the event of a Director's death prior to the distribution of the entire Compensation, the distribution of the then unpaid Deferred and Equity Compensation allocated to the Director shall be made to the beneficiary named by the Director, if any, or to the person who is named in the Director's will or distribution by will or (if there shall be no will) by the laws of descent and distribution in the State in which the Director was domiciled at death. Such distribution shall be made in whole shares being sold at the Stock's then current market price and paid in cash. This Section shall remain in effect until such time as a Director files a new will with the local probate court Administrator.

## **SECTION 6**

### **REPORTS**

The Plan Agent shall periodically report the following information to Pentair:

(a)

the total number of Share Units allocated to Accounts;

(b)

the total shares of Stock purchased by the Plan Agent since its last report; and

(c)

the number of shares of Stock into which Share Units then allocated to Account

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Pentair shall pay all commissions, service charges or other costs incurred with the purposes of the Plan. When any such Stock is sold, the Director is responsible for all service charges or other costs incurred on account of such sale.

## SECTION 7

### CHANGE IN CONTROL

#### 7.1

**Effect on Directors or Former Directors.** Upon a Change in Control, and notwithstanding any provision previously made by the Director or former Director and other Plan provisions, the Director shall receive all of his or her remaining Plan benefits in a cash lump sum payment. If such Director or former Director timely elects otherwise in accordance with Section 7.1, the election shall be the first business day of the third calendar month following the calendar month in which the Change occurs; provided, however, for a Director in office as of the date of the Change, the election shall be the first business day of the third calendar month following the calendar month in which the Director ceases to hold office.

#### 7.2

**Election to Forego Lump Sum.** A Director or former Director otherwise eligible for a lump sum payment under Section 7.1 may elect to forego payment of the lump sum if he or she so elects in writing with the Administrator no later than thirty (30) days before the lump sum payment is made. If a Director or former Director timely elects to forego the lump sum payment, such Director or former Director shall be entitled to the benefits provided in accordance with the Director or former Director's otherwise effective benefit election. The Director or former Director shall not be eligible for benefits from this Section 7 other than Section 7.5.

#### 7.3

**No Delay in Payment.** Application of this Section 7 shall not delay the date elected by a Director or former Director or as otherwise provided under the Plan.

#### 7.4

**Notice of Lump Sum Entitlement and Election to Forego Lump Sum.** No later than the date of the Change in Control, the Administrator shall cause a notice to be sent to each Director or former Director to whom the provisions of this Section 7 may apply. Such notice shall be sent in a manner to be actually and timely received by such Directors or former Directors, and shall set forth the provisions of this Section 7 and such Director's election to forego or accept such Director's entitlements hereunder. In the event such notice is not timely sent as to a Director or former Director, the date of the Change in Control and the date for election to forego or accept the lump sum date and the date for election to forego or accept shall be appropriately adjusted to reflect the time periods that would have applied had such notice been timely sent.

#### 7.5

**Treatment of Share Units.** Upon a Change in Control, all Share Units then held by a Director or former Director shall be converted into a deferred compensation account for each such Director or former Director. The deferred compensation account shall be credited with the dollar amount of Deferred Compensation and Equity Compensation earned by each such Director or former Director immediately before the Change in Control. Beginning with the day immediately following the Change in Control, the deferred compensation account as adjusted for interest thereon is fully paid to each such Director or former Director. The unpaid balance of the deferred compensation account shall be credited with interest at the rate which shall be the greater of (i) seven percent (7%), compounded annually, and (ii) the interest rate in effect from time to time pursuant to and determined in the applicable provisions of sections 6621(c)(1) and 6622(a), respectively, of the Internal Revenue Code of 1986. For purposes of applying clause (ii) immediately preceding, the date of the Change in Control shall be the applicable date within the meaning of such section 6621(c).

## SECTION 8

### MISCELLANEOUS

#### 8.1

**Term of Plan.** Contingent upon receipt of shareholder approval, this Plan shall terminate on the date specified in the Plan or on any other date as the shareholders may provide at the time of approval, and shall terminate on the date that is ten (10) years after such effective date, unless earlier terminated by the Board.

#### 8.2

**Board Tenure.** The procedures for removal of any individual as a Director shall not be affected by the existence of the Plan or the decision by a Director to defer Fees.

### 8.3

**Funding.** The Plan is a non-qualified, unfunded deferred compensation arrangement and no trust is required to be established to fund benefits provided to Directors hereunder.

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assets to provide for such benefits. In the event of default of payment hereunder, Directors shall have no greater entitlements or security than does a general creditor of Pentair.

### 8.4

**Nonalienability.** No disposition, charge or encumbrance by any Director or any income earned thereon by way of anticipation shall be valid or in any event enforceable if the Director shall have the right to assign, transfer, encumber or otherwise dispose of any part of any earnings thereon (except by will or the laws of descent and distribution) until such time as such Director. No Deferred or Equity Compensation or income earned thereon shall be subject to the claims of any creditors of a Director until the same is paid to such Director.

### 8.5

**Default.** In the event Pentair shall fail to pay when due any Deferred or Equity Compensation, such payment shall continue for a period of thirty (30) days from receipt of written notice by the Director, Pentair shall be in default hereunder and shall pay to the Director a sum equal to the amount of such amount, including reasonable attorney's fees.

### 8.6

**Amendment or Termination.** The Plan may be amended or terminated at any time without the consent of the rights of Directors or former Directors accrued under the Plan through the date of termination shall not be affected by such action without the express written consent of the Board.

### 8.7

**Applicable Law.** To the extent not preempted by applicable federal law, this Plan shall be construed in accordance with the substantive laws of the State of Minnesota.

conflict of laws provisions thereof.

### 8.8

**Construction.** The Administrator shall have full power and authority to interpret the Plan, to adopt rules and regulations not inconsistent with the Plan for purposes of the Plan, with respect to matters not specifically covered in the Plan document and to amend the Plan and any rules so adopted. Except as otherwise provided in the Plan, any interpretation of the Plan shall be within the discretion of the Administrator which is made in good faith by the Administrator and shall be binding.

### 8.9

**Interpretation.** Section and subsection headings are for convenience of reference only and shall not influence its interpretation. Whenever any words are used in the Plan in the masculine or neuter form, they shall be construed as though they were also used in the feminine or non-neuter form, respectively, in all cases where such interpretation is reasonable.

### 8.10

**Communications.** Pentair or the Plan Agent may, unless otherwise prescribed by applicable law or regulation, provide the Plan's prospectus, and any notices, forms, and other documents by electronic means.

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**PENTAIR, INC.**

**OMNIBUS STOCK INCENTIVE PLAN**



As Amended and Restated

Effective May 1, 2004

**SECTION 1  
BACKGROUND AND PURPOSE**

1.1

**Background.** Effective January 12, 1990, Pentair, Inc. ( Pentair ) combined into one plan, the Pentair, Inc. 1990 Omnibus Stock Incentive Plan, to facilitate awards and to permit administration of its equity compensation program and adoption, the plan has been amended several times, with the last such amendment in 2003.

Contingent upon obtaining shareholder approval, Pentair is restating the plan on another date as the shareholders may provide at the time of approval. Pentair is increasing the number of shares to be available for awards of equity compensation and awards which may be made under the plan and to clarify various administrative provisions.

1.2

**Purpose.** Pentair maintains this comprehensive equity compensation plan for the following purposes:

(a)

To promote the growth and success of Pentair by linking a significant portion of executive compensation to an increase in value of Pentair common stock;

(b)

To attract and retain top quality, experienced executives and key employees under the equity compensation program;

(c)

To reward innovation and outstanding performance as important contributors to Pentair's progress;

(d)

To align the interests of executives and key employees with those of shareholders by linking between participant rewards and shareholder gains obtained through the plan with Pentair's short-term objectives and long-term goals; and

(e)

To encourage executives and key employees to obtain and maintain an equity position in Pentair.

**SECTION 2  
DEFINITIONS**

Unless the context requires otherwise, when capitalized the terms listed below when used in this or other sections of the Plan:

(1)

**Affiliate** is any corporation, business trust, division, partnership, joint venture or other legal entity which is not a Subsidiary, but in which Pentair holds (directly or indirectly) an interest, the employees of which the Committee has determined may be covered during periods of such ownership as the Committee shall prescribe.

(2)

**Award** is an Option, SAR, Restricted Stock, Right to Restricted Stock, or other cash or Stock incentive granted to a Participant, subject to the terms, conditions and to such other terms, conditions and restrictions as may be established with respect to such award.

(3)

**Board** is the Board of Directors of Pentair, Inc., as elected from time to time.

(4)

**Change in Control** is a change in control of Pentair, as that term is defined in the Plan.

(5)

**Code** is the Internal Revenue Code of 1986, as amended.

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(6)

**Committee** is the Compensation Committee of the Board, as appointed from time to time.

(7)

**Consultant** is a person or entity rendering services to a member of the Pentair Group or any such member and who is not otherwise eligible to participate under this compensation plan sponsored by Pentair, but who has contributed, or can be expected to contribute, to the growth and success of the Pentair Group or any member thereof.

(8)

**Disabled** or **Disability** is a physical or mental incapacity which qualifies for a long term disability plan maintained by Pentair, or such similar mental or physical condition which may determine to be a Disability, regardless of whether either the individual is or is not covered by such long term disability plan.

(9)

**Eligible Employee** is a key managerial, administrative or professional employee whose position is generally evaluated at salary grade 25 or higher and whose contribution to the continued profitable growth and long term success of the Company is significant. In the case of employees of an Affiliate, this term shall not include individuals who do not participate under the Plan or another similar plan sponsored by Pentair.

(10)

**Fair Market Value** is the closing price of a share of Stock on the relevant Exchange, or such other exchange as may then list Pentair Stock, or, in the event there is no such exchange, otherwise determined using procedures established by the Committee.

(11)

**Fiscal Year** is the twelve (12) consecutive month period beginning January 1st of each year.

(12)

**Incentive Stock Option** or **ISO** is an Option which is designated as such under section 422.

(13)

**KEESA** is the Key Executive Employment and Severance Agreement approved by the Board effective August 23, 2000.

(14)

**Nonqualified Stock Option** or **NQSO** is any Option which is not, or cannot be, an Incentive Stock Option.

(15)

**Option** is a right to purchase Stock subject to such terms and conditions as otherwise provided under the Plan.

(16)

**Participant** is an Eligible Employee or a Consultant approved by the Committee.

(17)

**Pentair** is Pentair, Inc., a Minnesota corporation.

(18)

**Pentair Group** is, as of any relevant date, Pentair and all Subsidiaries and

(19)

**Performance Award** is an Award the payment of which is based on the achievement of Performance Goals over a Performance Cycle, both as established relative to the

(20)

**Performance Cycle** is the period established relative to a Performance Award for an individual with respect to the Performance Goals for the Pentair Group, or a member of the Pentair Group or any unit, branch or division of such member, as relevant for the purpose of determining the extent to which a Performance Award has been earned.

(21)

**Performance Goals** are the business or financial objectives, or both, established for a Participant and which are to be achieved over a Performance Cycle. The Performance Goals for the performance-based compensation exception under Code section 162(b)(6) include the following business criteria: net income; stockholder return; stock price appreciation; revenue growth; return on investment; return on invested capital; earnings before interest and amortization; operating income; market share; return on sales; asset reduction; operating cash flow; and new product releases.

(22)

**Performance Share** is a share of Stock, Restricted Stock or a Right to Restricted Stock determined by the Participant's degree of attainment of Performance Goals and, subject to the lapse of any other restrictions, all as established relative to the Award.

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(23)

**Performance Unit** is a unit representing the right to receive an amount of cash or Stock determined by the Participant's degree of attainment of Performance Goals and, subject to the lapse of any other restrictions, all as established relative to the Award.

(24)

**Plan** is the Pentair, Inc. Omnibus Stock Incentive Plan, as described in the Plan Document and as it may be amended from time to time.

(25)

**Reload Option** is an Option granted to a Participant who, within five (5) years of the date the feature is granted, exercises such Option by making payment for all or part of the

Stock.

(26)

**Restricted Stock** is Stock issued to a Participant subject to such restrictions as may be established relative to the Award, and which will remain subject to said restrictions until such time as the restrictions are satisfied.

(27)

**Restricted Unit** is a unit representing the right to receive an amount of cash or other property, the restrictions established relative to the Award are satisfied.

(28)

**Restriction Period** is the length of time established relative to an Award during which the Participant cannot sell, assign, transfer, pledge or otherwise encumber any portion of the Award which the Participant obtains an unrestricted right to such Stock.

(29)

**Retirement** is the ending of employment with the Pentair Group by a Participant who has been employed for ten (10) years (55) and completed ten (10) years of service with the Pentair Group.

(30)

**Right to Restricted Stock** is a right awarded to a Participant to receive an amount of cash or other property, which Award is subject to such restrictions as may be established relative to the Award, which Award will remain subject to such restrictions until said restrictions lapse and Stock or other property is distributed to the Participant.

(31)

**Significant Shareholder** is an Eligible Employee who, as of the date of the Award, owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Participant's Subsidiary corporation.

(32)

**Stock** is Pentair common stock, par value \$0.16-2/3 per share.

(33)

**Stock Appreciation Right** or **SAR** is an Award which entitles a Participant to receive, upon exercise, an amount of cash or other property, the conditions as may be established relative to the Award, an amount of cash or other property equal to the value of the Rights to Restricted Stock measured by the increase in Fair Market Value of the Stock from the date of exercise.

(34)

**Subsidiary** is any corporation, business trust, division, partnership, joint venture, or other legal entity in which Pentair owns (directly or indirectly) fifty percent (50%) of the total combined voting power of all classes of stock of the Subsidiary.

analogous to voting stock, but only during the period such ownership interest

(35)

**Units** are Awards which entitle a Participant to receive, subject to such terms and conditions, an Award, including the attainment of Performance Goals over a Performance Period, or a change in the Fair Market Value of Stock, or such other amount as may be determined by the Committee, which amount may be paid to the Participant in cash, Stock, Restricted Stock or any combination thereof.

### SECTION 3 SHARES AVAILABLE FOR AWARDS

3.1

**Number of Shares.** The number of shares of Stock that may be issued or transferred pursuant to Awards which may be made during the term of the Plan is 5,000,000, less the number of shares authorized for such purposes under prior versions of the plan which as of March 31, 2010, was 1,000,000, under any such prior plan, subject to adjustment as provided in Section 3.2. The number of shares available, at the discretion of the Committee, from authorized but unissued shares of Stock acquired in the open market.

3.2

**Adjustments to Maximum Number of Shares of Stock.** (a) **Reuse of Shares.** In determining the number of shares of Stock available for issuance or delivery, the Committee, at any time, no

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Stock shall be deemed issued or delivered in connection with an Option until the Option is exercised and delivered to the Participant. If any Award, whether issued under the Plan, is surrendered, exercised, cashed out, lapses, expires, or otherwise terminates without being exercised, the number of shares of Stock having been issued to the Participant, the number of shares subject to the Plan shall be reduced by the number of shares available for issuance as Awards. Such number of shares of unrestricted Stock shall be reduced by the number of shares of full or partial payment of withholding or other taxes, the number of shares of Stock used for payment purposes, and the number of shares used to pay an Option exercised. The number of shares of Stock issued as Awards. Upon the exercise of an SAR issued in tandem with an Option, the number of shares of Stock available for issuance as Awards shall be reduced by the number of shares of an Award of Restricted Stock, Rights to Restricted Stock or Performance Shares. The number of shares of Stock available for issuance as Awards shall be reduced by the number of shares of a Unit which does not settle in shares of Stock, Restricted Stock or Rights to Restricted Stock. The number of shares of Stock available for issuance as Awards shall be reduced by the number of shares of an Option or applicable Stock Award, making such number of shares of Stock available for issuance as Awards.

(b)

**Antidilution.** In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, Stock split, spin-off or other change in Pentair corporate structure, the Committee is authorized to make substitutions or adjustments in the aggregate number and kind of shares available under the Plan, in the number, kind and price of shares subject to outstanding Awards, as detailed in Section 3.3, provided that any such substitutions or adjustments shall not result in a net increase in the number of shares of Stock available for issuance as Awards.

appropriate by the Committee, consistent with the treatment of Stock not subject to the Award, shares subject to any Award will always be a whole number.

In the event of a corporate merger, consolidation, acquisition of assets or liquidation, the Committee shall be authorized to cause Pentair to issue Options, whether or not in a transaction to which Code section 424(a) applies, by means of the exercise of previously issued stock options or an assumption of previously issued stock options. The number of shares of Stock available for issuance as Awards will be increased by the exercise of such options, assumption, and such shares as are substituted or assumed shall not be counted against the above limits.

3.1.

3.3

**Restrictions on Awards.** The Awards granted to any one Participant in a Fiscal Year shall not exceed the number of shares of Stock, which number shall include any SARs, Restricted Stock, 500,000 shares of Restricted Stock or Rights to Restricted Stock, which number shall include any SARs issued in tandem with such an Award; or Performance Shares with a Fair Market Value of \$1,000,000 each year in a Performance Cycle, which number shall include any Performance Shares. Furthermore, not more than twenty percent of the shares of Stock available under the Plan may be used for Awards settled in cash or Restricted Stock. To the extent a Unit or SAR is granted in tandem with Restricted Stock or Rights to Restricted Stock so as to cancel an Award of Units or SARs, such Units or SARs shall not be counted against the above limits; Units or SARs which will settle in cash or Restricted Stock shall be counted against the above limits. In applying the dollar limit stated herein, all Awards shall be valued using the fair market value of the Stock as of the date the Award is made, without regard to any vesting or other restrictions which may apply to the Award.

3.4

**Vesting of Awards.** Except as otherwise provided in Section 6 or Section 7, Awards shall vest as described in Section 9.1, Awards shall vest as herein described.

(a)

**Options.** Awards of ISOs and NQSOs shall vest, or become exercisable, over a period of three (3) years, with not more than one-third of an Award of Options vesting on the first anniversary of the grant date, not more than one-third on the second anniversary of the grant date, and not more than one-third on the third anniversary of the grant date. To the extent Options treated as ISOs cannot be exercised because of the exercise limits contained in Section 4.2(b), such Options shall be exercised in accordance with the vesting provisions applicable to such ISOs at the time they are exercised. To the extent Options are exercised, they shall be treated as a new grant of NQSOs for vesting purposes. Unless another determination is made by the Committee, Reload Options are vested and exercisable as of the grant date.

(b)

**Stock Appreciation Rights.** Stock Appreciation Rights shall vest and become exercisable as a term or condition of the Award. To the extent SARs are exercised, they shall vest at the same times and over the same period as the related Options.

(c)

Restricted Stock, Rights to Restricted Stock and Restricted Units. Awards of Stock and Restricted Units shall vest following completion of the Restricted Award. No portion of such an Award shall vest sooner than the third anniversary. Restricted Units shall vest at such time as is established as a term or condition of the Award, in tandem with Restricted

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Stock or Rights to Restricted Stock, shall vest at the same times and over the same period as the Stock or Rights to Restricted Stock.

(d)

Performance Awards. An Award of Performance Shares or Performance Units shall have a term which shall be not less than one (1) year, but may be of any other length as determined by the Committee at the end of a Performance Cycle, Performance Shares or Performance Units, to the extent of the Award. Performance Units shall vest at such time as is established as a term or condition of the Award. Performance Units are awarded in tandem with Performance Shares, such Units shall vest over the same period as the Performance Shares.

(e)

Other Awards. To the extent the Committee makes an Award other than those described herein, such Award shall vest at the time or times and over the period established by the Committee.

(f)

Exceptions to Vesting Rules. The Committee shall have the discretion to make an Award on any condition, including making such Award vested at grant, to the extent it deems appropriate in light of the business circumstances then existing. As an example, to align the interests of the Committee with those of Pentair, the Committee may determine it is necessary to make an Award with immediate ownership of Stock.

## SECTION 4 TYPES AND TERMS OF AWARDS

4.1

**General.** The Committee shall determine the type or types of Awards to be granted under the Plan. Awards shall be evidenced by such written or electronic documents as the Committee may determine. Awards described herein may be granted under the Plan.

4.2

**Incentive Stock Options.** (a) Grant of ISOs. Incentive Stock Options shall be granted at an exercise price of less than one hundred percent (100%) of the Fair Market Value of Stock on the date of grant. If the Award is to a Significant Shareholder, the exercise price shall not be less than 110%



the date of grant. Unless earlier terminated, ISOs shall expire not later than five (5) years from the date of grant. ISOs awarded to a Significant Shareholder shall expire not later than five (5) years from the date of grant. No ISO shall extend beyond the Plan termination date. No ISO shall otherwise affect a Participant's right to exercise any other Option, nor shall a tandem ISO or otherwise affect the Participant's right to exercise any other Option. An Option intended to be an ISO would be deemed a tandem option.

(b)

**ISO Exercise Limit.** The aggregate Fair Market Value of Stock, determined as of the date of grant, of ISOs which may become exercisable for the first time in any calendar year shall not exceed the aggregate Fair Market Value of Stock of the Company as of the date of grant, and, to the extent such limit is exceeded, any Options which exceed the limit shall not be exercisable. In determining whether this exercisability limit has been met or exceeded, ISOs granted, and any acceleration of an ISO exercise date shall change the date of applying this limit. Notwithstanding this limit, Options granted with an exercise price in excess of \$100,000 need not be designated as ISOs. In the event this exercise price limit of Section 4.2(b) shall be applied so as to take into account such limit as adjusted for the effect of any stock splits.

4.3

**Nonqualified Stock Options.** Nonqualified Stock Options granted under the Plan shall have an exercise price equal to not less than one hundred percent (100%) of the Fair Market Value of the underlying Stock as of the date of grant, shall expire at such time or times as specified in documents evidencing the grant, and shall expire not later than ten (10) years from the date of grant. The term of a Nonqualified Stock Option shall not extend beyond the Plan termination date.

4.4

**Reload Options.** If the Committee, in its discretion, grants an Option with an exercise price equal to not less than one hundred percent (100%) of the Fair Market Value of the underlying Stock as of the date of grant, and the Participant exercises such an Option by tendering cash or shares of the Company, the Participant shall receive a grant of Reload Options. The number of Reload Options granted shall be equal to the number of shares of Stock utilized by the Participant to pay the exercise price. Each Reload Option shall have an exercise price equal to one hundred percent (100%) of the Fair Market Value of the underlying Stock as of the date of grant, and shall expire at the same time as the Option exercised would have expired. Reload Options may be granted as either ISOs or NQSOs and, to the extent allowed by the Plan, shall have the same type of Option as was exercised to trigger the grant of the Reload Option, and shall have the same terms and conditions as the Option exercised, except that the use of a Reload Option will not entitle the Participant to another grant of Reload Options. A Reload Option will not entitle the Participant to another grant of Reload Options if the Participant ends employment or otherwise ceases to provide services to the Company.

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Group shall not be eligible for a grant of Reload Options, regardless of whether the Option exercised to trigger the grant of Reload Options had a reload feature, and regardless of the manner in which the exercise price was paid.

4.5

**Stock Appreciation Rights.** Stock Appreciation Rights may be granted in any number of shares of Stock a Participant could acquire by exercise of an Award. An Award may be granted in any number without relation to an Option Award. An Award shall specify the terms and conditions applicable to the Award, provided that the Award will not limit or otherwise affect the ability of an ISO to qualify as such.

4.6

**Restricted Stock and Performance Shares.** (a) Awards of Restricted Stock. Awards shall specify the number of shares of Stock so awarded, the Restriction Period and the restrictions which shall apply to the Award. In addition to such other restrictions, when a Restricted Stock Award is made, each share of Restricted Stock shall also be

(i)

No share of Restricted Stock may be sold, assigned, transferred, pledged or otherwise disposed of while subject to any restrictions.

(ii)

Except as otherwise provided in the Plan, unless the Participant remains employed by the Pentair Group until all restrictions lapse or are otherwise removed by the Committee, any Restricted Stock awarded to such Participant shall be forfeited and returned to Pentair.

During the time Restricted Stock remains subject to the relevant restrictions, the Participant shall have the rights of a shareholder with respect to the Restricted Stock, including the right to receive dividends. If the Committee shall provide otherwise, the right to receive dividends paid with respect to Restricted Stock shall be subject to the restrictions.

(b)

Awards of Performance Shares. The Performance Goals which shall apply to the Award shall be established by the Committee before the Performance Cycle commences or commences, while achievement of the Performance Goal is substantially achieved. If an Award of Performance Shares, the Committee shall have the discretion to use such performance measures in respect to Participants who are not reasonably likely to be covered employees under Section 162(m), at the time all or any part of a Restricted Stock or Performance Share Award is made. The Participant's employer for federal income tax purposes.

4.7

**Rights to Restricted Stock.** Rights to Restricted Stock shall be subject to the restrictions on Restricted Stock, as described in Section 4.6, except that Participants receiving Restricted Stock shall not have any of the rights of a shareholder until such time as the restrictions are removed and the Stock is issued to the Participant. In the discretion of the Committee, a Participant may receive payment of, or have credited to a bookkeeping account or the equivalent of, the amounts that would otherwise be payable as dividends on Restricted Stock, which the Rights to Restricted Stock may be converted.

4.8

**Unit Awards.** (a) **Restricted Units.** Restricted Units may be granted in tandem with an Award of Restricted Stock or Rights to Restricted Stock, and may relate to any number of such shares. An Award of Restricted Units shall specify the Restriction Period and other restrictions which may relate to such Award. An Award of Restricted Units issued in tandem with an Award of Restricted Stock or Rights to Restricted Stock shall be subject to the same terms and conditions as the Award of Restricted Stock or Rights to Restricted Stock to which it is issued.

(b)

**Performance Units.** Performance Units may be granted in tandem with an Award of Restricted Stock or Rights to Restricted Stock, and may relate to any number of such shares. Performance Units may also be granted without relation to an Award of Restricted Stock or Rights to Restricted Stock. An Award of Performance Units shall also specify the Performance Goals and Performance Cycle applicable to the Award. Performance Units issued in tandem with an Award of Restricted Stock or Rights to Restricted Stock shall be subject to the same Performance Goals and Performance Cycle as the Performance Share to which it is issued. An Award of Performance Units shall be paid to the Participant based upon the results of the Performance Goals that were attained, with such results determined as soon as practicable after the Performance Cycle has ended.

4.9

**Other Stock or Cash Awards.** The Committee may, in its sole discretion, grant Awards of Restricted Stock or Rights to Restricted Stock, or Cash Awards, which may be payable in cash, Stock, Restricted Stock or Rights to Restricted Stock. Awards may be granted singly, in combination with, in replacement of or as alternatives to the Awards described in Section 4, subject to such terms and conditions as may be established in the description of such Award. Such Award shall be subject to the same terms and conditions as the Award to which it is issued.

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consistent with the other types of Awards described herein, subject to the limitations set forth in Section 4, and consistent with the goals and objectives of the Plan.

## SECTION 5 SETTLEMENT OF AWARDS

5.1

**Forms of Payment.** Awards shall settle in accordance with the terms and conditions of the Award, and in accordance with the procedures herein described.

5.2

**Exercising Options.** Subject to the terms and conditions of the Award, vested Awards may be exercised, in whole or in part, by giving notice of exercise to Pentair in such manner as may be specified in the Award, and accompanied by payment in full of the exercise price in cash or by use of such other means as the Committee may agree to accept.

Payment in full may be made in the form of Stock already owned by the Participant. Payment in full may also be made in the form of Cash, or in the form of Stock, at the Participant's Fair Market Value on the date the Option is exercised. A Participant who elects to receive payment in the form of Stock may transfer fractional shares or shares of Stock with an aggregate Fair Market Value equal to the exercise price plus applicable withholding taxes. A Participant need not present Stock

Stock, so long as other satisfactory proof of ownership of the Stock tend ownership of a sufficient number of shares of Stock to pay the exercise p discretion to authorize or accept payment by other forms or methods or to est within such limitations as may be imposed by the Plan or any applicable law.

5.3

**Exercise of SARs.** Stock Appreciation Rights may be exercised at the t conditions applicable to the Award. If the SARs were issued in tandem wi only when the Fair Market Value of the Stock subject to the Award exceeds date of grant. Stock Appreciation Rights issued without relation to an Optio value of the SARs determined, in accordance with the terms and conditions re SAR is granted in tandem with an Option, the exercise of the SAR shall canc of such Option shall cancel any related SAR. The amount paid to the Particip be the amount established at the time the Award was made and shall be not m of the difference between the Fair Market Value of the Stock as determined o Fair Market Value of the Stock on the date of exercise.

5.4

**Restricted Stock, Rights to Restricted Stock and Restricted Units.** Except such time as all restrictions applicable to an Award of Restricted Stock, Ri Units are met and the Restriction Period expires, ownership of the Stock awa be transferred to the Participant free of all restrictions except those that provided that if Restricted Units are paid in cash, said payment shall be made restrictions lapse and the Restriction Period expires. To the extent a Restrict Award of Restricted Stock or Rights to Restricted Stock, payment of the Award of Restricted Stock or Rights to Restricted Stock, and transfer of the the related Restricted Unit.

5.5

**Performance Shares and Performance Units.** Except as otherwise provid shall be paid to the Participant after earned in accordance with the terms and All determinations with respect to the degree to which the Performance Go Cycle shall be made as soon as practicable after the end of the Performance paid in cash, Stock, Restricted Stock, Rights to Restricted Stock, or any comb determine. To the extent Performance Units were awarded in tandem with Units in cash shall cancel the related Award of Performance Shares, and pay in Stock shall cancel the related Performance Unit.

5.6

**Delivery of Stock.** As soon as practicable after the exercise of an Option, th to Restricted Stock or Rights to Restricted Stock or the satisfactory attai Performance Cycle, Pentair shall cause to be delivered to the Participant evid ownership of such Stock, whether through use of certificated or uncertificate the exercise of an ISO shall be designated as such on the records maintained b

5.7

**Deferral of Recognition of Awards.** To the extent allowed by the Committee, the income recognized due to the exercise of an NQSO or SAR, the lapse of restricted stock or Restricted Units, the earning of a Performance Award, or the payment of a Performance Award (including ISO).

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Any such election generally must be made by the Participant before the relevant Award can be exercised, in no case later than six (6) months before the payout relative to such Award can be made, unless the Award remains subject to a risk of forfeiture or, in the case of an NQSO, at least six (6) months before the Option.

## SECTION 6 TERMINATION OF AWARDS

### 6.1

**General Rule.** Except as otherwise provided herein, and subject to the discretion of the Committee, Section 9.1, Options and SARs may be exercised and Awards of Restricted Stock, Restricted Units, Performance Shares or Performance Units paid only in accordance with the terms specified relative to the grant or, in the case of a Change in Control, as provided in the applicable Award Agreement.

### 6.2

**Termination of Employment.** If a Participant's employment with the Pentacore ends by (i) a termination for cause, (ii) Retirement, (iii) death or (iv) Disability, any Awards made to the Participant, to the extent otherwise exercisable on the date the Participant's employment ends, shall be exercisable (90) days following the Participant's termination date or, if earlier, the expiration date of the Option or SAR. At the conclusion of such ninety (90) day period, all such Options and SARs then unexercised shall be deemed to have expired. Awards made to the Participant, to the extent not then earned or paid to the Participant, shall be paid to the Participant on the Participant's last day of employment.

### 6.3

**Retirement.** (a) **Retirement of Corporate Officer or Subsidiary President.** If a Participant is then a Board appointed corporate officer or Subsidiary President, any Awards made to the Participant's Retirement date may be exercised no later than ninety (90) days following the expiration date of the Option or SAR. All such Options and SARs shall remain exercisable until the expiration date specified at the time the Award was made and the fifth anniversary of the expiration date; provided, however, such extension shall result in the conversion of an Award into cash under the Code. The Restriction Period applicable to Awards of Restricted Stock, Restricted Units outstanding on the Participant's Retirement date, as well as the terms applicable to such Awards shall be deemed to have lapsed or otherwise be deemed to have expired. Awards shall be made to the Participant in either unrestricted shares of Stock or cash, on the terms applicable to such Award. All Performance Awards outstanding on the Participant's Retirement date shall be paid in either unrestricted shares of Stock or cash, as the case may be, based on the Participant's performance had attained the applicable Performance Goals as of such Participant's Retirement date.

### (b)

**Other Participants.** Upon Retirement of a Participant not covered by Section 401(a)(9) shall be exercisable on such a Participant's Retirement date may be exercised no later than the Retirement date or, if earlier, the expiration date of the Option or SAR. At the end of such period, all Options and SARs then unexercised shall be forfeited. The Restriction Period applicable to an outstanding Award of Restricted Stock, Rights to Restricted Stock or Restricted Units

shall be deemed to have lapsed on a prorated basis, based on the portion of the Restriction Period which the Participant has completed at the time of Retirement. The amount earned and payable on account of an outstanding Performance Award shall also be prorated based on the degree to which the Participant has attained the relevant Performance Goals and the portion of the Performance Cycle completed as of the date of Retirement.

6.4

**Death of Participant.** If a Participant dies during employment with all members of the Plan, all outstanding Options and SARs shall be exercisable by, or paid to, the Participant's estate or any person who acquires the right to exercise Options or SARs and receive payment of cash or property by reason of inheritance. The Participant's estate, or any person who succeeds to the Participant's estate, shall have up to twelve (12) months to exercise any outstanding Options or SARs. If the Participant would have been entitled to exercise said Options or SARs on the date of death, but for the death, within a twelve (12) month period, all Options and SARs then unexercised shall be forfeited. The Restriction Period applicable to an outstanding Award of Restricted Stock, Rights to Restricted Stock or Restricted Units shall be deemed to have lapsed on a prorated basis, using the portion of the Restriction Period which the Participant had completed as of the date of death. The amount earned and payable on account of an outstanding Performance Award shall be prorated based on the degree to which the Participant had attained the relevant Performance Goals of the Performance Cycle completed as of the date of death.

6.5

**Disability of Participant.** If a Participant's employment with all members of the Plan terminates by reason of Disability, the Participant shall have up to twelve (12) months to exercise any outstanding Options or SARs. To the same extent the Participant would have been entitled to exercise said Options or SARs if the Participant's employment had not terminated, the determination is effective. At the end of said twelve (12) month period all Options and SARs then unexercised shall be forfeited. The Restriction Period applicable to an outstanding Award of Restricted Stock or Restricted Units

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shall be deemed to have lapsed on a prorated basis, based on the portion of the Restriction Period which the Participant had completed as of the date of Disability. The amount earned and payable on account of an outstanding Performance Award shall also be prorated based on the degree to which the Participant has attained the relevant Performance Goals and the portion of the Performance Cycle completed as of the date of Disability. The Committee shall have such discretion as is necessary to determine whether the Participant is Disabled for purposes of the Plan.

6.6

**Termination for Cause.** If a Participant's employment with all members of the Plan terminates by reason of Cause, all Awards and grants of every type, whether or not then vested, shall terminate as of the last day of employment. The Committee shall have discretion to determine whether the event or conduct at issue constitutes cause for termination of the Plan. All outstanding Awards to a Participant shall terminate. For purposes of the Plan, termination

limited to, (i) a material violation of any Pentair policy, including any policy relating to Business Conduct, (ii) embezzlement from, or theft of property belonging to Pentair, (iii) willful failure to perform or gross negligence in the performance of or failure to perform other intentional misconduct, whether related to employment or otherwise, which has had or has a material adverse effect on the business conducted by the Pentair Group or a Subsidiary.

6.7

**Consultants.** The Committee shall have the discretion to determine whether Sections 6.3 through 6.6 shall apply to a Consultant, and when a Consultant shall be providing services to the Pentair Group for purposes of applying Section 6.2.

## **SECTION 7 TRANSFERABILITY**

7.1

**General.** Except as otherwise provided in this Section 7, Awards cannot be assigned, pledged, or otherwise encumbered (including by will or the laws of descent and distribution), pledged, or otherwise encumbered (including otherwise).

7.2

**Limited Purpose Transfers.** (a) **Allowable Transfers.** If allowed by the Committee, the ownership of some or all of the vested or earned Awards granted to such Participant may be transferred to the spouse, children or grandchildren of such Participant (the "Family Members") for the exclusive benefit of such Family Members, or (iii) a partnership in which such Participant is a partner. Any such transfer shall be without consideration and shall be irrevocable. Any such transfer shall be subsequently transferred, except by will or applicable laws of descent and distribution, and shall not create additional conditions and requirements applicable to the transfer of Awards.

(b)

**Treatment of Options After Transfer.** Following the allowable transfer of Awards, the Awards shall continue to be subject to the same terms and conditions as were applicable to the Awards prior to the transfer. For purposes of settlement of the Award, delivery of Stock upon the occurrence of a Change in Control provisions, however, any reference to a Participant shall be deemed to refer to the transferee. With respect to a Change in Control, however, such event as may cause the transfer of Awards shall apply with respect to the Participant, following which event the transferee shall be deemed to be the transferee only to the extent and for the periods specified in Section 8. If there is a Change in Control at such time and in such manner as to result in a grant of Reload Options, the Reload Options shall be granted to the Participant.

## **SECTION 8 CHANGE IN CONTROL**

8.1

**Treatment of Options.** Upon the occurrence of a Change in Control, all Options then employed by Pentair or a Subsidiary shall, to the extent not then vested or exercisable, be immediately exercisable without regard to the terms and conditions attached to the Options.

Options are then exercised under circumstances which would otherwise result in the grant of Reload Options to the Participant, no such Reload Options will be granted.

8.2

**Treatment of Restricted Stock.** Upon the occurrence of a Change in Control, all outstanding shares of Restricted Stock awarded under the Plan shall automatically be cancelled. On the Change in Control date any dividends declared with respect to such Restricted Stock shall be paid to the Participant. If the Participant is not then all such amounts shall be paid within ten (10) days of the Change in Control.

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8.3

**Treatment of Rights to Restricted Stock.** Upon the occurrence of a Change in Control, all outstanding Rights to Restricted Stock shall be fully and immediately vested and the Participant shall be paid the cash value of the shares of Stock which otherwise would have been issued based on the Change in Control date, together with any then unpaid dividends which have been declared on such Stock into which an Award of Rights to Restricted Stock can then be converted.

8.4

**Treatment of Performance Shares.** Upon the occurrence of a Change in Control, all outstanding Performance Shares shall be deemed satisfied and the Participant shall have the discretion to pay to the Participant, in cash or Stock, such amount of the Award as the Participant may determine within ten (10) days of the Change in Control date, together with any dividends declared on such Performance Shares which have not yet been paid.

8.5

**Treatment of Units.** Outstanding Awards of Units shall be valued by assuming that the Award has been satisfied and any other restrictions applicable to such Award have been removed. The Award Committee shall have the discretion to pay to the Participant such amount of cash or Stock as the Committee may determine within ten (10) days of the Change in Control date. If such Unit Award is not paid, payment for such Units shall be made in Stock or cash, depending on the terms of the Award.

8.6

**Participants Covered Under a KEESA.** The provisions of this Section 8 shall not apply if the Participant terminates employment before a Change in Control if the Participant has not yet received all benefits thereunder pursuant to Section 2(b) of the KEESA.

8.7

**Governing Documents.** In the case of any conflict between the provisions of this Section 8 and the provisions of the Plan, this Section 8 will control. In the case of any conflict between the provisions of this Section 8 and the provisions of the KEESA, the provisions of the KEESA will control.



terms and provisions of a Participant's KEESA, the terms of such KEESA shall apply to such Participant, and the obligations of Pentair under such KEESA shall be governed by the terms of such KEESA under the Plan.

## SECTION 9 ADMINISTRATION

### 9.1

**Committee as Administrator.** (a) **General.** The Plan shall be administered by the Committee with full power and authority to select Participants, interpret the Plan, grant Awards, determine the exercisability or vesting of an Award, and adopt such rules and procedures as may be necessary or appropriate. Notwithstanding the above statement, once established, the Committee has the discretion to increase the amount of compensation a Participant whose Award is subject to Code section 162(m) may earn by application of any Performance Goal. However, the Committee shall retain the discretion to decrease the amount of compensation payable under the terms of an Award. Any action by the Committee to accelerate or otherwise modify the terms of an Award, other than Retirement, death, Disability or a Change in Control shall be made only if such action is then existing and, if appropriate, shall include application of a commensurate amount of compensation otherwise payable to reflect the value of accelerated payment.

### (b)

**Compliance with Applicable Law.** The power and authority of the Committee shall include making such amendments or modifications to the Plan or to an Award as may be necessary to make available to Participants tax or other benefits of, or to comply with, the laws, regulations, and court decisions of the United States, any state, any other domestic jurisdiction or any foreign jurisdiction in which Pentair Groups operates or in which Participants who are subject to such laws operate.

### 9.2

**Delegation of Authority.** To the extent permitted under Minnesota law, the Board may delegate to Pentair any or all of its duties, power and authority under the Plan subject to the approval of the Committee may establish. Notwithstanding the preceding sentence, the Committee shall not amend or terminate the Plan nor the authority to award performance-based compensation to which such compensation has been earned with respect to an Award for which the Participant is thought to be, subject to Code section 162(m). In no event, however, shall the Board have authority to grant Awards to himself or herself or to any person who is subject to the Securities Exchange Act of 1934.

### 9.3

**Accounting Standards.** Calculation of changes to any Performance Goal shall be made without regard to changes in accounting methods used by Pentair. Such calculations shall be required by the Financial Accounting Standards Board after a Performance Goal is established and prior to the time the compensation earned by reason of such Performance Goal is paid to the Participant.

9.4

**Amendment of Awards.** Except as otherwise provided in the Plan, the Committee may amend the terms of any Award. Any such amendment may be made either with or without the consent of such Participant or amend the terms of an Option so as to reduce the exercise price of such Option, provided that no such amendment shall either impair the rights of such Participant or amend the terms of an Option so as to reduce the exercise price of such Option without the approval of the Committee. Without the approval of the Committee, the Committee may not cancel any outstanding Option and replace it with a new Option having the same exercise price, if such action would have the same economic effect as reducing the exercise price of such Option.

9.5

**Term of Plan.** Contingent upon receipt of shareholder approval, this Plan shall terminate on the date specified in the resolution of the Board, or on any other date as the shareholders may provide at the time of approval, and shall in any event terminate on the date that is ten (10) years after such effective date, unless earlier terminated by the Board.

## SECTION 10 PLAN AMENDMENT AND TERMINATION

10.1

**Plan Amendment.** Pentair may, by written resolution of its Board or through its duly authorized officers, and from time to time, amend the Plan in whole or in part. Notwithstanding anything to the contrary herein, any such amendment shall, without shareholder approval, have the effect of repricing an Option, increasing the number of Shares of Common Stock available for purposes of making Awards, increasing the limits described in the Plan with respect to the types of Awards, materially enhancing the benefits available to Participants, adding or removing individuals who are eligible to receive Awards, or making such other changes as may be necessary to conform the Plan to any applicable regulation, or standards issued by a self-regulating organization, require shareholder approval.

10.2

**Plan Termination.** Pentair may, by written resolution of its Board, terminate the Plan at any time.

## SECTION 11 MISCELLANEOUS

11.1

**Participant Rights.** The right of a member of the Pentair Group to discipline or terminate the employment of any individual shall not be affected in any manner by the existence of the Plan or any action taken pursuant to the Plan. The right of any individual to receive an Award in any given Fiscal Year shall not require that such individual receive an Award in any subsequent Fiscal Year. Furthermore, the grant to a Participant of a specific Award shall not prevent such individual be selected to receive any other type of Award. The Committee shall have the authority to select the factors as it deems pertinent when selecting Participants and determining the amount of any Award made to a Participant.

11.2

**Participant Responsibilities.** If a Participant shall dispose of Stock acquired either (i) two (2) years after the date the Option is granted or (ii) one (1) year (i.e., in a disqualifying disposition), such Participant shall notify Pentair within 30 days of the disqualifying disposition. In addition, if a Participant elects, under Code section 83, an Award of Restricted Stock (or other property subject to such Code section 83) Award vests, such Participant shall notify Pentair within seven (7) days of the election is awarded.

11.3

**Funding.** The Plan is an unfunded plan, and Pentair has no obligation to or otherwise set aside funds or segregate assets to ensure payment of any Award under the relationship between Pentair and any Participant or other person. To the extent a Participant holds any rights by virtue of an Award under the Plan, such right shall, except as provided in KEESA, be no greater than the right of an unsecured general creditor of Pentair.

11.4

**Expenses.** The expenses of maintaining and administering the Plan shall be borne by Pentair.

11.5

**Indemnification.** To the extent permitted by law, members of the Committee shall be indemnified and held harmless by Pentair with respect to any loss, cost, liability or expense incurred in connection with any claim, action, suit or proceeding which may arise by or for the Plan taken within the scope of the authority delegated hereunder.

11.6

**Communications.** Pentair may, unless otherwise prescribed by any applicable law, provide to Participants any notices, grants, Awards, forms, reports or share certificates by electronic means.

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11.7

**Interpretation.** Section and subsection headings are for convenience of reference and shall not influence its interpretation. Wherever any words are used in the Plan in the masculine or neuter form, they shall be construed as though they were also used in the feminine or non-neuter form, respectively, in all cases where such interpretation is reasonable.

11.8

**Governing Law.** To the extent not preempted by applicable federal law, the Plan shall be made in accordance with the substantive laws of the State of Delaware, in the absence of choice or conflict of laws provisions thereof.

11.9

**Severability.** If any provision of the Plan shall be ruled or declared invalid or unenforceable, the invalidity shall not affect the remaining provisions of the Plan, and such remaining provisions shall be construed and enforced as if such illegal or invalid provision had never been included in the Plan.

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**PENTAIR, INC.**

**EMPLOYEE STOCK PURCHASE AND BOND PLAN**

**As Amended and Restated**

**Effective May 1, 2004**

**SECTION 1**

**HISTORY AND BACKGROUND**

Pentair, Inc. ( "Pentair" ) adopted, effective March 1, 1977, the Pentair, Inc. Employee Stock Purchase Plan, which consolidated into one plan its then existing Employee Stock Purchase Plan. Pentair adopted this plan to provide to employees of Pentair and its subsidiaries an opportunity to purchase, as a long-term investment, shares of Pentair common stock. Employees who authorize payroll deductions for purposes of purchasing Pentair common stock receive a matching contribution from their employer which is used to purchase additional shares of Pentair common stock.

Since its adoption, this plan has been amended and restated several times, most recently, effective January 12, 1992. Pentair is again amending this plan, by way of restatement, effective as of ten (10) years in compliance with rules issued by the New York Stock Exchange.

plans and to clarify administrative procedures. The adoption of this restatement requires the approval of the plan. If such approval is obtained, the plan will be effective on the date to be specified by the shareholders at the time of approval.

## SECTION 2

### DEFINITIONS

Unless the context clearly requires otherwise, when capitalized the terms defined herein shall have the meanings when used in this Section or other parts of the Plan.

(1)

**Account** is an account maintained under the Plan by the Plan Agent to track a Participant's Compensation or contributed directly by a Participant for the purpose of Company matching contributions made on behalf of a Participant, cash or deferred Stock, and the number of shares of Stock held on behalf of each Participant under the Plan.

(2)

**Affiliated Company** is any corporation or business located in and organized under the laws of the United States which is a member of a controlled group of corporations or businesses (within the meaning of Section 414(b) or (c)) that includes the Company, but only during the periods such as to which the Company may have a significant ownership interest and which the Company treats as an Affiliated Company for purposes of the Plan.

(3)

**Code** is the Internal Revenue Code of 1986, as amended.

(4)

**Company** is Pentair, Inc., a Minnesota corporation.

(5)

**Compensation** is a Participant's base wages or salary (i.e., exclusive of any bonus or other incentive-based or discretionary payments, and any equivalent thereof, paid to or on behalf of a Participant for services rendered to the Employer.

(6)

**Eligible Employee** is an Employee, except those Employees:

(i)

who are included in a unit of Employees covered by a collective bargaining agreement with a labor union or other representatives and a Participating Employer, unless and to the extent that the agreement provides that Employees shall be covered by the Plan, or the Participating Employer has agreed to extend coverage under the Plan to such Employees;

(ii)

who are covered under the Pentair, Inc. International Stock Purchase and Bonus Plan;

(iii)

whose Employer is not a Participating Employer; or

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(iv)

who are not treated as Employees by the Company or a Participating Employer, although they may be so treated or considered under applicable law, including the Fair Labor Standards Act or the Insurance Contribution Act or the Fair Labor Standards Act (e.g., individuals who are treated as independent contractors or as self-employed).

(7)

**Employee** is an individual who is an employee of the Company or an Affiliated Company.

(8)

**Participant** is an Eligible Employee who has met the age and service requirements and has completed the authorization form necessary for participation.

(9)

**Participating Employer** is an Affiliated Company which is making, or has made, contributions to the Plan with respect to some or all of its Employees, but only during the period the Plan remains in effect.

(10)

**Plan** is the Pentair, Inc. Employee Stock Purchase and Bonus Plan as described in the Plan document dated May 1, 2004, and as it may be amended from time to time thereafter.

(11)

**Plan Administrator** is the Company.

(12)

**Plan Agent** is the entity duly appointed by the Company to receive contributions from Participating Employers, to purchase shares of Stock with such funds, and to administer the Plan.

(13)

**Prospectus** is the prospectus, as in effect from and after May 1, 2004, which is delivered to eligible Participants with respect to the purchase of Stock under the Plan.

(14)

**Stock** is the common stock of the Company, par value \$0.16-2/3 per share.

### SECTION 3

**ELIGIBILITY**

**3.1**

**General.** All Eligible Employees of a Participating Employer may elect to participate in the Plan upon the attainment of age eighteen (18) and the completion of twelve (12) consecutive months of service with the Company or an Affiliated Company, measured from such individual's original hire date.

**3.2**

**Determining Credit for Completed Service.** (a) Eligible Employee Who Leaves Employment Before Eligible. An Eligible Employee who has completed the twelve (12) consecutive months of service with the Company and all Affiliated Companies and then leaves employment with the Company and all Affiliated Companies prior to the completion of twelve (12) consecutive months of service with the Company and all Affiliated Companies shall not receive credit for any such completed service shall not be lost, regardless of the length of time between the date of such completed service and the individual's rehired date.

(b)

Leaving Employment Before Eligible. An Employee who leaves employment with the Company and all Affiliated Companies prior to the completion of twelve (12) consecutive months of service with the Company and all Affiliated Companies shall not receive credit for any service completed prior to the time such first term of employment with the Company and all Affiliated Companies ends.

(c)

Collectively Bargained Employees. In those cases where a group of Employees is covered by a collective bargaining agreement becomes eligible to participate in the Plan pursuant to the terms of such agreement, unless the agreement provides otherwise, such Employees shall be given credit for service completed with their employer from the effective date of such agreement for purposes of determining eligibility to elect to participate in the Plan.

(d)

Newly Acquired Groups. In those cases where a company, partnership, joint venture, subsidiary, or other Affiliated Company, the Plan Administrator may, but shall not be required to, give credit for service completed with their employer prior to the date such company, partnership, joint venture, subsidiary, or other Affiliated Company becomes an Affiliated Company.

**SECTION 4**

**PARTICIPATION**



#### 4.1

**General.** Plan participation is voluntary and Eligible Employees do not automatically meet the Plan's eligibility requirements. An Eligible Employee who has not previously participated in the Plan, as described in Section 3, may commence Plan participation by delivering to the Company

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or a Participating Employer an authorization for deductions from such individual's pay if the individual intends to make contributions through payroll deductions.

#### 4.2

**Withdrawal from Participation.** A Participant may elect to cease participating in the Plan, though he or she remains an Eligible Employee of the Company or a Participating Employer, by giving notice to his or her employer. Such an individual may not elect to again participate in the Plan the year following the calendar year in which he or she withdraws from participation.

## SECTION 5

### CONTRIBUTIONS

#### 5.1

**Participant Contributions.** Participants may make contributions under the Plan by using either or both of the methods described below. All such contributions are tax-deductible and equivalent.

(a)

**Payroll Deductions.** A Participant may authorize his or her employer to make contributions to the Plan for purposes of purchasing Stock. The minimum deduction allowed is \$10.00 per month. The maximum deduction allowed is the lesser of \$750 per month and 15% of such Participant's Compensation. A Participant may terminate his or her payroll deduction at any time, but not more than once in

(b)

**Additional Contributions.** A Participant may also purchase Stock by making such contribution shall not be made by payroll deduction but shall be paid by the Plan Agent. These contributions, if any, must be made at least quarterly, and they shall not exceed \$3,000.

## 5.2

**Employer Bonus Contribution.** Each month the Company and Participating Employer shall pay the Plan Agent on behalf of each Participant employed by such employer an amount equal to the contributions made by Participants through payroll deductions from the Plan. The contribution shall be made by the Company or any Participating Employer. The Plan Agent shall allocate contributions made directly by Participants.

## 5.3

**Dividends.** Cash dividends paid on Stock held in a Participant's Account shall be used to purchase additional shares of Stock on behalf of such Participant. Stock dividends shall be allocated to Accounts.

## 5.4

**Mandatory Suspension.** To the extent required under applicable United States law, a Participant who receives a hardship withdrawal pursuant to the provisions of the Pentair Incentive Plan shall be required to cease contributions of any kind to the Plan for a period of 12 months from the date such hardship distribution is received.

## SECTION 6

### PURCHASE OF STOCK

## 6.1

**Participant Accounts.** The Plan Agent shall establish for each Participant an Account on behalf of such Participant. All Stock and other amounts allocated to such Account shall be vested and nonforfeitable.

## 6.2

**Purchasing Stock.** The Plan Agent shall use all Participant and employer including cash dividends, to purchase Stock on the open market. The Plan over a number of business days each month as are agreed to by the Plan Agent. The Stock purchased shall be allocated to the Accounts of Participants on behalf of whom the Plan Agent shall use the average purchase price obtained over said monthly purchase period. No interest shall be held by the Plan Agent regardless of whether such cash is being held in an account. Purchases shall be made or held pending a refund to a terminating Participant.

## SECTION 7

### ENDING PARTICIPATION

#### 7.1

**General.** A Participant may elect to discontinue Plan participation even though he or she remains an Eligible Employee of the Company or a Participating Employer. In addition, a Participant may elect to discontinue Plan participation even though he or she remains an Eligible Employee of the Company or a Participating Employer.

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reason of becoming an Employee of an Affiliated Company which is not a member of the group of Employees who are not Eligible Employees, or by qualifying for benefits maintained by the Company or a Participating Employer. At such time as a Participant ceases to be an Eligible Employee of the Company and all Affiliated Companies, Plan participation shall cease and the Plan Agent shall, in the manner in which his or her Account shall be distributed.

#### 7.2

**Discontinuing Participation.** An individual may elect at any time to cease Plan participation even though he or she remains an Eligible Employee of the Company or a Participating Employer. An individual who begins receiving long-term disability benefits shall cease Plan participation. Such individuals may, but are not required to, request a full or partial distribution of their Accounts.

#### 7.3

**Ceasing to be an Eligible Employee.** Participants who cease to be Eligible Employees of the Company or an Affiliated Company may, but are not required to, request a full or partial distribution from their Accounts.

**7.4**

**Termination of Employment.** Participants who cease to be Employees of the Company shall receive a distribution from their Accounts as described in Section 7.3.

**7.5**

**Death of Participant.** In the event of the death of a Participant, such individual's Account shall be distributed to the individual's beneficiary as described in Section 8.

**SECTION 8**

**DISPOSITION OF ACCOUNTS**

**8.1**

**Termination of Participation.** At such time as a Participant shall cease employment with the Company and all Affiliated Companies, such individual's employer shall provide to the individual a notice of Account Termination whereby the individual can provide to the Plan Agent instructions as to the disposition of the Participant's Account. A Participant may elect to receive whole shares of Stock, plus cash in lieu of fractional shares.

(a)

**Stock Election.** If a terminating Participant elects to receive a Stock distribution, the number of whole shares of Stock allocated to such Participant's Account and the proceeds of such sale, reduced by any costs associated with such sale, including brokerage fees due to the Participant, shall be sent to the Participant. Generally, all distributions shall be complete when such Account have been made.

(b)

**Cash Election.** If a terminating Participant elects to receive cash, the Plan Agent shall sell the whole shares of Stock allocated to such Participant's Account. All such Stock shall be sold at the then current market price, and the proceeds of such sale, reduced by any costs associated with such sale, including brokerage fees due to the Participant, shall be sent to the Participant. Generally, all distributions shall be complete when such Account have been made.

(c)

**Default Provision.** If a terminating Participant does not make a distribution date the Human Resources Department provides the notice described in Section 8.1, as if such Participant had elected a Stock distribution.

## 8.2

**Death of Participant.** In the event of the death of a Participant, the legal representative of the Participant's estate shall be entitled to elect between a Stock or cash distribution in the manner described in Section 8.1, and shall be subject to the same default distribution rules. All distributions, regardless of form, shall be paid as directed by the Participant or paid to the Participant's estate if no such direction is provided. To the extent Participant Accounts may be held in joint tenancy with right of survivorship, or in a trust permitting transfer on death designation, then the Stock held in the Accounts shall be distributed according to any such designation duly made by the Participant.

## 8.3

**Withdrawal from Accounts.** (a) **In-service Distribution.** Withdrawal from Accounts for Participants who (i) remain Eligible Employees but cease making contributions, (ii) remain Eligible Employees but remain Employees of the Company or an Affiliate, or (iii) are former Participants. Such a withdrawal may be made in either cash or shares of Stock.

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(b)

**Stock Election.** If a Participant described in Section 8.3(a) wishes to receive a distribution, the Participant shall specify the number of whole shares of Stock to be distributed, if the request is for a partial distribution, or the entire Account balance. If the request is for withdrawal of the entire Account balance, the Stock held in such Account shall be sold at the Stock's then current market value, net of any costs associated with such sale, including brokerage fees due. The net proceeds shall be sent to the Participant. Generally, all such distributions shall be made only after all relevant to such Account have been made.

(c)

**Cash Election.** If a Participant described in Section 8.3(a) wishes to receive whole and fractional shares of Stock allocated to such Participant's Account, the number of shares of Stock as the Participant shall specify. All such Stock shall be sold at the current market price and the proceeds of such sale, reduced by any costs associated with such sale, shall be sent to the Participant. Generally, all Stock purchases relevant to such Account have been made.

(d)

**Premature Withdrawal of Shares.** If a Participant who has neither left the Company nor otherwise ceased to participate under the Plan requests the return of all of the Stock acquired for his or her Account with amounts contributed to the Plan from Compensation within twelve (12) months after such Stock is purchased, the Plan Agent shall make bonus contributions for the benefit of such Participant for twelve (12) months after the date of the premature sale.

## SECTION 9

### ADMINISTRATION

#### 9.1

**Term of Plan.** Contingent upon receipt of shareholder approval, this Plan shall remain in effect until such other date as the shareholders may provide at the time of approval, and shall terminate ten (10) years after such effective date, unless the Plan is earlier terminated as provided in Section 8.3.

#### 9.2

**Prospectus.** Upon completing the eligibility requirements described in Section 8.3, a Participant shall receive from the Human Resources Department of the Company or his or her Plan Agent a Prospectus which describes the Plan.

#### 9.3

**Reporting.** The Plan Agent shall provide to each Participant quarterly, or more frequently if necessary or appropriate, the following information:

(i)

the total amount contributed to each Participant's Account for such quarter, with respect to the Participant's contributions, or the Participant's employer;

(ii)

the number of shares of Stock purchased on behalf of the Participant with all contributions;

(iii)

the total number of shares of Stock then allocated to the Participant's Account.

#### 9.4

**Voting of Stock in Accounts.** The Company shall provide to each Participant the same voting rights that the Company provides to any shareholder of record who is not a Participant, including providing proxy instructions to receive proxy instructions from each Participant and shall vote the Stock allocated to the Participant in accordance with the instructions, if any, provided by such Participant.

#### 9.5

**Non-Alienation.** No Participant may use his or her Account, or the Stock allocated to the Participant, or otherwise assign, pledge or encumber such Stock.

#### 9.6

**Fees and Commissions.** The Company shall pay commissions, service charges and other costs in respect to the purchase of Stock for purposes of the Plan. When any service charge is incurred, the Participant is responsible for payment of any commissions, service charges or other costs in connection with the purchase of Stock.

## SECTION 10

### MISCELLANEOUS

#### 10.1

**Voluntary Participation.** Participation in the Plan is entirely voluntary, and the Company is not making a recommendation as to whether any Eligible Employee should participate in the Plan.

stock involves risk, and each Eligible Employee must decide whether to accept

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## 10.2

**Employee Rights.** The right of the Company or an Affiliated Company to discontinue employment shall not be affected by the exercise of rights related to the tenure of any individual's employment, shall not be terminated by the existence of the Plan or any action taken pursuant to the Plan.

## 10.3

**Construction.** The Administrator shall have full power and authority to interpret and apply the rules and regulations not inconsistent with the Plan for purposes of administration of the Plan, and to amend and revoke any rules and regulations not specifically covered in the Plan document and to amend and revoke any such rules and regulations. Except as otherwise provided in the Plan, any interpretation of the Plan and any such amendment or revocation shall be in the discretion of the Administrator which is made in good faith by the Administrator.

## 10.4

**Interpretation.** Section and subsection headings are for convenience of reference only and shall not influence its interpretation. Wherever any words are used in the Plan in the masculine or neuter form, they shall be construed as though they were also used in the feminine or non-neuter form, respectively, in all cases where such interpretation is reasonable.

## 10.5

**Plan Amendment.** The Company may, by written resolution of its Board of Directors or Compensation Committee of such Board, at any time and from time to time, amend the Plan.

## 10.6

**Plan Termination.** The Company may, by written resolution of its Board of Directors or Compensation Committee of such Board, terminate the Plan at any time. Upon termination, all Participant's Accounts shall be handled in the same manner as if the Participant had terminated the Plan with the Company and all Affiliated Companies.



**10.7**

**Choice of Law.** To the extent not preempted by applicable federal law, the Plan shall be made in accordance with the laws of the State of Minnesota and the conflict of laws provisions thereof.

**10.8**

**Acceptance of Terms.** By electing to participate in the Plan, each Participant agrees to be bound by the provisions of the Plan, and the terms and conditions set forth by the Plan, and to be fully bound thereby.

**10.9**

**Computational Errors.** In the event mathematical, accounting, or similar errors occur in the Plan Participant Accounts, the Plan Administrator or the Plan Agent, as the case may be, may make adjustments as it deems appropriate to correct such errors.

**10.10**

**Communications.** The Company, a Participating Employer or the Plan Agent, may, from time to time, provide any applicable state or federal law or regulation, provide the Prospectus and other information to you, either paper or electronic means.

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**PENTAIR, INC.**

**INTERNATIONAL STOCK PURCHASE AND BONUS PLAN**

**As Amended and Restated**

**Effective May 1, 2004**

**SECTION 1**

**BACKGROUND AND PURPOSE**

**1.1**

**Background.** Pentair, Inc. ( "Pentair" ) adopted, effective August 31, 1998, the International Stock Purchase and Bonus Plan. Pentair now wishes to amend this plan, by way of a new plan, to be issued by the New York Stock Exchange covering equity compensation plans in an ongoing effect adopted since the plan's initial effective date. The adoption of the new plan requires shareholder approval of the plan. If such approval is obtained, the plan will be effective as of the date as may be specified by the shareholders at the time of approval.

**1.2**

**Purpose.** Pentair established the plan to afford the employees of its international subsidiaries a convenient and cost-effective means for the regular and systematic purchase of Pentair common stock substantially comparable to those available to Pentair's U.S. employees. The plan is intended to assist Pentair and its international subsidiaries in attracting and retaining personnel and to encourage employees to dedicate their maximum productive effort on behalf of Pentair and its international subsidiaries and to encourage long-term ownership of Pentair common stock.

**SECTION 2**

**DEFINITIONS**

Unless the context clearly requires otherwise, when capitalized the terms defined herein shall have the meanings when used in this Section or other parts of the Plan:

(a)

**Account** is the account maintained by the Trustee for each Participant under the Plan, in accordance with the Plan, together with any other funds belonging to the Participant.

(b)

**Alternate Currency** is any currency other than United States dollars.

(c)

**Board** is the Board of Directors of Pentair.

(d)

**Broker** is the entity selected by the Trustee from time to time pursuant to the Plan.

(e)

**Committee** is the International Stock Plan Committee, which is a committee of the Board of Directors of Pentair and its affiliates as appointed from time to time by the Board to administer the Plan.

(f)

**Company** is Pentair, Inc., a Minnesota corporation.

(g)

**Distribution Date** is the last business day, in the jurisdiction of the Trustee, on which a distribution is made.

(h)

**Eligible Employee** is each Regular Employee of a Participating International Affiliate who is at least 21 years of age and has completed at least one (1) year of continuous employment with the Company or any of its International Affiliates.

(i)

**Participant** is an Eligible Employee who is enrolled in the Plan.

(j)

**Participating International Affiliate** is any branch office of the Company, or any business or association owned or controlled, directly or indirectly, by the Company, by action of the Committee, permitted to participate in the Plan and which is included in the Plan.

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(k)

**Plan** is the Pentair, Inc. International Stock Purchase and Bonus Plan, as amended from time to time, effective May 1, 2004, and as it may be amended from time to time thereafter.

(l)

**Regular Employee** is each employee of a Participating International Affiliate who works a minimum of fifteen (15) hours per week.

(m)

**Stock** is the common stock of the Company, par value U.S. \$0.16-2/3 per share.

(n)

**Trust** is the trust established by the Declaration of Trust, dated September 1, 2004, for the Stock purchased by the Trustee for the benefit of Participants in accordance with the Plan.

(o)

**Trustee** is the corporation which from time to time is the duly appointed trustee of the Trust.

### SECTION 3

## ADMINISTRATION

### 3.1

**Administrator.** The Plan shall be administered by the Committee, which shall interpret and construe any provision of the Plan, to adopt rules and regulations for carrying out the purposes of the Plan with respect to matters not specifically provided for herein, and to revoke any rules or regulations so adopted. Except as otherwise provided herein, any interpretation of the Plan and any decision on any matter within the discretion of the Committee by the Committee in good faith is binding on all persons.

### 3.2

**Rulemaking Authority.** The Committee shall, to the extent necessary or appropriate, make rules and regulations for the Plan for Eligible Employees, former employees, or Participants located in a particular geographic area as set forth in Appendices to this Plan, which shall be deemed incorporated into the Plan.

## SECTION 4

### PARTICIPATION

Each Eligible Employee may participate in the Plan at any time by delivering to the Plan Administrator the following information:  
Affiliate by which he or she is employed:

(a)

such forms as are required by the Trustee or the Committee for purposes of the Plan, and for the purchase by the Trustee of Stock for the account of the Participant and for the purchase by the Trustee of Stock for the account of the Participant.

(b)

a completed and duly signed form authorizing the relevant Participating Intermediary to make compensation deductions for the Participant for purposes of the Plan.

Affiliate to make compensation deductions for the Participant for purposes of the Plan as contemplated herein.

Participation in the Plan by Eligible Employees is entirely voluntary. Participation is practicable after the required forms are received and processed by the Participant Trustee and continues until the Participant ceases to be an Eligible Employee. Participation of the Participant pursuant to Section 9 or until written termination of participation in the Plan is received and processed by the relevant Participant Trustee.

## SECTION 5

### PARTICIPANT CONTRIBUTIONS

Participants may make contributions for the purchase of Stock under the Plan.

(a)

Payroll Deductions. Participants may authorize the relevant Participating International Affiliate to make payroll deductions from the Participant's compensation for the purpose of purchasing Stock. The deductions to be forwarded by the relevant Participating International Affiliate to the Trustee must be at least the minimum and not more than the maximum amount set forth in the schedule attached hereto for each Participating International Affiliate, which minimum and maximum amounts shall be reviewed and adjusted annually by the Committee. Payroll deductions will be made until the Participant's applicable maximum amount is reached. A payroll deduction may be terminated at any time by the Participant or the relevant Participating International Affiliate (subject to the above limitations) once each calendar quarter by the Participant completing and returning a payroll deduction form to the relevant Participating International

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Affiliate. A payroll deduction may be terminated at any time by the Participant or the relevant Participating International Affiliate. A Participant who terminates his or her participation in the Plan until the next calendar year, unless the termination of participation is due to the termination of employment and he or she is subsequently reemployed by a Participating International Affiliate, in which case the Participant may re-enroll in the Plan in the calendar quarter following the termination, in accordance with the procedures set forth in Section 4.

(b)

Lump Sum Contributions. Participants may also make additional lump-sum contributions to the Plan in amounts not to exceed the applicable maximum amounts as set forth on Schedule 5. Lump sum contributions shall be made to the relevant Participating International Affiliate which

Trustee on behalf of the Participant. Such lump sum contributions shall not be described in Section 6.

(c)

Currency Conversion. The Trustee shall or shall cause the Broker to convert an Alternate Currency into United States dollars in accordance with procedures

## SECTION 6

### BONUS CONTRIBUTIONS

#### 6.1

Employer Contributions. Each month, the Participating International Affiliate shall forward to the Trustee for such Participant's Account a bonus equal to 2% of the Participant's compensation for the month. The bonus shall be paid to the Participant in the form of payroll deductions pursuant to Section 5(a), subject to the provisions of Section 5(b). Notwithstanding the above, if a Participant sells shares of Stock acquired under the Plan within 60 days of their purchase, the relevant Participating International Affiliate may terminate the bonus contributions for such Participant.

#### 6.2

Taxation. The Participant is responsible for the payment of all income tax, social security, Medicare, welfare and other taxes under applicable law relating to the bonus contributions. The Participating International Affiliate, the purchase and sale of Stock pursuant to this Plan and the Participant in accordance with this Plan. The Participating International Affiliate shall make appropriate withholding deductions from each Participant's compensation, and shall make appropriate deductions made pursuant to Section 5, and to pay such amounts to the appropriate tax authority in the country or countries in satisfaction of any of the above tax liabilities of the Participant. The Participating International Affiliate shall make such payments of applicable withholding tax in any relevant jurisdiction to the appropriate tax authority of the Participating International Affiliate, and the Trustee shall have no obligation to make such payments to appropriate tax authorities in respect of the tax liabilities of the Participants.

## SECTION 7

### PURCHASES, SALES AND WITHDRAWALS

#### 7.1

**Forwarding Funds.** All funds deducted from a Participant's compensation from the Company, the Participating International Affiliate, the bonus contributions made by the relevant Participating International Affiliate, the lump sum contributions made by such Participant shall be forwarded to the Participant and the amounts allocable to their respective Accounts. No interest shall be accrued on such funds by the Company, the Participating International Subsidiaries or the Trustee.

## 7.2

**Purchasing Stock.** Upon receipt of funds from the Participating International Affiliate, the Trustee shall direct the Broker to, as promptly as practicable, purchase such funds to the Broker and shall direct the Broker to, as promptly as practicable, sell such funds on the Stock Exchange, as agent for the Participants, as many whole shares of Stock as possible, subject to applicable regulations. The relevant Participating International Affiliate shall reimburse the Trustee for the purchases of such Stock and such other charges for the Trustee's and the Broker's services from time to time.

## 7.3

**Recordkeeping.** The Trustee or its agent shall maintain individual Accounts for each Participant. The Stock to be allocated by the Trustee or its agent at the average cost of Stock at the time of purchase to the Account in proportion to the amount received by the Trustee or its agent for such purchase. Allocations shall be made in full shares of Stock and in fractional interests in Stock.

## 7.4

**Holding Stock.** At the time of purchase of Stock under the Plan, each Participant shall immediately acquire full ownership of all Stock and of any fractional interest in Stock in the Account. The Broker shall hold all shares purchased in street name for and on behalf of the Participant.

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(i)

the Participant requests that a certificate for some or all of the Stock in the Account be issued to the Participant,

(ii)



the Participant requests the Trustee to sell some or all of the Stock in his or her

(iii)

the Participant's Account is terminated.

## 7.5

### **Distribution of Account.**

A Participant may request the Trustee to (i) deliver certificates for all or some of the Stock held in the Participant's Account or (ii) sell some or all of the Stock held in the Participant's Account. If a Participant requests the Trustee to deliver certificates for all or some of the Stock, such Stock shall, at the option of the Participant as stipulated to the Trustee in writing, be delivered by electronic transfer to the brokerage or bank account designated by the Participant or by registered mail to the mailing address designated by the Participant. Selling commissions on U.S. dollars into the relevant Alternate Currency after such sale and other charges shall be borne by the Participant. Requests for a distribution of Stock shall be submitted to the Trustee no later than the fifteenth (15th) day of the month. Upon receipt of requests for distributions or sales, the Trustee shall aggregate all such requests and sell the Stock on the date determined by the Broker in its discretion, but in no event later than the Distribution Date. The Trustee shall convert the proceeds of such sale to the Alternate Currency pursuant to rules established by the Committee. Such proceeds, minus any commissions, currency conversion and other related charges, shall be distributed to the relevant International Affiliate on or about the Distribution Date. The relevant Participant shall distribute such proceeds to the Participant as soon as administratively feasible. Gains or losses attributable to the conversion of United States dollars to the relevant Alternate Currency at the time of distribution is made will serve to increase or decrease, as the case may be, the amount of the distribution to which the Participant is entitled.

## **SECTION 8**

### **ACCOUNTS AND REPORTS**

Each Participant shall receive quarterly, or at such other intervals as may be determined by the Trustee, information of activity from the Trustee or its agent which shall include the following information:

(a)

the amount contributed for the period by the Participant and the relevant

Participating International Affiliate pursuant to the Plan;

(b)

the number of shares purchased for the Participant's Account during the period;

(c)

the total number of shares held in the Participant's Account; and

(d)

such other information as the Committee shall specify from time to time.

## SECTION 9

### ENDING PARTICIPATION

#### 9.1

**Termination of Participation.** A Participant may voluntarily terminate participation by giving written notice to the Trustee and the Participating International Affiliate. In addition, the Trustee may terminate a Participant's Account and dispose of the shares if the Participant dies or terminates employment for any reason with the Participating International Affiliate. A Participant whose participation in the Plan terminates may receive a distribution within one calendar year, unless the termination of participation resulted from the Participant's death or he or she is subsequently reemployed by any Participating International Affiliate.

#### 9.2

**Disposition of Account Upon Termination of Participation.** A Participant's participation shall include instructions to the relevant Participating International Affiliate regarding the disposition of the Stock in his or her Account. If a Participant elects cash, the Trustee shall distribute the cash allocated to the Participant's Account at the then current market price, and less any brokerage commissions, currency conversion costs and other, reasonable expenses of the Participating International Affiliate which employs the Participant, which Participating International Affiliate shall forward such proceeds to the Participant. If the

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terminating Participant elects to receive Stock certificates or makes no election, the relevant Participating International Affiliate for forwarding to the Participant his or her Account plus cash for any fractional shares. In the event of the death of the Participant, all distributions to be made by, and all distributions made to, the designated beneficiary of the Participant's estate, as provided in Section 11.2 below.

## SECTION 10

### RIGHTS AS A STOCKHOLDER

#### 10.1

**Voting and Other Rights.** As soon as administratively practicable after the date of the meeting of the shareholders of the Company, the Trustee, or its agent, shall deliver to all Participants all notices of meetings, proxy statements and other materials distributed by the Company at the meeting, or any adjournment thereof, the Trustee will vote shares of Stock held in the Accounts on the record date for such vote in accordance with the instructions received by the Participants. All combined fractional shares of Participants will be voted to the extent possible by the Trustee for the Accounts. The Trustee will not vote any shares of Stock held in Accounts for which no instructions from Participants in time to be processed.

#### 10.2

**Dividends and Other Proceeds.** Cash dividends received in respect of Stock held in the Accounts shall be paid to the Trustee to such Accounts. All such cash shall be reinvested in Stock held in the Accounts on the date of receipt thereof. The relevant Participating International Affiliate shall pay a dividend on the Accounts with the purchase of Stock constituting such reinvestment of cash dividends. Dividends in respect of Stock held in the Accounts shall be credited to such Accounts with the purchase of Stock. The Broker to sell all other securities and rights to subscribe for shares received in the Accounts and the proceeds therefrom shall be treated in the same manner as dividends payable on Stock held by the Trustee for the Accounts shall be paid net of taxes on such dividends which shall be withheld by the Company and paid to the relevant authorities. The Trustee or its agent shall annually notify each Participant of the obligations of the amount of such withholding applicable to each Participant's country and shall apply for any applicable tax credit in each such Participant's country.

## SECTION 11

### TRANSFER OF RIGHTS

**11.1**

**Non-alienation.** Notwithstanding Section 7.4, no shares of Stock held by a Participant's interest in this Plan shall be transferable by a Participant, subject to the Plan, receive Stock certificates or terminate his or her participation in this Plan. No assets in any Account or any other benefit under this Plan may in any manner be transferred, assigned, pledged, encumbered or charged, and any attempt to do so in any Account or any such benefit shall be subject to the debts, contracts, liabilities and obligations of the Participant entitled to such assets or benefits.

**11.2**

**Rights of Beneficiary.** Unless otherwise required by local law or the Commission, a Participant may, on a form furnished by the Committee, designate any legal or natural person or persons to receive the Participant's rights hereunder or to which the Participant's benefits are payable, and the designated person or persons shall be receiving all benefits payable under this Plan. A beneficiary designation on a form is filed while the Participant is alive with the Participating International Affiliate of the Participant. Filing a new signed beneficiary designation form will cancel all previous beneficiary designations on earlier forms. If a Participant has not designated a beneficiary, the Participant's benefits shall be distributed by the Trustee to the Participating International Affiliate which is the legal representative of the Participating International Affiliate shall forward such assets to the legal representative of the Participating International Affiliate in accordance with applicable law.

**SECTION 12**

**MISCELLANEOUS**

**12.1**

**Term of Plan.** Contingent upon receipt of shareholder approval, this Plan shall remain in effect until the end of the term of the Plan, or other date as the shareholders may provide at the time of approval, and shall terminate on the date that is (10) years after such effective date, unless earlier terminated as provided in Section 7.4.

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**12.2**

**Amendment and Termination**

(a)

Plan Amendment. The Company may, by written resolution of the Board or Compensation Committee of such Board, at any time and from time to time, amend the Plan by an amendment to the Plan which would have the effect of materially increasing the obligations of the Trustee in connection with such administration shall be required to obtain the prior written consent of the Trustee, which consent will not be unreasonably withheld.

(b)

Plan Termination. The Company may, at any time, by written resolution of the Board or Compensation Committee of such Board, terminate the Plan. In addition, the Board or Compensation Committee of the Board may at any time terminate this Plan as to any one or more Participating International Affiliate. All shares of Stock and cash, if any, in Accounts of affected Participating International Affiliates by the Committee, be distributed as soon as administratively feasible after such termination.

(c)

Trust Fund. The funds from time to time held by the Trust hereunder shall be held in trust and apart from the assets of the Company and the Participating International Affiliates and shall not be or become available to the Company, the Participating International Affiliates, or any Participating International Affiliates under any circumstances.

### 12.3

#### **Employment Relationship**

(a)

Tenure of Employment. Nothing in this Plan shall confer on any Participating International Affiliate employment or continued employment by the Company or any Participating International Affiliate for the duration of the Plan or otherwise.

(b)

Contract of Employment. This Plan shall not form part of any contract of employment between any of the Participating International Affiliates nor shall this Plan amend or modify any employment contract between the Company or any of the Participating International Affiliates and its employees. Nothing in this Plan shall confer on any person any legal or equitable right.

of its affiliates, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or any of its affiliates.

(c)

**Severance.** Neither the Stock purchased hereunder, any bonus contribution or other benefit conferred hereby shall form any part of the wages or salary of any Eligible Employee or be included in any pay or termination indemnities, irrespective of the reason for termination of employment. There shall be no compensation shall any person ceasing to be an employee of the Company or any of its affiliates be entitled to receive for any loss of any right or benefit under this Plan which such employee might otherwise be entitled to receive upon ceasing to be an employee, whether such compensation is claimed by way of contract, tort, or otherwise, dismissal, breach of contract or otherwise.

#### **12.4**

**Voluntary Participation.** Participation in the Plan is entirely voluntary, and the Company is not making a recommendation as to whether any Eligible Employee should participate in the Plan. Participation in the Plan involves risk, and each Eligible Employee must decide whether to accept or decline the offer.

#### **12.5**

**Communications.** The Company, a Participating International Affiliate or any other person shall, as prescribed by applicable laws or regulations, provide the prospectus and other information in either paper or electronic means.

#### **12.6**

**Acceptance of Terms.** By participating in the Plan, each Participant shall be deemed to have accepted the conditions of the Plan and the terms and conditions of any rules and regulations established by the Trustee or its agents and shall be fully bound thereby.

**Special Rules - Germany**

These special rules, adopted pursuant to Section 3.2 of the Pentair, Inc. Int'l Plan, modify the terms of such Plan as in effect in Germany as follows:

The following section is added to Section 11, Transfer of Rights, of the Plan:

**11.3**

**Provisions Applicable in Germany.** Notwithstanding the foregoing, if a Participant's Account to such Participant's designated beneficiary the Certificate of Heirship ( Erbschein ), then the Trustee shall transfer the relevant persons named in such Certificate, without regard to whether such person de in cash and without any further obligation on the part of the Trustee to inve Trustee transfers the Stock to a designated beneficiary or a person named i released from all obligations to the Participant and the Participant's successor have an interest in the Participant's Account.

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**Schedule 1**

**Participating International Affiliates**

Participating

International Affiliate

Effective Date

Schroff GmbH

August 31, 1998

Flex Elektrowerkzeuge GmbH

January 1, 1999

Pentair Water France S.A.S.

October 1, 1999

Schroff S.A.S.

February 1, 1999

Schroff UK Ltd.

September 1, 1999

Schroff K.K.

April 1, 1999

Pentair Water Belgium W.V.

January 1, 2002

Pentair Water Filtration UK Ltd.

September 1, 2003

Pentair Water Filtration France SAS

September 1, 2003

Schroff S.r.l.

September 1, 2003

Pentair Water Italy S.r.l.

September 1, 2003



**Minimum and Maximum Deductions**

Monthly

Monthly

Quarterly

Participating

Minimum

Maximum

Maximum

International Affiliate

Deduction

Deduction

Contributions

Schroff GmbH

10

750

3,000

Flex Elektrowerkzeuge GmbH

10

750

3,000

Pentair Water France S.A.

10

750

3,000

Schroff S.A.S.

10

750

3,000

Schroff UK Ltd.

£6

£450

£1,800

Schroff K.K.

¥1,400

¥100,000

¥400,000

Pentair Water Belgium N.V.

10

750

3,000

Pentair Water Filtration UK, Ltd.

10

750

3,000

Pentair Water Filtration France SAS

10

750

3,000

Schroff S.r.l.

10

750

3,000

Pentair Water Italy S.r.l.

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**PLEASE SIGN AND RETURN PROMPTLY TO REDUCE SO**

**PENTAIR, INC.  
PROXY FOR ANNUAL MEETING OF SHAREHOLDERS  
April 30, 2004**

The undersigned hereby appoints Randall J. Hogan and David D. Jones as my proxies, each with the power to appoint his substitute, and hereby authorize them to vote, as designated below, all the shares of Common Stock of Pentair, Inc. that I am entitled to vote at the Annual Meeting of Shareholders to be held at 10:00 a.m., Friday, April 30, 2004, at the Thrivent Financial Auditorium, 1000 Hennepin Avenue, Minneapolis, Minnesota, and any adjournment or adjournments thereof.

**THE BOARD RECOMMENDS A VOTE FOR EACH PROPOSAL.**

**1. ELECTION OF DIRECTORS:**

- o FOR all nominees listed below except those I have struck by a line through their names.
- o WITHHOLD AUTHORITY to vote for all nominees listed below.

01 Glynis A. Bryan    02 David A. Jones    03 William T. Monahan

**2. APPROVAL OF THE COMPENSATION PLAN FOR  
NON-EMPLOYEE DIRECTORS.**

FOR     AGAINST     ABSTAIN

**3. APPROVAL OF THE OMNIBUS STOCK INCENTIVE PLAN.**

FOR     AGAINST     ABSTAIN

*(continued on reverse side)*

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*(continued from reverse side)*

**4. APPROVAL OF THE EMPLOYEE STOCK PURCHASE AND BONUS PLAN**

FOR     AGAINST     ABSTAIN

**5. APPROVAL OF THE INTERNATIONAL STOCK PURCHASE AND BONUS PLAN**

FOR     AGAINST     ABSTAIN

**6. RATIFICATION OF APPOINTMENT OF DELOITTE & TOUCHE LLP as independent auditors of the company for 2004**

FOR     AGAINST     ABSTAIN

**7. To transact such other business as may properly come before the meeting thereof.**

**THE SHARES REPRESENTED HEREBY WILL BE VOTED AS DIRECTED BY THE VOTER. IF THIS PROXY IS RETURNED SIGNED WITH NO DIRECTION MADE, IT WILL VOTE FOR EACH OF THE DIRECTORS AND PROPOSALS.**

The undersigned hereby ratifies and confirms all that the Proxies shall do in the exercise of the powers herein conferred upon them in the exercise of the virtue hereof and hereby revokes all proxies heretofore given to vote in the election of directors.

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF PERKINS+WELLS FRENCH LLP**

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Signature

Signature if held jointly

Dated: \_\_\_\_\_, 200

THIS CARD MUST BE DATED.

(Please sign exactly as your name appears to the left. When shares should sign. When signing as executor, administrator, attorney, trustee as such. If a corporation, please sign in full corporate name by president or authorized officer. If a partnership, please sign in partnership name by an authorized person.)

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**PLEASE SIGN AND RETURN PROMPTLY TO REDUCE SOLICITATION EXPENSES**

**PENTAIR, INC.  
PROXY FOR ANNUAL MEETING OF SHAREHOLDERS  
April 30, 2004**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Randall J. Hogan and David D. Proxies, each with the power to appoint his substitute, and hereby authorizes them to vote, as designated below, all the shares of Common Stock of Pentair, Inc. that the undersigned owned as of March 1, 2004 at the Annual Meeting of Shareholders of Pentair, Inc. to be held at 10:00 a.m., Friday, April 30, 2004, at the Thrivent Financial Auditorium, 625 4th Avenue South, Minneapolis, Minnesota, and any adjournment or adjournments thereof.

Furthermore, if I am a participant in the Pentair, Inc. Employee Stock Ownership Plan (ESOP), I hereby direct Fidelity Management Trust Company as Pentair, Inc.'s tabulation agent for the Annual Meeting of Shareholders of Pentair, Inc. to be held at 10:00 a.m., Friday, April 30, 2004, at the Thrivent Financial Auditorium, 625 4th Avenue South, Minneapolis, Minnesota, and any adjournments thereof, all shares of Common Stock of Pentair, Inc. that I own as of March 1, 2004. I understand that this card must be received by that date, or if the voting instructions are invalid because they are not dated, the shares held in my account will be voted by Fidelity Management Trust Company in proportion that the other participants direct them to vote shares allocated to them.

*See reverse for voting instructions.*

**There are three ways to vote your Proxy**

**Your telephone or Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned the proxy card.**

**VOTE BY PHONE TOLL FREE 1-800-560-1965 QUICK \*\*\* EASY**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, from 11:00 a.m. (CT) on April 29, 2004.

Please have your proxy card and the last four digits of your Social Security Number. Follow the simple instructions the voice provides you.

**VOTE BY INTERNET <http://www.eproxy.com/pnr/> QUICK \*\*\* EASY**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, from 11:00 a.m. (CT) on April 29, 2004.

Please have your proxy card and the last four digits of your Social Security Number. Follow the simple instructions to obtain your records and create a new record.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope provided or mail it to Pentair, Inc., c/o Shareowner Services<sup>SM</sup>, P.O. Box 64873, St. Paul, MN 55164-0873.

**If you vote by Phone or Internet, please do not mail your proxy card.**

**THE BOARD RECOMMENDS A VOTE FOR EACH PROPOSAL.**

- |                           |                    |                       |     |       |
|---------------------------|--------------------|-----------------------|-----|-------|
| 1. Election of directors: | 01 Glynis A. Bryan | 03 William T. Monahan | [ ] | Vote  |
|                           | 02 David A. Jones  |                       |     | all   |
|                           |                    | 04 Karen E. Welke     |     | (e    |
|                           |                    |                       |     | marke |

**(Instructions: To withhold authority to vote for any indicated nominee(s), write the number(s) of the nominee(s) in the box provided to the right of the nominee(s).)**

- |   |         |        |
|---|---------|--------|
| 2. APPROVAL OF THE COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS | [ ] For | [ ] Ag |
| 3. APPROVAL OF THE OMNIBUS STOCK INCENTIVE PLAN                 | [ ] For | [ ] Ag |
| 4. APPROVAL OF THE EMPLOYEE STOCK PURCHASE AND BONUS PLAN       | [ ] For | [ ] Ag |

- 5. APPROVAL OF THE INTERNATIONAL STOCK PURCHASE AND BONUS PLAN [ ] For [ ] Ag
- 6. RATIFICATION OF APPOINTMENT OF DELOITTE & TOUCHE LLP as independent auditors of the company for 2004 [ ] For [ ] Ag
- 7. To transact such other business as may properly come before the adjournment thereof.

**THE SHARES REPRESENTED HEREBY WILL BE VOTED AS DIRECTOR. IF THIS PROXY IS RETURNED SIGNED WITH NO DIRECTION MADE, EACH OF THE DIRECTORS AND PROPOSALS.**

The undersigned hereby ratifies and confirms all that the Proxies shall have the effect of in the event of their exercise in the exercise of the virtue hereof and hereby revokes all proxies heretofore given to vote on

Address Change? Mark Box  
[ ] Indicate changes below:

Dated: \_\_\_\_\_

2  
THIS CARD M

Signature(s) in Box  
Please sign exactly as your name appears on the proxy. If you are signing in joint tenancy, all persons must sign. If you are signing as a fiduciary, etc., should include title and authority. If you are signing on behalf of a corporation, provide full name of corporation and title of person signing the proxy.

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**PLEASE SIGN AND RETURN PROMPTLY TO REDUCE SOLICITATION EXPENSES**

**PENTAIR, INC.  
PROXY FOR ANNUAL MEETING OF SHAREHOLDERS  
April 30, 2004**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

As a participant in the Pentair, Inc. International Employee Stock  
I hereby direct ABN AMRO Trust Company (Jersey) Limited as Trustee  
the Annual Meeting of Shareholders of Pentair, Inc. to be held at 10:00  
the Thrivent Financial Auditorium, 625 4th Avenue South, Minneapolis  
or adjournments thereof, all shares of Common Stock of Pentair, Inc. a  
as of March 1, 2004. I understand that this card must be received by V  
acting as tabulation agent for the Trustee, by April 23, 2004.

*See reverse for voting instructions.*

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**There are two ways to vote your Proxy**

**Your vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

**VOTE BY INTERNET <http://www.eproxy.com/pnr/> QUICK \*\*\* EA**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, 2004.

Please have your proxy card and the last four digits of your Social the simple instructions to obtain your records and create an electro

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid e it to Pentair, Inc., c/o Shareowner Services<sup>SM</sup>, P.O. Box 64873, St. Pa

**If you vote by Internet, please do not mail your**

**THE BOARD RECOMMENDS A VOTE FOR EACH**

- |                |                    |                   |                          |       |
|----------------|--------------------|-------------------|--------------------------|-------|
| 1. Election of | 01 Glynis A. Bryan | 03 William T.     | <input type="checkbox"/> | Vo    |
| directors:     | 02 David A. Jones  | Monahan           |                          | all   |
|                |                    | 04 Karen E. Welke |                          | (e    |
|                |                    |                   |                          | marke |

**(Instructions: To withhold authority to vote for any indicated nominee write the number(s) of the nominee(s) in the box provided to the r**

- |   |                          |     |                          |    |
|---|--------------------------|-----|--------------------------|----|
| 2. APPROVAL OF THE COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS | <input type="checkbox"/> | For | <input type="checkbox"/> | Ag |
|---|--------------------------|-----|--------------------------|----|



- 3. APPROVAL OF THE OMNIBUS STOCK INCENTIVE PLAN  For  Ag
- 4. APPROVAL OF THE EMPLOYEE STOCK PURCHASE AND BONUS PLAN  For  Ag
- 5. APPROVAL OF THE INTERNATIONAL STOCK PURCHASE AND BONUS PLAN  For  Ag
- 6. RATIFICATION OF APPOINTMENT OF DELOITTE & TOUCHE LLP as independent auditors of the company for 2004  For  Ag
- 7. To transact such other business as may properly come before the adjournment thereof.

**THE SHARES REPRESENTED HEREBY WILL BE VOTED AS DIRECTOR. THIS PROXY IS RETURNED SIGNED WITH NO DIRECTION MADE, EACH OF THE DIRECTORS AND PROPOSALS.**

The undersigned hereby ratifies and confirms all that the Proxies shall have effect in virtue hereof and hereby revokes all proxies heretofore given to vote on

Address Change? Mark Box  
 Indicate changes below:

Dated: \_\_\_\_\_ 2

THIS CARD M

Signature(s) in Box  
Please sign exactly as your name appears on the proxy. If signed in joint tenancy, all persons must sign. If signed by a corporation, etc., should include title and authority. If signed by a partnership, provide full name of corporation or partnership signing the proxy.