

ITT Corp
Form 10-Q
August 01, 2011

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to**

Commission File Number: 1-5672

ITT CORPORATION

State of Indiana
*(State or Other Jurisdiction
of Incorporation or Organization)*

13-5158950
*(I.R.S. Employer
Identification Number)*

1133 Westchester Avenue, White Plains, NY 10604
(Principal Executive Office)

Telephone Number: (914) 641-2000

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 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 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of July 20, 2011, there were outstanding 185.3 million shares of common stock (\$1 par value per share) of the registrant.

TABLE OF CONTENTS

| ITEM | PAGE |
|-------------------------------------------------------------------------------------------------|------|
| <u>PART I FINANCIAL INFORMATION</u> | |
| <u>1. Financial Statements</u> | |
| <u>Consolidated Condensed Income Statements</u> | 1 |
| <u>Consolidated Condensed Statements of Comprehensive Income</u> | 2 |
| <u>Consolidated Condensed Balance Sheets</u> | 3 |
| <u>Consolidated Condensed Statements of Cash Flows</u> | 4 |
| <u>Notes to Consolidated Condensed Financial Statements:</u> | |
| <u>Note 1. Basis of Presentation</u> | 5 |
| <u>Note 2. Company Transformation</u> | 5 |
| <u>Note 3. Recent Accounting Pronouncements</u> | 7 |
| <u>Note 4. Acquisitions & Divestitures</u> | 8 |
| <u>Note 5. Restructuring and Asset Impairment Charges</u> | 9 |
| <u>Note 6. Income Taxes</u> | 9 |
| <u>Note 7. Earnings Per Share</u> | 10 |
| <u>Note 8. Receivables, Net</u> | 10 |
| <u>Note 9. Inventories, Net</u> | 11 |
| <u>Note 10. Other Current and Non-Current Assets</u> | 11 |
| <u>Note 11. Plant, Property and Equipment, Net</u> | 12 |
| <u>Note 12. Goodwill and Other Intangible Assets, Net</u> | 12 |
| <u>Note 13. Accrued and Other Current Liabilities and Other Non-Current Liabilities</u> | 13 |
| <u>Note 14. Debt</u> | 14 |
| <u>Note 15. Postretirement Benefit Plans</u> | 14 |
| <u>Note 16. Long-Term Incentive Employee Compensation</u> | 15 |
| <u>Note 17. Commitments and Contingencies</u> | 17 |
| <u>Note 18. Guarantees</u> | 19 |
| <u>Note 19. Segment Information</u> | 19 |
| <u>Note 20. Subsequent Events</u> | 21 |
| <u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 22 |
| <u>Overview</u> | 22 |
| <u>Discussion of Financial Results</u> | 26 |
| <u>Liquidity</u> | 35 |
| <u>Critical Accounting Estimates</u> | 38 |
| <u>Forward-Looking and Cautionary Statements</u> | 38 |
| <u>3. Quantitative and Qualitative Disclosures about Market Risk</u> | 39 |
| <u>4. Controls and Procedures</u> | 39 |
| <u>PART II OTHER INFORMATION</u> | |
| <u>1. Legal Proceedings</u> | 40 |
| <u>1A. Risk Factors</u> | 40 |
| <u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 41 |

| | | |
|-----------|----------------------------------------|----|
| <u>3.</u> | <u>Defaults Upon Senior Securities</u> | 41 |
| <u>5.</u> | <u>Other Information</u> | 41 |
| <u>6.</u> | <u>Exhibits</u> | 41 |
| | <u>Signature</u> | 42 |
| | <u>Exhibit Index</u> | 43 |

EX-31.1

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

ITT CORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****CONSOLIDATED CONDENSED INCOME STATEMENTS (UNAUDITED)**
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| FOR THE PERIODS ENDED JUNE 30 | Three Months | | Six Months | |
|----------------------------------------------------------------------------------------------------------|--------------|----------|------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Product revenue | \$ 2,149 | \$ 2,128 | \$ 4,201 | \$ 4,082 |
| Service revenue | 875 | 611 | 1,583 | 1,235 |
| Total revenue | 3,024 | 2,739 | 5,784 | 5,317 |
| Costs of product revenue | 1,398 | 1,421 | 2,750 | 2,728 |
| Costs of service revenue | 786 | 537 | 1,409 | 1,090 |
| Total costs of revenue | 2,184 | 1,958 | 4,159 | 3,818 |
| Gross profit | 840 | 781 | 1,625 | 1,499 |
| Selling, general and administrative expenses | 429 | 375 | 859 | 753 |
| Research and development expenses | 70 | 60 | 131 | 123 |
| Transformation costs | 62 | | 147 | |
| Asbestos-related costs, net | 16 | 12 | 32 | 27 |
| Restructuring and asset impairment charges, net | 3 | 10 | 8 | 27 |
| Operating income | 260 | 324 | 448 | 569 |
| Interest and non-operating expenses, net | 12 | 19 | 29 | 45 |
| Income from continuing operations before income tax expense | 248 | 305 | 419 | 524 |
| Income tax expense | 80 | 79 | 125 | 154 |
| Income from continuing operations | 168 | 226 | 294 | 370 |
| (Loss) income from discontinued operations, including tax benefit of \$0, \$7, \$1 and \$5, respectively | | 12 | (2) | 14 |
| Net income | \$ 168 | \$ 238 | \$ 292 | \$ 384 |
| Earnings Per Share: | | | | |
| Basic: | | | | |
| Continuing operations | \$ 0.91 | \$ 1.23 | \$ 1.59 | \$ 2.01 |
| Discontinued operations | | 0.06 | (0.01) | 0.08 |
| Net income | \$ 0.91 | \$ 1.29 | \$ 1.58 | \$ 2.09 |

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| | | | | | | | | |
|------------------------------------------|----|--------------|----|-------|----|---------------|----|-------|
| Diluted: | | | | | | | | |
| Continuing operations | \$ | 0.90 | \$ | 1.22 | \$ | 1.58 | \$ | 2.00 |
| Discontinued operations | | | | 0.06 | | (0.02) | | 0.07 |
| Net income | \$ | 0.90 | \$ | 1.28 | \$ | 1.56 | \$ | 2.07 |
| Weighted average common shares basic | | 185.3 | | 184.0 | | 185.1 | | 183.6 |
| Weighted average common shares diluted | | 186.8 | | 185.5 | | 186.6 | | 185.2 |
| Cash dividends declared per common share | \$ | 0.25 | \$ | 0.25 | \$ | 0.50 | \$ | 0.50 |

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above income statements.

Table of Contents

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(IN MILLIONS)

| FOR THE PERIODS ENDED JUNE 30 | Three Months | | Six Months | |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|--------|------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 168 | \$ 238 | \$ 292 | \$ 384 |
| Other comprehensive income (loss): | | | | |
| Net foreign currency translation adjustment | 57 | (120) | 175 | (211) |
| Net change in postretirement benefit plans, net of tax benefit of \$13, \$8, \$24 and \$18, respectively | 18 | 16 | 39 | 31 |
| Net change in unrealized gains on investment securities, net of tax expense (benefit) of \$3, \$(1), \$6 and \$1, respectively | (4) | (1) | (11) | 2 |
| Other comprehensive income (loss) | 71 | (105) | 203 | (178) |
| Total comprehensive income | \$ 239 | \$ 133 | \$ 495 | \$ 206 |

Disclosure of reclassification adjustment:

Net change in postretirement benefit plans, net of tax:

Amortization of prior service costs, net of tax benefit of less than \$1 for all periods presented

\$ \$ \$ 1 \$ 1

Amortization of net actuarial loss, net of tax benefit of \$13, \$8, \$24 and \$18, respectively

18 16 38 30

Net change in postretirement benefit plans, net of tax

\$ 18 \$ 16 \$ 39 \$ 31

Net change in unrealized gains on investment securities, net of tax:

Unrealized (losses) gains arising during period, net of tax benefit

(expense) of \$0, \$1, \$0 and \$(1), respectively

\$ \$ (1) \$ (1) \$ 2

Gains realized during the period, net of tax expense of \$3, \$0, \$6 and \$0, respectively

(4) (10)

Net change in unrealized gains on investment securities, net of tax

\$ (4) \$ (1) \$ (11) \$ 2

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above statements of comprehensive income.

Table of Contents

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| | June 30, 2011 | December 31, 2010 |
|----------------------------------------------------------------|--------------------------|----------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,160 | \$ 1,032 |
| Receivables, net | 2,200 | 1,944 |
| Inventories, net | 980 | 856 |
| Other current assets | 678 | 562 |
| Total current assets | 5,018 | 4,394 |
| Plant, property and equipment, net | 1,242 | 1,205 |
| Goodwill | 4,340 | 4,277 |
| Other intangible assets, net | 741 | 766 |
| Asbestos-related assets | 923 | 930 |
| Other non-current assets | 836 | 866 |
| Total non-current assets | 8,082 | 8,044 |
| Total assets | \$ 13,100 | \$ 12,438 |
| Liabilities and Shareholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,115 | \$ 1,020 |
| Accrued and other current liabilities | 1,714 | 1,714 |
| Short-term borrowings and current maturities of long-term debt | 131 | 11 |
| Total current liabilities | 2,960 | 2,745 |
| Postretirement benefits | 1,740 | 1,733 |
| Long-term debt | 1,297 | 1,354 |
| Asbestos-related liabilities | 1,576 | 1,559 |
| Other non-current liabilities | 551 | 542 |
| Total non-current liabilities | 5,164 | 5,188 |
| Total liabilities | 8,124 | 7,933 |
| Shareholders Equity: | | |

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Common stock:

| | | | |
|---------------------------------------------------|-------------------------------------------------------------|------------------|------------------|
| Authorized | 500.0 shares, \$1 par value per share (207.0 shares issued) | | |
| Outstanding | 185.2 shares and 184.0 shares, respectively ^(a) | 184 | 183 |
| Retained earnings | | 5,676 | 5,409 |
| Total accumulated other comprehensive loss | | (884) | (1,087) |
| Total shareholders' equity | | 4,976 | 4,505 |
| Total liabilities and shareholders' equity | | \$ 13,100 | \$ 12,438 |

^(a) Shares outstanding include unvested restricted common stock of 0.9 and 1.0 at June 30, 2011 and December 31, 2010, respectively.

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above balance sheets.

Table of Contents

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN MILLIONS)

| FOR THE SIX MONTHS ENDED JUNE 30 | 2011 | 2010 |
|------------------------------------------------------------|-----------------|---------------|
| Operating Activities | | |
| Net income | \$ 292 | \$ 384 |
| Less: (Loss) income from discontinued operations | (2) | 14 |
| Income from continuing operations | 294 | 370 |
| Non-cash adjustments to income from continuing operations: | | |
| Depreciation and amortization | 172 | 140 |
| Stock-based compensation | 15 | 16 |
| Non-cash transformation costs | 55 | |
| Changes in assets and liabilities (net of acquisitions): | | |
| Change in receivables | (215) | (121) |
| Change in inventories | (99) | 2 |
| Change in accounts payable | 112 | 23 |
| Other, net | (130) | (74) |
| Net Cash Operating activities | 204 | 356 |
| Investing Activities | | |
| Capital expenditures | (123) | (106) |
| Acquisitions, net of cash acquired | (1) | (401) |
| Other, net | 25 | 3 |
| Net Cash Investing activities | (99) | (504) |
| Financing Activities | | |
| Short-term debt, net | 64 | 34 |
| Long-term debt repaid | | (70) |
| Issuance of common stock | 41 | 14 |
| Dividends paid | (138) | (130) |
| Other, net | (10) | 4 |
| Net Cash Financing activities | (43) | (148) |
| Exchange rate effects on cash and cash equivalents | 67 | (85) |
| Net cash from discontinued operations | (1) | 9 |
| Net change in cash and cash equivalents | 128 | (372) |
| Cash and cash equivalents beginning of year | 1,032 | 1,216 |
| Cash and Cash Equivalents End of Period | \$ 1,160 | \$ 844 |

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

| | | | | |
|----------------------------------------|----|------------|----|-----|
| Interest | \$ | 42 | \$ | 42 |
| Income taxes (net of refunds received) | \$ | 153 | \$ | 190 |

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above statements of cash flows.

Table of Contents

ITT CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(DOLLARS AND SHARE AMOUNTS IN MILLIONS, UNLESS OTHERWISE STATED)**

**NOTE 1
BASIS OF PRESENTATION**

ITT Corporation is a global multi-industry leader in high-technology engineering and manufacturing, operating through three segments: Defense & Information Solutions (Defense segment), Fluid Technology (Fluid segment) and Motion & Flow Control (Motion & Flow segment). Unless the context otherwise indicates, references herein to ITT, the Company, and such words as we, us, and our include ITT Corporation and its subsidiaries.

The unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in ITT's 2010 Annual Report on Form 10-K (2010 Annual Report) in preparing these unaudited financial statements, with the exception of accounting standard updates, described in Note 3, Recent Accounting Pronouncements, adopted on January 1, 2011. Certain prior year amounts have been reclassified to conform to current year presentation, as described within these Notes to the Consolidated Condensed Financial Statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in our 2010 Annual Report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are revised as additional information becomes available. Estimates and assumptions are used for, but not limited to, asbestos-related liabilities and recoveries from insurers and other responsible parties, postretirement obligations and assets, revenue recognition, income tax contingency accruals and valuation allowances, goodwill impairment testing and contingent liabilities. Actual results could differ from these estimates.

ITT's quarterly financial periods end on the Saturday closest to the last day of the calendar quarter, except for the last quarterly period of the fiscal year, which ends on December 31st. For ease of presentation, the quarterly financial statements included herein are described as ending on the last day of the calendar quarter.

**NOTE 2
COMPANY TRANSFORMATION**

On January 12, 2011, the Company announced that its Board of Directors had unanimously approved a plan to separate the Company's businesses into three independent, publicly traded companies (the Transformation). Under the Transformation, ITT expects to execute tax-free spinoffs to shareholders of its water-related businesses and its Defense segment. The water-related business will include the Water & Wastewater division, including its analytical instrumentation component, and the Residential & Commercial Water division, as well as the Flow Control division that is currently reported within the Motion & Flow segment. The Industrial Process division, which is currently

reported within the Fluid segment, will continue to operate as a division of ITT. After completion of the Transformation, ITT shareholders will own shares in all three corporations. Following the Transformation, ITT will continue to trade on the New York Stock Exchange as an industrial company that supplies highly engineered solutions in the aerospace, transportation, energy and industrial markets. The Transformation is anticipated to be completed by the end of 2011.

Table of Contents

In conjunction with the Transformation, the initial Registration Statements were filed with the Securities and Exchange Commission on July 11, 2011. As a result of the Transformation, we will reorganize to a new management and segment reporting structure. As part of these organizational changes, we will assess new reporting units and perform valuations to determine the assignment of goodwill to the new reporting units based on their relative fair values. We will also test the recoverability of goodwill based on the new reporting units.

During the three and six month periods ended June 30, 2011, we recognized pre-tax expenses of \$62 and \$147, respectively, related to the Transformation. The components of transformation costs incurred during these periods are presented below.

| For the Periods Ended June 30, 2011 | Three Months | Six Months |
|-----------------------------------------------|-----------------|---------------|
| Transformation Costs: | | |
| Non-cash asset impairment | \$ | \$ 55 |
| Advisory fees | 22 | 43 |
| IT costs | 21 | 22 |
| Employee retention | 8 | 11 |
| Other costs | 11 | 16 |
| Transformation costs in operating income | 62 | 147 |
| Tax-related separation costs | 14 | 14 |
| Total transformation costs before tax benefit | 76 | 161 |
| Income tax benefit | (30) | (52) |
| Total transformation costs, net of tax impact | \$ 46 | \$ 109 |

The \$55 million non-cash impairment charge relates to a decision to discontinue development of an information technology consolidation initiative. These costs have not been included in segment operating results. The table included below provides a rollforward of the Transformation-related accrual for the six months ended June 30, 2011.

| | | |
|---------------------------------------|----|------|
| Transformation accrual 12/31 | \$ | 2 |
| Charges for actions during the period | | 147 |
| Cash payments | | (61) |
| Asset impairment | | (55) |
| Transformation accrual 6/30 | \$ | 33 |

To execute the Transformation, we expect major areas of spending to include debt refinancing, tax impacts, information technology investments to build out independent environments for the new companies, advisory fees, and other Transformation activities. Our current estimate of the after-tax cash impact of pre-spin activities associated with

the Transformation, including those initiated during the first six months of 2011, is expected to be approximately \$500. In addition, as noted above, we recorded a \$55 non-cash impairment charge during the first six months of 2011. The Company may incur additional cash and non-cash costs that are not currently estimable prior to completion of the Transformation.

In addition, the Company anticipates incurring material separation-related spending following the Transformation, primarily consisting of additional tax impacts, employee-related costs, continued information systems investments, and advisory fees.

Table of Contents

NOTE 3
RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued additional guidance applicable to the testing of goodwill for potential impairment. Specifically, for reporting units with zero or negative carrying amounts, an entity is required to perform the second step of the goodwill impairment test (a comparison between the carrying amount of a reporting unit's goodwill to its implied fair value) if it is more likely than not that a goodwill impairment exists, considering any adverse qualitative factors. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. As of the date of our most recent goodwill impairment test, none of our reporting units would have been affected by the application of this guidance as each reporting unit had a carrying amount that exceeded zero.

In April 2010, the FASB issued authoritative guidance permitting use of the milestone method of revenue recognition for research or development arrangements that contain payment provisions or consideration contingent on the achievement of specified events. On January 1, 2011, we adopted the new guidance on a prospective basis. The adoption of this guidance did not have a material impact on our financial condition, results of operations or cash flows.

In October 2009, the FASB issued amended guidance on the accounting for revenue arrangements that contain multiple elements by eliminating the criteria that objective and reliable evidence of fair value for undelivered products or services needs to exist in order to be able to account separately for deliverables and eliminating the use of the residual method of allocating arrangement consideration. The amendments establish a hierarchy for determining the selling price of a deliverable and will allow for the separation of products and services in more instances than previously permitted.

We adopted the new multiple element guidance effective January 1, 2011 for new arrangements entered into or arrangements materially modified on or after that date on a prospective basis. In connection with the adoption of the revised multiple element arrangement guidance, we revised our revenue recognition accounting policies. For multiple deliverable arrangements entered into or materially modified on or after January 1, 2011, we recognize revenue for a delivered element based on the relative selling price if the deliverable has stand-alone value to the customer and, in arrangements that include a general right of return relative to the delivered element, performance of the undelivered element is considered probable and substantially in the Company's control. The selling price for a deliverable is based on vendor-specific objective evidence of selling price (VSOE), if available, third-party evidence of selling price (TPE), if VSOE is not available, or best estimated selling price (BESP), if neither VSOE nor TPE is available.

The deliverables in our arrangements with multiple elements include various products and may include related services, such as installation and start-up services. For multiple element arrangements entered into or materially modified after adoption of the revised multiple element arrangement guidance, we allocate arrangement consideration based on the relative selling prices of the separate units of accounting determined in accordance with the hierarchy described above. For deliverables that are sold separately, we establish VSOE based on the price when the deliverable

is sold separately. We establish TPE, generally for services, based on prices similarly situated customers pay for similar services from third party vendors. For those deliverables for which we are unable to establish VSOE or TPE, we estimate the selling price considering various factors including market and pricing trends, geography, product customization, and profit objectives. Revenue allocated to products and services is generally recognized as the products are delivered and the services are performed, provided all other revenue recognition criteria have been satisfied. The adoption of the new multiple element guidance did not result in a material change in either the units of accounting or the pattern or timing of revenue recognition. Additionally, the adoption of the revised multiple element arrangement guidance did not have a material impact on our financial condition, results of operations or cash flows.

In October 2009, the FASB amended the accounting requirements for software revenue recognition. The objective of this update is to address the accounting for revenue arrangements that contain tangible products and software. Specifically, products that contain software that is more than incidental to the product as a whole will be removed from the scope of the software

Table of Contents

revenue recognition literature. The amendments align the accounting for these revenue transaction types with the amendments described for multiple element arrangements above. We adopted the provisions of this guidance for new or materially modified arrangements entered into on or after January 1, 2011 on a prospective basis. The adoption of this guidance did not have a material impact on our financial condition, results of operations or cash flows.

Accounting Pronouncements Not Yet Adopted

In May 2011, the FASB issued guidance intended to achieve common fair value measurements and related disclosures between U.S. GAAP and international accounting standards. The amendments primarily clarify existing fair value guidance and are not intended to change the application of existing fair value measurement guidance. However, the amendments include certain instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This guidance is effective for the periods beginning after December 15, 2011 and early application is prohibited. We will adopt these amendments on January 1, 2012; however, the requirements are not expected to have a material effect on the Company's Consolidated Condensed Financial Statements.

NOTE 4

ACQUISITIONS & DIVESTITURES

Acquisitions

We did not engage in any significant acquisitions during the first six months of 2011.

During the first six months of 2010, we spent \$401 on acquisitions, net of cash acquired. The substantial majority of the aggregate purchase price pertained to the acquisition of Nova Analytics Corporation (Nova) on March 23, 2010 for \$385 which broadened our Fluid segment's portfolio of analytical instrumentation tools.

Additionally, in the third quarter of 2010, we completed the acquisitions of Godwin Pumps of America, Inc. and Godwin Holdings Limited (collectively referred to as Godwin) for \$580, which expanded our Fluid segment's presence within the dewatering market in the United States.

The results of operations and cash flows from our 2010 acquisitions have been included in our Consolidated Condensed Financial Statements prospectively from their date of acquisition. Pro forma results of operations for acquisitions completed in 2010 have not been presented because the assets, liabilities and results of operations for each business are not considered material to our Consolidated Condensed Financial Statements, either individually or in the aggregate.

Divestitures

We did not engage in any significant divestitures during the first six months of 2011 or 2010.

On September 8, 2010 we completed the sale of CAS, Inc. (CAS), a component of our Defense segment that was engaged in systems engineering and technical assistance for the U.S. Government. Subsequent to this divestiture, we do not have any significant continuing involvement in the operations of CAS, nor do we expect significant continuing cash flows from CAS. Accordingly, the financial position, results of operations and cash flows from CAS are reported as a discontinued operation. During the three and six months ended June 30, 2010, CAS provided third-party revenue of \$57 and \$114, and operating income of \$5 and \$9, respectively, included within discontinued operations.

Table of Contents**NOTE 5****RESTRUCTURING AND ASSET IMPAIRMENT CHARGES**

During the three and six months ended June 30, 2011, we recognized restructuring and asset impairment charges of \$9 and \$14, respectively, primarily relating to various reduction in force initiatives within our Defense segment.

During the three and six months ended June 30, 2010, we recognized restructuring charges of \$10 and \$36, respectively, primarily related to a strategic realignment of our Defense segment to enable better product portfolio integration, encourage a more coordinated market approach and provide reductions in overhead costs. The Defense segment was renamed ITT Defense & Information Solutions and the previous organizational structure, consisting of seven divisions, was consolidated into three larger divisions. This initiative was substantially completed during 2010.

The table provided below summarizes the presentation of restructuring and asset impairment charges within our Consolidated Condensed Income Statements for the three and six month periods ended June 30, 2011 and 2010.

| For the Periods Ended June 30 | Three Months | | Six Months | |
|-----------------------------------------------------|--------------|-------|------------|-------|
| | 2011 | 2010 | 2011 | 2010 |
| Restructuring costs presented in costs of revenue | \$ 6 | \$ | \$ 6 | \$ 9 |
| Restructuring costs presented in operating expenses | 2 | 10 | 7 | 27 |
| Asset impairment | 1 | | 1 | |
| Total restructuring and asset impairment costs | \$ 9 | \$ 10 | \$ 14 | \$ 36 |

NOTE 6**INCOME TAXES***Effective Tax Rate*

Our quarterly income tax expense is measured using an estimated annual effective tax rate, adjusted for discrete items within the period. The comparison of effective tax rates between periods is significantly affected by discrete items recognized during the periods, the level and mix of earnings by tax jurisdiction and permanent differences. The estimated annual effective tax rate for 2011 and 2010 was comparable before the impact of discrete items.

Income tax expense for the three months ended June 30, 2011 and 2010 was \$80 and \$79, respectively, resulting in effective tax rates of 32.3% and 25.9%, respectively. The 2011 effective tax rate was increased by approximately 1.0% for costs related to the Transformation and approximately 2.0% for recognition of an adjustment for a prior year transaction. The second quarter 2010 effective tax rate was reduced by approximately 3.0% related to the closure of a tax examination.

Income tax expense for the six months ended June 30, 2011 and 2010 was \$125 and \$154, respectively, resulting in effective tax rates of 29.8% and 29.4%, respectively. The 2011 effective tax rate was increased by 1.0% for costs related to the Transformation. The second quarter 2010 effective tax rate was increased by 2.2% due the impact of the Medicare Part D subsidy reversal and reduced by 1.8% related to the closure of a tax examination.

Uncertain Tax Positions

As of June 30, 2011 and December 31, 2010, we had \$182 and \$192, respectively, of total unrecognized tax benefits recorded. The amount of unrecognized tax benefits that would affect the effective tax rate was \$92 and \$90 at June 30, 2011 and December 31, 2010, respectively. Uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. We believe it is reasonably possible that the total amount of unrecognized tax benefits at June 30, 2011 could decrease by \$8 within the next 12 months due to the reversal of a temporary difference.

Table of Contents**NOTE 7
EARNINGS PER SHARE**

The following table provides a reconciliation of the data used in the calculation of basic and diluted earnings per share computations for income from continuing operations for the three and six month periods ended June 30, 2011 and 2010.

| For the Periods Ended June 30 | Three Months | | Six Months | |
|--------------------------------------------------------------------------|--------------|---------|------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Income from continuing operations | \$ 168 | \$ 226 | \$ 294 | \$ 370 |
| Weighted average common shares outstanding | 184.1 | 182.3 | 183.8 | 182.0 |
| Add: Weighted average restricted stock awards outstanding ^(a) | 1.2 | 1.7 | 1.3 | 1.6 |
| Basic weighted average common shares outstanding | 185.3 | 184.0 | 185.1 | 183.6 |
| Add: Dilutive impact of stock options | 1.5 | 1.5 | 1.5 | 1.6 |
| Diluted weighted average common shares outstanding | 186.8 | 185.5 | 186.6 | 185.2 |
| Basic earnings per share from continuing operations | \$ 0.91 | \$ 1.23 | \$ 1.59 | \$ 2.01 |
| Diluted earnings per share from continuing operations | \$ 0.90 | \$ 1.22 | \$ 1.58 | \$ 2.00 |

- (a) Restricted stock awards containing rights to non-forfeitable dividends which participate in undistributed earnings with common shareholders are considered participating securities for purposes of computing earnings per share.

The following table provides the number of shares underlying stock options excluded from the computation of diluted earnings per share for the three and six month periods ended June 30, 2011 and 2010 because they were anti-dilutive.

| For the Periods Ended June 30 | Three Months | | Six Months | |
|-------------------------------|--------------|----------|------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Anti-dilutive stock options | 1.6 | 2.2 | 1.4 | 2.0 |
| Average exercise price | \$ 56.74 | \$ 54.40 | \$ 56.55 | \$ 54.50 |

**NOTE 8
RECEIVABLES, NET**

| | June 30, 2011 | December 31, 2010 |
|-------------------------------|------------------|-------------------|
| Trade accounts receivable | \$ 1,644 | \$ 1,579 |
| Unbilled contract receivables | 559 | 367 |
| Other | 45 | 47 |

| | | | |
|---------------------------------|-----------------|-----------|-------|
| Receivables, gross | 2,248 | | 1,993 |
| Allowance for doubtful accounts | (44) | | (42) |
| Allowance for cash discounts | (4) | | (7) |
| Receivables, net | \$ 2,200 | \$ | 1,944 |

Unbilled contract receivables represent revenue recognized on construction-type or production-type contracts that arise based on performance attainment which, by contract, though appropriately recognized, cannot be billed to the customer as of the balance sheet date. We expect to bill and collect substantially all of the June 30, 2011 unbilled contract receivables during the next twelve months as billing milestones are completed or units are delivered.

Table of Contents

Our outstanding accounts receivable balance, including both trade and unbilled contract receivables from the U.S. Government, was \$928 and \$806 as of June 30, 2011 and December 31, 2010, respectively.

NOTE 9
INVENTORIES, NET

| | June 30, | | December 31, |
|-----------------------------------------------|-----------------|----|--------------|
| | 2011 | | 2010 |
| Finished goods | \$ 239 | \$ | 231 |
| Work in process | 125 | | 88 |
| Raw materials | 389 | | 317 |
| Total product inventory | 753 | | 636 |
| Production costs of contracts in process | 305 | | 296 |
| Less progress payments | (78) | | (76) |
| Production costs of contracts in process, net | 227 | | 220 |
| Inventories, net | \$ 980 | \$ | 856 |

NOTE 10
OTHER CURRENT AND NON-CURRENT ASSETS

| | June 30, | | December 31, 2010 |
|---------------------------------------|-----------------|----|-------------------|
| | 2011 | | |
| Current deferred income taxes | \$ 292 | \$ | 280 |
| Asbestos-related current assets | 105 | | 105 |
| Other | 281 | | 177 |
| Other current assets | \$ 678 | \$ | 562 |
| Deferred income tax | \$ 540 | \$ | 554 |
| Other employee benefit-related assets | 110 | | 106 |
| Capitalized software costs | 75 | | 118 |
| Other | 111 | | 88 |
| Other non-current assets | \$ 836 | \$ | 866 |

As of June 30, 2011, we have classified \$22 of assets as held for sale which are presented within the Other category within other current assets. As described in Note 2, Company Transformation, during the first quarter of 2011 we discontinued the development of an information technology consolidation initiative and recorded a capitalized

software impairment charge of \$55.

Table of Contents**NOTE 11****PLANT, PROPERTY AND EQUIPMENT, NET**

| | June 30, 2011 | December 31, 2010 |
|------------------------------------------|--------------------------|-------------------|
| Land and improvements | \$ 61 | \$ 59 |
| Buildings and improvements | 711 | 642 |
| Machinery and equipment | 1,936 | 1,809 |
| Equipment held for lease or rental | 149 | 132 |
| Furniture, fixtures and office equipment | 243 | 231 |
| Construction work in progress | 133 | 160 |
| Other | 39 | 29 |
| Plant, property and equipment, gross | 3,272 | 3,062 |
| Less accumulated depreciation | (2,030) | (1,857) |
| Plant, property and equipment, net | \$ 1,242 | \$ 1,205 |

Depreciation expense of \$60 and \$116 was recognized in the three and six month periods ended June 30, 2011, respectively, and \$44 and \$88 for the three and six month periods ended June 30, 2010, respectively.

NOTE 12**GOODWILL AND OTHER INTANGIBLE ASSETS, NET***Goodwill*

The following table provides a rollforward of the carrying amount of goodwill for the six months ended June 30, 2011 by segment.

| | DEFENSE | FLUID | MOTION & FLOW | TOTAL |
|------------------|----------|----------|---------------------|----------|
| Goodwill 12/31 | \$ 2,156 | \$ 1,634 | \$ 487 | \$ 4,277 |
| Foreign currency | | 55 | 7 | 62 |
| Other | (2) | | 3 | 1 |
| Goodwill 6/30 | \$ 2,154 | \$ 1,689 | \$ 497 | \$ 4,340 |

Other Intangible Assets, Net

| | JUNE 30, 2011 | | | DECEMBER 31, 2010 | | |
|----------------------------------------|-----------------------------|-----------------------------|--------------------|-----------------------------|-----------------------------|--------------------|
| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | NET INTANGIBLES | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | NET INTANGIBLES |
| Customer and distributor relationships | \$ 873 | \$ (351) | \$ 522 | \$ 855 | \$ (312) | \$ 543 |
| Proprietary technology | 111 | (41) | 70 | 109 | (35) | 74 |
| Trademarks | 37 | (12) | 25 | 35 | (10) | 25 |
| Patents and other | 30 | (20) | 10 | 32 | (18) | 14 |
| Indefinite-lived intangibles | 114 | | 114 | 110 | | 110 |
| Other Intangible Assets | \$ 1,165 | \$ (424) | \$ 741 | \$ 1,141 | \$ (375) | \$ 766 |

Table of Contents

Amortization expense related to finite-lived intangible assets for the three and six month periods ended June 30, 2011 and 2010 was \$22, \$44, \$22 and \$42, respectively. Estimated amortization expense for the remaining six months of 2011 and each of the five succeeding years is as follows:

| | | |
|----------------|----|-----|
| Remaining 2011 | \$ | 45 |
| 2012 | | 76 |
| 2013 | | 62 |
| 2014 | | 56 |
| 2015 | | 52 |
| 2016 | | 49 |
| Total | \$ | 340 |

NOTE 13**ACCRUED AND OTHER CURRENT LIABILITIES AND OTHER NON-CURRENT LIABILITIES**

| | June 30, | |
|-------------------------------------------------------|-----------------|-------------------|
| | 2011 | December 31, 2010 |
| Compensation and other employee-benefits | \$ 637 | \$ 625 |
| Customer advances and deferred revenue | 480 | 478 |
| Asbestos-related liability | 116 | 117 |
| Other accrued liabilities | 481 | 494 |
| Accrued and other current liabilities | \$ 1,714 | \$ 1,714 |
| Deferred income taxes and other tax-related accruals | \$ 192 | \$ 179 |
| Environmental | 127 | 128 |
| Compensation and other employee-related benefits | 131 | 117 |
| Product liability, guarantees and other legal matters | 35 | 52 |
| Other | 66 | 66 |
| Other non-current liabilities | \$ 551 | \$ 542 |

During the first quarter of 2011, we corrected the presentation of amounts in the accompanying Consolidated Condensed Balance Sheets as of December 31, 2010, related to customer advances and deferred revenue by reclassifying \$452 from accounts payable to accrued and other current liabilities. This reclassification had no impact on amounts reported in the 2010 Annual Report's Consolidated Income Statements or net cash from operating activities within the Consolidated Statements of Cash Flows.

Table of Contents**NOTE 14
DEBT**

| | June 30, 2011 | December 31, 2010 |
|----------------------------------------------------------------|--------------------------|-------------------|
| Commercial paper | \$ 51 | \$ |
| Short-term loans | 14 | 1 |
| Current maturities of long-term debt and other | 66 | 10 |
| Short-term borrowings and current maturities of long-term debt | 131 | 11 |
| Non-current maturities of long-term debt | 1,257 | 1,257 |
| Non-current capital leases | 3 | 60 |
| Deferred gain on interest rate swaps | 44 | 45 |
| Unamortized discounts and debt issuance costs | (7) | (8) |
| Long-term debt | 1,297 | 1,354 |
| Total debt | \$ 1,428 | \$ 1,365 |

The fair value of total debt, excluding the deferred gain on interest rate swaps, was \$1,559 and \$1,483 as of June 30, 2011 and December 31, 2010, respectively. Fair value was primarily determined using quoted prices in active markets for the identical security obtained from an external pricing service.

During the second quarter of 2011, we notified the lessor of our intent to terminate a sale leaseback agreement entered into in 2004 by repurchasing the leased property. The repurchase is expected to occur in the third quarter of 2011. Accordingly, we reclassified \$56 of capital lease obligations to current maturities of long-term debt in the table above.

**NOTE 15
POSTRETIREMENT BENEFIT PLANS**

The following tables provide the components of net periodic benefit cost for pension plans, disaggregated by U.S. and international plans, and other employee-related benefit plans for the three and six month periods ended June 30, 2011 and 2010.

| | 2011 | | | | | 2010 | | | | |
|------------------------------------|-------|-------|---------------|----------------|-------|-------|-------|---------------|----------------|-------|
| | U.S. | Int 1 | Total Pension | Other Benefits | Total | U.S. | Int 1 | Total Pension | Other Benefits | Total |
| Three Months Ended June 30 | | | | | | | | | | |
| Net periodic benefit cost: | | | | | | | | | | |
| Service cost | \$ 29 | \$ 4 | \$ 33 | \$ 1 | \$ 34 | \$ 27 | \$ 4 | \$ 31 | \$ 2 | \$ 33 |
| Interest cost | 74 | 8 | 82 | 10 | 92 | 77 | 7 | 84 | 10 | 94 |
| Expected return on plan assets | (102) | (7) | (109) | (6) | (115) | (104) | (6) | (110) | (5) | (115) |
| Amortization of net actuarial loss | 27 | 1 | 28 | 3 | 31 | 20 | 1 | 21 | 3 | 24 |

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| | | | | | | | | | | |
|------------------------------------|-----------|----------|-----------|----------|-----------|----------|---|----------|------------|----|
| Amortization of prior service cost | 1 | | 1 | | 1 | 1 | | 1 | (1) | |
| Net periodic benefit cost (income) | 29 | 6 | 35 | 8 | 43 | 21 | 6 | 27 | 9 | 36 |

Table of Contents

| Six Months Ended June 30 | 2011 | | | | | 2010 | | | | |
|------------------------------------|-------|-------|---------------|----------------|-------|-------|-------|---------------|----------------|-------|
| | U.S. | Int 1 | Total Pension | Other Benefits | Total | U.S. | Int 1 | Total Pension | Other Benefits | Total |
| Net periodic benefit cost: | | | | | | | | | | |
| Service cost | \$ 58 | \$ 8 | \$ 66 | \$ 3 | \$ 69 | \$ 54 | \$ 8 | \$ 62 | \$ 4 | \$ 66 |
| Interest cost | 149 | 16 | 165 | 20 | 185 | 153 | 14 | 167 | 20 | 187 |
| Expected return on plan assets | (205) | (13) | (218) | (12) | (230) | (207) | (12) | (219) | (11) | (230) |
| Amortization of net actuarial loss | 54 | 2 | 56 | 6 | 62 | 41 | 1 | 42 | 6 | 48 |
| Amortization of prior service cost | 2 | | 2 | (1) | 1 | 2 | | 2 | (1) | 1 |
| Net periodic benefit cost (income) | 58 | 13 | 71 | 16 | 87 | 43 | 11 | 54 | 18 | 72 |

We contributed approximately \$28 and \$6 to our various plans during the six months ended June 30, 2011 and 2010, respectively. Additional contributions ranging between \$65 and \$85 are expected during the remainder of 2011.

NOTE 16**LONG-TERM INCENTIVE EMPLOYEE COMPENSATION**

Our long-term incentive awards program (LTIP) comprises three components: non-qualified stock options (NQOs), restricted stock (RS) and a target cash award (TSR). We account for NQOs and RS as equity-based compensation awards. TSR awards are cash settled and accounted for as liability-based compensation. LTIP employee compensation costs are primarily recorded within Selling, General and Administrative (SG&A) expenses, and are reduced by an estimated forfeiture rate. The following table provides the

Table of Contents

impact of these costs in our consolidated condensed results of operations for the three and six month periods ended June 30, 2011 and 2010.

| For the Periods Ended June 30 | Three Months | | Six Months | |
|----------------------------------------------|--------------|------|------------|-------|
| | 2011 | 2010 | 2011 | 2010 |
| Compensation costs on equity-based awards | \$ 7 | \$ 8 | \$ 15 | \$ 16 |
| Compensation costs on liability-based awards | 2 | (3) | 4 | |
| Total compensation costs, pre-tax | \$ 9 | \$ 5 | \$ 19 | \$ 16 |
| Future tax benefit | \$ 3 | \$ 2 | \$ 6 | \$ 5 |

At June 30, 2011, there was \$64 of unrecognized compensation cost related to non-vested NQOs and RS. This cost is expected to be recognized ratably over a weighted-average period of 2.0 years. Unrecognized compensation cost of \$14 is projected to be incurred under the TSR based on performance measurements as of June 30, 2011. The TSR unamortized expense is expected to be recognized over a weighted average period of 2.3 years. Actual performance measurements in future periods may differ from current estimates and positively or negatively impact the TSR compensation cost recognized, as well as create volatility between periods.

Year-to-Date 2011 LTIP Activity

The majority of our LTIP activity occurs during the first quarter of each year. On March 3, 2011, we granted the 2011 LTIP awards. The grants comprised 0.7 NQOs, 0.5 units of RS and 10.8 TSR units with respective grant date fair values of \$14.86, \$57.68 and \$1.00, respectively. The NQOs vest either on the completion of a three-year service period or annually in three equal installments, as determined by employee level, and have a ten-year expiration period. RS and TSR units vest on the completion of a three-year service period.

The fair value of RS corresponds to the closing price of ITT common stock on the date of grant. The fair value of each NQO grant was estimated on the date of grant, using a binomial lattice pricing model that incorporates multiple and variable assumptions over time, including assumptions such as employee exercise patterns, stock price volatility and changes in dividends. The following table details the assumptions utilized to measure fair value.

| | |
|----------------------------------------|----------|
| Dividend yield | 1.73% |
| Expected volatility | 24.75% |
| Expected life (in years) | 7.0 |
| Risk-free rates | 3.06% |
| Weighted-average grant date fair value | \$ 14.86 |

Expected volatilities are based on ITT's historical stock price volatility and implied volatility derived from traded options on our stock. ITT uses historical data to estimate employee option exercise behavior within the valuation model. Employee groups and option characteristics are considered separately for valuation purposes. The expected life represents an estimate of the period of time options are expected to remain outstanding. The expected life provided above represents the weighted average of expected behavior for certain groups of employees who have historically exhibited different behavior. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of option

grant.

The fair value of TSR units is measured on a quarterly basis and corresponds to ITT's total shareholder return as compared to the total shareholder return of other industrial companies within the S&P 500 composite, subject to a multiplier which includes a 200% maximum and 0% minimum payout. The relative performance ranking calculated is adjusted to reflect expected volatility over the remaining term of the award using a Monte Carlo simulation.

During the first six months of 2011, 1.0 stock options were exercised resulting in proceeds of \$41. Restrictions on 0.3 shares of RS lapsed during the first six months of 2011 resulting in the issuance of 0.2 shares from our treasury account. Typically, during the

Table of Contents

first quarter of each year, cash payments are made to settle TSR awards that vested on December 31st of the preceding year. However, no payments were made during the first quarter of 2011 as the TSR performance metric for the 2008 to 2010 performance period was less than the minimum stipulated in the TSR Award Agreement. During the first quarter of 2010, payments totaling \$18 were made to settle the vested 2007 TSR award.

NOTE 17**COMMITMENTS AND CONTINGENCIES**

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. We will continue to defend vigorously against all claims.

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claim, as well as our current reserves and insurance coverage, we do not expect that any asserted or unasserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on our cash flow, results of operations, or financial condition, unless otherwise noted below.

Asbestos Matters***Background***

ITT, including its subsidiary Goulds Pumps, Inc. (Goulds), has been joined as a defendant with numerous other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims allege that certain products sold by us or our subsidiaries prior to 1985 contained a part manufactured by a third party (e.g., a gasket) which contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. In certain other cases, it is alleged that former ITT companies were distributors for other manufacturers' products that may have contained asbestos.

Activity related to open claims filed against ITT in various state and federal courts alleging injury as a result of exposure to asbestos during the six-month period was as follows:

| | | |
|----------------|-------|---------------------|
| | | 2011 ^(a) |
| Pending claims | 12/31 | 103,575 |
| New claims | | 2,829 |
| Settlements | | (731) |
| Dismissals | | (1,357) |
| Pending claims | 6/30 | 104,316 |

- (a) In September 2010, ITT executed an amended cost-sharing agreement related to a business we disposed of a number of years ago. The amended agreement provides for a sharing of costs for claims resolved between 2010 and 2019 naming ITT or the entity which acquired the disposed business. Claim activity associated with the amended cost-sharing agreement for claims that were not filed against ITT are excluded from the table above.

Frequently, plaintiffs are unable to identify any ITT or Goulds product as a source of asbestos exposure. In addition, in a large majority of claims pending against the Company, plaintiffs are unable to demonstrate any injury. Many of those claims have been placed on inactive dockets (including 39,680 claims in Mississippi). Our experience to date is that a substantial portion of resolved claims have been dismissed without payment by the Company. As a result, management believes that a large majority of the pending claims have little or no settlement value.

In the third quarter of each year, we conduct a detailed study with the assistance of outside consultants to review and update, as appropriate, the underlying assumptions used to estimate our asbestos liability and related assets. Additionally, we periodically

Table of Contents

reassess the time horizon over which a reasonable estimate of unasserted claims can be projected. As part of our ongoing review of our net asbestos exposure, each quarter we assess the most recent data available for the key inputs and assumptions, comparing the data to the expectations on which the most recent annual liability and asset estimates were based.

Results of Operations

The table provided below summarizes the net asbestos charge for the three and six month periods ended June 30, 2011 and 2010.

| | Three Months | | Six Months | |
|-------------------------|--------------|-------|------------|-------|
| | 2011 | 2010 | 2011 | 2010 |
| Continuing operations | \$ 16 | \$ 12 | \$ 32 | \$ 27 |
| Discontinued operations | | | 3 | 1 |
| Total | \$ 16 | \$ 12 | \$ 35 | \$ 28 |

Changes in Financial Position

The Company's estimated asbestos exposure, net of expected recoveries from insurers and other responsible parties, for the resolution of all pending and unasserted asbestos claims estimated to be filed in the next 10 years was \$664 and \$641 as of June 30, 2011 and December 31, 2010, respectively. The following table provides a rollforward of the estimated total asbestos liability and related assets for the six months ended June 30, 2011.

| | Liability | Asset | Net |
|----------------------------------------|-----------|----------|--------|
| Balance 12/31 | \$ 1,676 | \$ 1,035 | \$ 641 |
| Changes in estimate during the period: | | | |
| Continuing operations | 42 | 10 | 32 |
| Discontinued operations | 14 | 11 | 3 |
| Net cash activity | (40) | (28) | (12) |
| Balance 6/30 | \$ 1,692 | \$ 1,028 | \$ 664 |

The total asbestos liability as of June 30, 2011 and December 31, 2010 include \$116 and \$117 presented within accrued liabilities, respectively and related assets of \$105 presented within other current assets for both periods.

The asbestos liability and related receivables are based upon current, known information. However, future events affecting the key factors and other variables for either the asbestos liability or related receivables could cause the actual costs and recoveries to be materially higher or lower than currently estimated. Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims which may be filed beyond the next 10 years, it is not possible to predict the ultimate outcome of the cost of resolving the pending and all unasserted asbestos claims. We believe it is possible that future events affecting the key factors and other variables within the next 10 years, as well as the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial position, results of operations or cash flows.

Other Matters

The Company is involved in coverage litigation with various insurers seeking recovery of costs incurred in connection with certain environmental and product liabilities. In a suit filed in 1991, ITT Corporation, et al. v. Pacific Indemnity Corporation et al, Sup. Ct., Los Angeles County, we are seeking recovery of costs related to environmental losses. Discovery, procedural matters, changes in California law, and various appeals have prolonged this case. For several years, the case was on appeal before the California Court of Appeals from a decision by the California Superior Court dismissing certain claims made by ITT. The case is now before the Superior Court, which has scheduled several trials on dispositive issues for early 2012.

Table of Contents

On February 13, 2003, we commenced an action, Cannon Electric, Inc. v. Affiliated FM Ins. Co., Sup. Ct., Los Angeles County, seeking recovery of costs related to asbestos product liability losses described above. During this coverage litigation, we entered into coverage-in-place settlement agreements with ACE, Wausau and Utica Mutual dated April 2004, September 2004, and February 2007, respectively. These agreements provide specific coverage for the Company's legacy asbestos liabilities. A trial on several insurers coverage obligations for Goulds Pumps, Inc., is scheduled for November 2011. We continue to negotiate coverage in place agreements with other insurers. Where those negotiations are not productive, we will request that a trial be scheduled.

On March 27, 2007, we reached a settlement relating to an investigation of our ITT Night Vision Division's compliance with the International Traffic in Arms Regulations (ITAR) pursuant to which we pled guilty to two violations, based on the export of defense articles without a license and the omission of material facts in required export reports. We were assessed a total of \$50 in fines, forfeitures and penalties. We also entered into a Deferred Prosecution Agreement with the U.S. Government which deferred action regarding a third count of violations related to ITAR pending our implementation of a remedial action plan, including the appointment of an independent monitor. We were also assessed a deferred prosecution monetary penalty of \$50 which is being reduced for monies spent, during the five-year period following the date of the Plea Agreement, to accelerate and further the development and fielding of advanced night vision technology. On April 12, 2011, the Department of Justice dismissed the deferred third count of the Deferred Prosecution Agreement. This dismissal terminates any further obligation of the Company under the Deferred Prosecution Agreement with the exception of our obligation to pay \$50 as identified above. Management believes that this matter will not have a material adverse effect on our consolidated condensed financial position, results of operations or cash flows.

**NOTE 18
GUARANTEES**

We have a number of guarantees outstanding at June 30, 2011, the substantial majority of which pertain to our performance under long-term sales contracts. We did not have any recorded loss contingencies under these performance guarantees as of June 30, 2011 or December 31, 2010 as the likelihood of nonperformance by ITT or ITT's subsidiaries is considered remote. We also have certain third-party guarantees that may be affected by various conditions and external factors, some of which could require that payments be made under such guarantees. We do not consider the maximum exposure or current recorded liabilities under our third-party guarantees to be material either individually or in the aggregate. We do not believe such payments would have a material adverse impact on the financial position, results of operations or cash flows on a consolidated basis.

In December 2007, we entered into a sale leaseback agreement for our corporate aircraft, with the aircraft leased to ITT under a five-year operating lease and provided a residual value guarantee to the lessor for the future value of the aircraft. During the second quarter of 2011, we purchased the aircraft from the lessor for \$50, the price stated in the sale leaseback agreement, and as such the sale leaseback agreement and the associated residual value guarantee were terminated. In connection with this transaction we settled the previously recorded \$22 loss and recognized an additional charge of \$3, presented within SG&A expenses.

**NOTE 19
SEGMENT INFORMATION**

The Company's segments are reported on the same basis used internally for evaluating performance and for allocating resources. Our three reportable segments are referred to as: Defense & Information Solutions (Defense segment), Fluid Technology (Fluid segment), and Motion & Flow Control (Motion & Flow segment). Corporate and Other consists of corporate office expenses including compensation, benefits, occupancy, depreciation, and other

administrative costs, as well as charges related to certain matters, such as the planned spinoff transaction, asbestos and environmental matters, that are managed at a corporate level and are not included in the business segments in evaluating performance or allocating resources. Assets of the business segments exclude general corporate assets, which principally consist of cash, deferred tax assets, insurance receivables, certain property, plant and equipment, and certain other assets.

Table of Contents

Defense The businesses in this segment are those that directly serve the military and government agencies with products and services. Products include tactical communications equipment, electronic warfare and force protection equipment, radar systems, integrated structures equipment and imaging and sensor equipment, which include night vision goggles, as well as weather, location, surveillance and other related technologies. Services include air traffic management, information and cyber solutions, large-scale systems engineering and integration and defense technologies. The U.S. Government accounted for approximately 88% of Defense segment revenue during the three and six month periods ended June 30, 2011 and 2010.

Fluid Our Fluid segment is a provider of water transport and wastewater treatment systems, pumps and related technologies, and other water and fluid control products with residential, commercial, and industrial applications.

Motion & Flow Our Motion & Flow segment comprises a group of businesses providing products and services for the areas of transportation, defense, aerospace, industrial, computer, telecommunications, medical, marine, and food & beverage. The Motion & Flow businesses primarily serve the high end of their markets, with highly engineered products, high brand recognition, a focus on new product development and operational excellence.

| Three Months Ended June 30 | 2011 Revenue | | | 2010 Revenue | | |
|----------------------------|--------------|---------|----------|--------------|---------|----------|
| | Product | Service | Total | Product | Service | Total |
| Defense | \$ 682 | \$ 821 | \$ 1,503 | \$ 925 | \$ 578 | \$ 1,503 |
| Fluid | 1,056 | 52 | 1,108 | 846 | 31 | 877 |
| Motion & Flow | 412 | 2 | 414 | 360 | 2 | 362 |
| Eliminations | (1) | | (1) | (3) | | (3) |
| Total | \$ 2,149 | \$ 875 | \$ 3,024 | \$ 2,128 | \$ 611 | \$ 2,739 |

| Six Months Ended June 30 | 2011 Revenue | | | 2010 Revenue | | |
|--------------------------|--------------|----------|----------|--------------|----------|----------|
| | Product | Service | Total | Product | Service | Total |
| Defense | \$ 1,365 | \$ 1,479 | \$ 2,844 | \$ 1,727 | \$ 1,169 | \$ 2,896 |
| Fluid | 2,000 | 100 | 2,100 | 1,614 | 62 | 1,676 |
| Motion & Flow | 840 | 4 | 844 | 747 | 4 | 751 |
| Eliminations | (4) | | (4) | (6) | | (6) |
| Total | \$ 4,201 | \$ 1,583 | \$ 5,784 | \$ 4,082 | \$ 1,235 | \$ 5,317 |

| For the Periods Ended June 30 | Operating Income | | | | Operating Margin | | | |
|-------------------------------|------------------|------------|------------|------------|------------------|------------|------------|------------|
| | 3M 2011 | 3M 2010 | 6M 2011 | 6M 2010 | 3M 2011 | 3M 2010 | 6M 2011 | 6M 2010 |
| Defense | \$ 142 | \$ 194 | \$ 278 | \$ 335 | 9.4% | 12.9% | 9.8% | 11.6% |
| Fluid | 161 | 130 | 286 | 221 | 14.5% | 14.8% | 13.6% | 13.2% |
| Motion & Flow | 57 | 42 | 122 | 97 | 13.8% | 11.6% | 14.5% | 12.9% |
| Corporate and Other | (100) | (42) | (238) | (84) | | | | |
| Total | \$ 260 | \$ 324 | \$ 448 | \$ 569 | 8.6% | 11.8% | 7.7% | 10.7% |

Table of Contents

| Six Months Ended June 30 | Total Assets | | Plant, Property & Equipment, Net | | Capital Expenditures | | Depreciation & Amortization | |
|--------------------------|--------------|---------------------|----------------------------------|---------------------|----------------------|--------|-----------------------------|--------|
| | 2011 | 2010 ^(a) | 2011 | 2010 ^(a) | 2011 | 2010 | 2011 | 2010 |
| Defense | \$ 4,308 | \$ 4,149 | \$ 447 | \$ 434 | \$ 35 | \$ 51 | \$ 68 | \$ 65 |
| Fluid | 4,449 | 4,055 | 527 | 518 | 54 | 29 | 72 | 42 |
| Motion & Flow | 1,473 | 1,372 | 241 | 230 | 19 | 19 | 27 | 27 |
| Corporate and Other | 2,870 | 2,862 | 27 | 23 | 15 | 7 | 5 | 6 |
| Total | \$ 13,100 | \$ 12,438 | \$ 1,242 | \$ 1,205 | \$ 123 | \$ 106 | \$ 172 | \$ 140 |

(a) Amounts reflect balances as of December 31, 2010.

The operations from one of our subsidiaries reported within the Fluid segment as of December 31, 2010 was reclassified during the first quarter of 2011 and is now reported within the Motion & Flow segment. Prior periods presented in the tables above have been retrospectively adjusted to reflect this change.

NOTE 20
SUBSEQUENT EVENTS

On July 5, 2011, we entered into a definitive agreement to acquire YSI Incorporated (YSI) for an aggregate purchase price of \$310. YSI is a leading developer and manufacturer of sensors, instruments, software, and data collection platforms for environmental water monitoring. YSI reported 2010 global revenues of \$101 and employs 390 people at several facilities in the United States, Europe and Asia. The transaction is expected to close in the third quarter of 2011, pending customary closing conditions and approval of YSI's shareholders.

Table of Contents

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

(In millions, except per share amounts, unless otherwise stated)

OVERVIEW

ITT Corporation (references herein to ITT, the Company, and such words as we, us, and our include ITT Corporation and its subsidiaries) is a global multi-industry high-technology engineering and manufacturing organization. We generate revenue through the design, manufacture, and sale of a wide range of products that are engineered to deliver extraordinary solutions to meet life's most essential needs—more livable environments, better protection and safety, and breakthrough communications that connect our world. Our products and services provide solutions in the following vital markets: global defense and security, water and fluids management, and motion and flow control. Our portfolio includes three core businesses focused on making a difference in our communities and the world. From climate change and water scarcity to population growth, infrastructure modernization, critical communications and security concerns, ITT is prepared to play a continuing role in developing sustainable solutions to pressing global problems.

Our business is reported in three segments: Defense & Information Solutions (Defense segment), Fluid Technology (Fluid segment), and Motion & Flow Control (Motion & Flow segment). Our Defense segment is a major U.S. aerospace and defense contractor delivering advanced systems and providing technical and operational services. Our Fluid segment is a leading supplier of pumps and systems to transport and control water and other fluids. Our Motion and Flow segment is a manufacturer of highly engineered critical components, such as brake friction materials, electrical connectors and switch applications, used in multiple growth markets.

On January 12, 2011, the Company announced that its Board of Directors had unanimously approved a plan to separate the Company's businesses into three independent, publicly traded companies (the Transformation). Under the Transformation plan, ITT would execute tax-free spinoffs to shareholders of its water-related businesses and its Defense segment. Following completion of the Transformation, ITT will continue to trade on the New York Stock Exchange as an industrial company that supplies highly engineered solutions in the aerospace, transportation, energy and industrial markets. Following the completion of the Transformation, ITT shareholders will own shares in all three corporations. The transaction is anticipated to be completed by the end of 2011. As a result of the Transformation, we will reorganize to a new management and segment reporting structure.

Executive Summary

ITT reported revenue of \$3.0 billion for the quarter ended June 30, 2011, an increase of 10.4% compared to the corresponding 2010 period, led by significant growth from defense operational services and our commercial-based businesses, including benefits from Godwin Pumps of America, Inc. and Godwin Holdings Limited (collectively referred to as Godwin), a third quarter 2010 acquisition. Operating income for the second quarter of 2011 was \$260, reflecting a decline of \$64 or 19.8% from the prior year. These results include costs of \$62 incurred to execute the planned Transformation of ITT, primarily relating to advisory fees and information technology costs. Operating income growth of \$46 from our commercial-based businesses was offset by a decline of \$52 at our Defense segment. Income generated from continuing operations during the second quarter of 2011 was \$168 or \$0.90 per diluted share, compared to \$226 or \$1.22 per diluted share during the corresponding 2010 period.

Adjusted income from continuing operations was \$220 for the second quarter of 2011, reflecting an increase of \$9, or 4.3%, over the prior year adjusted amount. Our adjusted income from continuing operations for the second quarter of

2011 translated into \$1.18 per diluted share as compared to \$1.14 per diluted share from the second quarter of 2010. See the Key Performance Indicators and Non-GAAP Measures, section included within Management's Discussion and Analysis for a reconciliation of the adjusted non-GAAP measures.

Table of Contents

Additional highlights for the second quarter of 2011 include the following:

- n Positive Fluid and Motion & Flow segment results, including 25% revenue growth in emerging markets and total organic revenue growth of \$104, or 8.4%, over the corresponding prior year period.
- n Revenue results within the Defense segment were flat year-over-year as revenue growth from operational services of \$241, or 65.5%, was offset by declines in sales of surge-related equipment. Operating margin declined 350 basis points due to the change in revenue composition.
- n Orders of approximately \$2.7 billion were received during the quarter, representing double-digit growth at all segments and a 30.8% total increase over the prior year.
- n Significant efforts were undertaken in connection with ITT's previously announced Transformation, targeted for completion during the fourth quarter of 2011, including the filing of initial Registration Statements with the Securities and Exchange Commission on July 11, 2011.

Further details related to the quarter and year-to-date results are contained in the Results of Operations section.

2011 Outlook

Total revenue outlook for the full year of 2011 is projected to be \$11.5 billion, representing an increase of approximately \$200 from our outlook provided in the Quarterly Report on Form 10-Q for the period ended March 31, 2011. This increase in projected revenue is due to recent defense operational service contract wins and strength within the Fluid segment.

Defense segment revenue is projected to be approximately \$5.6 to \$5.7 billion, representing an increase from the first quarter 2011 outlook, but a 4% decline to the mid-point of the range as compared to prior year results. This decline is due, in part, to reduced demand for equipment utilized to the support operations in Iraq and Afghanistan, partially offset by the recent defense operational service contract wins. The higher concentration of service revenue is in line with longer term revenue mix expectations and will unfavorably impact gross margin percentages. Fluid segment revenue is projected to grow approximately 17%, with organic revenue forecasted to grow 6%. Motion & Flow segment revenue is projected to grow approximately 10% and organic revenue growth for the business is projected at approximately 6.5%.

Our 2011 full-year adjusted earnings per share is projected to be in a range of \$4.70 to \$4.82, with the benefits from the anticipated strong operating performance of our commercial-based businesses expected to outweigh the impact of challenging conditions facing the Defense segment.

To execute the Transformation, we expect major areas of spending to include debt refinancing, tax impacts, information technology investments to build out independent environments for the new companies, advisory fees, and other Transformation activities. Our current estimate of the after-tax cash impact of pre-spin activities associated with the Transformation, including those initiated during the first six months of 2011, is expected to be approximately \$500. In addition, we recorded a \$55 non-cash asset impairment charge in the first quarter related to information system initiatives that were discontinued as a result of the Transformation. The Company may incur additional costs that are not currently estimable prior to completion of the Transformation.

In addition, the Company anticipates incurring material separation-related spending following the Transformation, primarily consisting of additional tax impacts, employee-related costs, continued information systems investments,

and advisory fees.

Table of Contents

Known Trends and Uncertainties

The following represents an update of trends and uncertainties from those included in our 2010 Annual Report on Form 10-K which could have a significant impact on our results of operations, financial position and/or cash flows:

- n The U.S. continues to face a complex and changing national security environment, and domestic economic challenges, such as unemployment, federal budget deficits and the growing national debt. Significant uncertainties exist due to the competing priorities to modernize and expand U.S. security capabilities and the efforts to reduce overall government spending, as evidenced by President Obama's recent framework to reduce \$4 trillion in deficit spending, including \$400 billion in savings from Security Spending over the next twelve years. In addition, the DoD has announced several efficiency initiatives, projecting they will generate \$100 billion in savings, as well as plans to reduce defense spending from its prior plans by \$78 billion over the next five fiscal years. Although reductions to certain programs in which we participate or for which we expect to compete are always possible, we believe that spending on recapitalization, modernization and maintenance of defense and homeland security assets will continue to be a national priority. Based on the FY 2012 DoD budget submitted to Congress by President Obama, we believe that the U.S. Government will continue to place a high priority on the future challenges of modernization and transformation of forces and capabilities. Examples include intelligence, surveillance and reconnaissance, network communications, cyber warfare and security, unmanned aircraft and integrated logistics support. Our portfolio of defense solutions, which covers a broad range of air, sea and ground platforms and applications, aligns with the priorities outlined by the DoD.

The known trends and uncertainties information provided above and in our 2010 Annual Report on Form 10-K does not represent a complete list of trends and uncertainties that could impact our business in either the near or long-term. It should, however, be considered along with the risk factors identified in Item 1A of our 2010 Annual Report on Form 10-K and our disclosure under the caption "Forward-Looking Statements and Cautionary Statements" at the end of this section.

Key Performance Indicators and Non-GAAP Measures

Management reviews key performance indicators including revenue, segment operating income and margins, earnings per share, orders growth, and backlog, among others. In addition, we consider certain measures to be useful to management and investors evaluating our operating performance for the periods presented, and provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including, but not limited to, dividends, acquisitions, share repurchases and debt repayment. These metrics, however, are not measures of financial performance under accounting principles generally accepted in the United States of America (GAAP) and should not be considered a substitute for revenue, operating income, income from continuing operations, income from continuing operations per diluted share or net cash from continuing operations as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

- n organic revenue and organic orders, defined as revenue and orders, respectively, excluding the impact of foreign currency fluctuations and contributions from acquisitions and divestitures. Divestitures include sales of insignificant portions of our business that did not meet the criteria for classification as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period.

n adjusted income from continuing operations and adjusted income from continuing operations per diluted share defined as income from continuing operations and income from continuing operations per diluted share, adjusted to exclude items that may include, but are not limited to, unusual and infrequent non-operating items, such as transformation costs and non-operating tax settlements or adjustments related to prior periods. Special items represent significant charges or credits that impact current results, but may not be related to the Company's ongoing operations and performance. The

Table of Contents

following table provides a reconciliation of adjusted income from continuing operations, including adjusted earnings per diluted share, for the three and six months ended June 30, 2011 and 2010.

| | Three Months | | Six Months | |
|--------------------------------------------------------------|--------------|---------|------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Income from continuing operations | \$ 168 | \$ 226 | \$ 294 | \$ 370 |
| Transformation costs, net of tax | 46 | | 109 | |
| Tax-related special items ^(a) | 6 | (15) | (1) | (5) |
| Adjusted income from continuing operations | \$ 220 | \$ 211 | \$ 402 | \$ 365 |
| Income from continuing operations per diluted share | \$ 0.90 | \$ 1.22 | \$ 1.58 | \$ 2.00 |
| Adjusted income from continuing operations per diluted share | \$ 1.18 | \$ 1.14 | \$ 2.15 | \$ 1.97 |

^(a) The 2011 tax-related special items include discrete tax adjustments of \$6 recorded during the three months ended June 30, 2011 primarily related to an adjustment for a prior year transaction offset by the recognition of \$6 of tax credits associated with our operations in Poland during the six months ended June 30, 2011. The 2010 tax-related special items primarily include the reversal of previously unrecognized tax benefits due to the completion of a tax audit during the second quarter of 2010 and a reduction of deferred tax assets associated with the U.S. Patient Protection and Affordable Care Act (the Healthcare Reform Act). See Note 6, Income Taxes, in the Notes to our Consolidated Condensed Financial Statements for further information.

n free cash flow defined as net cash provided by operating activities, as reported in the Statement of Cash Flows, less capital expenditures and other significant items that impact current results which management believes are not related to our ongoing operations and performance. Our definition of free cash flow does not consider certain non-discretionary cash payments, such as debt. The following table provides a reconciliation of free cash flow for the six-month periods ended June 30, 2011 and 2010.

| | 2011 | 2010 |
|-------------------------------------------|--------|--------|
| Net cash provided by operating activities | \$ 204 | \$ 356 |
| Capital expenditures ^(a) | (112) | (106) |
| Transformation cash payments | 61 | |
| Free cash flow | \$ 153 | \$ 250 |

^(a) Capital expenditures represents capital expenditures as reported in the Statement of Cash Flows, less capital expenditures associated with the Transformation of \$11 and \$0 for the six-month periods ended June 30, 2011 and 2010, respectively.

Table of Contents**DISCUSSION OF FINANCIAL RESULTS****Three and Six Months Ended June 30**

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|------------------------------------------|----------------------------|----------|---------|--------------------------|----------|---------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Revenue | \$ 3,024 | \$ 2,739 | 10.4% | \$ 5,784 | \$ 5,317 | 8.8% |
| Gross profit | 840 | 781 | 7.6% | 1,625 | 1,499 | 8.4% |
| <i>Gross margin</i> | 27.8% | 28.5% | (70)bp | 28.1% | 28.2% | (10)bp |
| Operating expenses | 580 | 457 | 26.9% | 1,177 | 930 | 26.6% |
| <i>Expense to revenue ratio</i> | 19.2% | 16.7% | 250bp | 20.3% | 17.5% | 280bp |
| Operating income | 260 | 324 | (19.8)% | 448 | 569 | (21.3)% |
| <i>Operating margin</i> | 8.6% | 11.8% | (320)bp | 7.7% | 10.7% | (300)bp |
| Interest and non-operating expenses, net | 12 | 19 | (36.8)% | 29 | 45 | (35.6)% |
| Income tax expense | 80 | 79 | 1.3% | 125 | 154 | (18.8)% |
| <i>Effective tax rate</i> | 32.3% | 25.9% | 640bp | 29.8% | 29.4% | 40bp |
| Income from continuing operations | \$ 168 | \$ 226 | (25.7)% | \$ 294 | \$ 370 | (20.5)% |

REVENUE

Revenue for the three and six months ended June 30, 2011 increased \$285, or 10.4%, and \$467, or 8.8%, respectively. The following table illustrates the impact from organic growth, recent acquisitions, and fluctuations in foreign currency, in relation to consolidated revenue for the three and six month periods ended June 30, 2011.

| | Three Months | | Six Months | |
|------------------------------|--------------|----------|------------|----------|
| | \$ Change | % Change | \$ Change | % Change |
| 2010 Revenue | \$ 2,739 | | \$ 5,317 | |
| Organic growth | 101 | 3.7% | 154 | 2.9% |
| Acquisitions | 90 | 3.3% | 204 | 3.8% |
| Foreign currency translation | 94 | 3.4% | 109 | 2.1% |
| Total change in revenue | 285 | 10.4% | 467 | 8.8% |
| 2011 Revenue | \$ 3,024 | | \$ 5,784 | |

Revenue from acquisitions of \$90 and \$204 for the three and six months ended June 30, 2011, respectively primarily relates to our purchase of Godwin in August of 2010. The six month revenue from acquisitions figure also includes approximately three months of activity from our Nova Analytics Corporation (Nova) acquisition in March of 2010. The results from both acquisitions are reported within our Fluid segment. The following table illustrates the three and six month 2011 and 2010 revenue of our business segments, which is followed by a discussion of revenue results at the segment level.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---------------|----------------------------|----------|--------|--------------------------|----------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Defense | \$ 1,503 | \$ 1,503 | | \$ 2,844 | \$ 2,896 | (1.8)% |
| Fluid | 1,108 | 877 | 26.3% | 2,100 | 1,676 | 25.3% |
| Motion & Flow | 414 | 362 | 14.4% | 844 | 751 | 12.4% |
| Eliminations | (1) | (3) | | (4) | (6) | |
| Total | \$ 3,024 | \$ 2,739 | 10.4% | \$ 5,784 | \$ 5,317 | 8.8% |

Table of Contents***Defense & Information Solutions***

Revenue generated within our Defense segment reflects both positive and negative results, as benefits from recent service contract awards were offset by revenue declines from surge-related equipment. The higher concentration of service revenue reflected in the 2011 year-to-date results are in line with longer term expectations for revenue mix.

The following table provides total revenue and year-over-year change by Defense segment division for the three and six months ended June 30, 2011 and comparable prior year periods.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-------------------------|----------------------------|----------|---------|--------------------------|----------|---------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Information Systems | \$ 828 | \$ 580 | 42.8% | \$ 1,489 | \$ 1,175 | 26.7% |
| Electronic Systems | 384 | 630 | (39.0)% | 776 | 1,138 | (31.8)% |
| Geospatial Systems | 299 | 298 | 0.3% | 594 | 595 | (0.2)% |
| Eliminations | (8) | (5) | | (15) | (12) | |
| Defense segment revenue | \$ 1,503 | \$ 1,503 | | \$ 2,844 | \$ 2,896 | (1.8)% |

Revenue from the Information Systems division, our service-based business, increased \$248 and \$314 for the three and six months ended June 30, 2011, respectively, primarily due to new contract wins on K-BOSSS (Kuwait Base Operations and Security Support Services) and surge-related efforts for support of the U.S. Armed Services in Kuwait and Afghanistan. K-BOSSS provided revenue of \$135 and \$197 in the quarter and year-to-date periods, respectively, while the APS-5 Kuwait and Afghanistan efforts provided \$168 and \$245, respectively. The increase in revenue was partially offset by lower sales on the GMASS (Global Maintenance and Supply Services) contract of approximately \$52 and \$121 for the quarter and year-to-date periods, respectively.

Revenue from the Electronic Systems division, a product-based business, decreased \$246 and \$362 for the three and six months ended June 30, 2011, respectively, primarily due to volume declines in CREW 2.1 (Counter RCIED Electronic Warfare) and Special Jammer products of approximately \$128 and \$186, respectively, and SINCGARS (Single Channel Ground and Airborne Radio Systems) platforms of approximately \$65 and \$96, respectively. All three of the programs mentioned benefited from the urgent and compelling needs in past years; however sales volumes began receding in 2009 due to reduced U.S. troop deployment and programmatic timing. The CREW 2.1 program has reached maturity and we do not expect significant sales to occur under this program going forward.

Revenue from the Geospatial Systems division was relatively consistent for both the three and six month periods, as increased revenue of \$15 and \$35 from the GPS-III (Global Positioning System III Space Segment) and OCX (Next Generation GPS Control Segment) programs, respectively offset declines of \$5 and \$33, respectively, relating to other classified programs.

Orders received during the second quarter of 2011 increased by 48.0% or \$368 to \$1,135 and increased 34.8% or \$674 to 2,609 during the six months ended June 30, 2011. The increase in funding awards was observed across all divisions with the Army Prepositioned Stock 5 (APS-5) Kuwait, K-BOSSS and SCNS service contracts and a combination of international and domestic night vision goggle awards being the largest contributors. The overall increase was also supported by favorable comparisons in the air traffic management businesses which more than offset a decline in order input within the counter IED product line and SINCGARS.

On June 30, 2011, total backlog was \$11.9 billion compared to \$11.5 at the end of 2010. The increase relates to key contract wins for TAC-SWACAA (Total Army Communications Southwest Asia, Central Asia and Africa), APS-5, GPS III EMD (Engineering, Manufacturing and Design), and electronic warfare systems on the Special Operations Aircraft (SOA) contract, partially offset by lower order input for Night Vision goggles under Omni-7 contract and SINGARS. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer), which represents firm orders and potential options on multi-year contracts, excluding protested awards and potential orders under indefinite delivery/indefinite quantity (IDIQ) contracts. Backlog is converted into sales as work is performed or deliveries are made. The level of order activity related to Defense programs can be affected by the

Table of Contents

timing of government funding authorizations and project evaluation cycles. Year-over-year comparisons could, at times, be impacted by these factors, among others.

Fluid Technology

Revenue generated with the Fluid segment reflects organic growth across each division and includes the benefit provided by Godwin, a third quarter 2010 acquisition. The quarter and year-to-date revenue generated by Godwin, a dewatering business reported within the Water & Wastewater division, exceeded internal expectations, driven by increasing dewatering demands in the oil and gas markets. The following table provides total organic revenue by division for the three months and six months ended June 30, 2011.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--------------------------------|----------------------------|--------|----------------|--------------------------|----------|----------------|
| | 2011 | 2010 | Organic Growth | 2011 | 2010 | Organic Growth |
| Water & Wastewater | \$ 467 | \$ 444 | 5.2% | \$ 896 | \$ 820 | 9.3% |
| Residential & Commercial Water | 312 | 286 | 9.1% | 606 | 553 | 9.6% |
| Industrial Process | 195 | 167 | 16.8% | 360 | 340 | 5.9% |
| Eliminations | (19) | (20) | | (40) | (37) | |
| Fluid organic revenue | 955 | 877 | 8.9% | 1,822 | 1,676 | 8.7% |
| Impact from acquisitions | 87 | | | 198 | | |
| Impact from foreign currency | 66 | | | 80 | | |
| Fluid segment revenue | \$ 1,108 | \$ 877 | 26.3% | \$ 2,100 | \$ 1,676 | 25.3% |

Revenue from the Water & Wastewater division grew \$158, or 35.6%, during the second quarter, including benefits of \$85 from acquisitions and \$50 from foreign currency translation adjustments. Organic revenue growth of 5.2% generated during the second quarter was driven by increased sales volume of transport equipment to the public utilities and industrial markets within the United States, and was partially offset by overall volume declines in Southern Europe, as well as the Middle East and North African regions. Revenue for the year-to-date period grew \$333, or 40.6%, including benefits of \$195 from acquisitions and \$62 from foreign currency translation adjustments. Organic revenue growth of 9.3% for the year-to-date period was provided by increased treatment and transport project activity within the public utilities market, in addition to the second quarter drivers noted above.

Revenue from the Residential & Commercial Water division grew \$41, or 14.3% in total during the second quarter and \$68, or 12.3% during the first six months of 2011, which included a \$15 benefit from foreign currency translation adjustments for both periods. The organic revenue growth of 9.1% and 9.6%, for the three and six months ended June 30, 2011, was provided primarily by increased volume to the commercial building services, light industrial and agriculture markets and pricing adjustments. A portion of the growth within the commercial building services market was derived from new products such as e-SV, a high-efficiency vertical multi-stage pump.

Revenue from the Industrial Process division grew \$34, or 20.4% in total during the second quarter and \$29, or 8.5% during the first six months of 2011. These results include the fulfillment of a \$22 oil and gas equipment order to a new South American customer during second quarter of 2011 and reflect a general increase in baseline equipment volume. The year-to-date revenue growth was slightly offset by a first quarter year-over-year decline in transport project business within the EMEA (Europe, Middle East and Africa) region.

Orders received during the second quarter of 2011 increased by \$220, or 23.5%, including benefits of \$95 from acquisitions and \$70 from foreign currency translation adjustments. The Industrial Process division generated order growth of \$46, or 25.6%, due to higher baseline business and improved project business tied to emerging market growth as oil and commodity prices drove quote and order activity. These positive order results were partially offset by a decline in EMEA region order rates due to project

Table of Contents

delays and competitive activity. The Residential & Commercial Water division generated order growth of \$40 or 14.2%, including \$14 from favorable foreign currency translation, primarily due to increasing activity within commercial markets.

Motion & Flow Control

Revenue growth for the three and six months ended June 30, 2011 was primarily driven by increased sales volume of friction and aerospace-related products, although growth was experienced across the majority of our business and markets. The following table provides total revenue by division for the three months and six months ended June 30, 2011 and comparable prior year periods.

| | Three Months Ended | | | Six Months Ended June 30 | | |
|-------------------------------|--------------------|-----------------|--------|--------------------------|--------|--------|
| | 2011 | June 30 2010 | Change | 2011 | 2010 | Change |
| Motion Technologies | \$ 147 | \$ 134 | 9.7% | \$ 331 | \$ 303 | 9.2% |
| Interconnect Solutions | 104 | 102 | 2.0% | 212 | 200 | 6.0% |
| Control Technologies | 82 | 68 | 20.6% | 161 | 133 | 21.1% |
| Flow Control | 56 | 60 | (6.7)% | 116 | 116 | |
| Eliminations | (1) | (2) | | (3) | (1) | |
| Motion & Flow organic revenue | 388 | 362 | 7.2% | 817 | 751 | 8.8% |
| Impact from foreign currency | 26 | | | 27 | | |
| Motion & Flow segment revenue | \$ 414 | \$ 362 | 14.4% | \$ 844 | \$ 751 | 12.4% |

Revenue from the Motion Technologies division grew \$31 during the second quarter of 2011, including \$18 from foreign currency translation adjustments. Sales of brake pads increased 9.4%, driven primarily by a 43.0% increase in volume to a North American manufacturer. Our brake pad business has continued to secure positions on strategic platforms in a number of geographic markets, including North America, China and Japan. Sales of shock absorbers increased 4.4%, as growth in railway equipment was partially offset by a reduction in heavy duty shocks. Revenue for the year-to-date period grew \$45, including a \$17 benefit from foreign currency translation adjustments, primarily driven by growing emerging market rail equipment activity and strong aftermarket brake pad demand, as well as a growing share in the automotive original equipment market. These results compare to strong first half 2010 results that benefited from a restocking of automotive equipment driven by past European stimulus programs.

Organic revenue from the Interconnect Solutions division grew \$2 during the second quarter of 2011, with growth of 37% in the automotive market from our J1772 electronic vehicle connector and 29% in the rail market from activity within China. The automotive and rail markets account for approximately 9% of this division's total revenue. Revenue derived from the aerospace and defense markets grew 7% due to increased demand from a major aerospace customer and the timing of shipments for radar and missile programs. Sales within the medical and oil and gas markets generated growth of 28% and 12%, respectively. In the communications market, we experienced a 21% year-over-year decline, with the majority of the decline in the telecom and broadband segments of the market, in part due to the loss of a customer in the PC card business for set-top box applications. Revenue growth for the year-to-date period benefited from drivers similar to those discussed for the quarter-to-date period.

Organic revenue from the Control Technologies division grew \$14, or 20.6% during the second quarter of 2011, driven equally by sales of aerospace aftermarket equipment, high-speed rail products and strength across our industrial market product lines. Growth within the aerospace market was primarily driven by aftermarket sales of OPTO actuators, switches and seat locks. Results within the industrial market reflect strength across all product classes. Organic revenue growth of \$28, or 21.1% for the six months ended June 30, 2011 was led by aerospace-related aftermarket equipment and increased volume of our advanced passenger seat technology utilized in China's expansion of high-speed rail infrastructure.

Organic revenue from the Flow Control division declined \$4, or 6.7% during the three months ended June 30, 2011. The division's results were impacted by a decline in the marine market due to a slow start of the boating season caused by unfavorable

Table of Contents

weather and a decline in volume of specialty industrial equipment. The weakness in the marine and specialty industrial markets was partially offset by an increased sales volume of actuation valves and market share growth within the food and beverage markets from new customer relationships and increased distribution of beverage processing equipment. During the second quarter of 2011, we launched Rainperfect and Aquacharge and we expect to launch several more new products during the second half of 2011. Revenue derived from new product sales was \$4 for the first half of 2011.

GROSS PROFIT

Gross profit for the second quarter 2011 increased \$59, or 7.6%, including a \$17 benefit from foreign currency translation, as strength from increased revenue at our commercial business segments was partially offset by an unfavorable change in sales mix at our Defense segment. Our commercial segments provided additional gross profit of \$116, primarily driven by a \$36 benefit from volume/price increases and a \$42 benefit from acquisitions. The Defense segment was impacted by a significant shift in its overall revenue composition, as higher-margin equipment sales such as SINCGARS and CREW 2.1 were replaced by lower-margin operational services. Similar factors impacted the year-to-date gross profit results. The following table provides gross profit and margin by segment for the three and six months ended June 30, 2011.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--------------------|----------------------------|--------|---------|--------------------------|----------|---------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Defense | \$ 286 | \$ 343 | (16.6)% | \$ 565 | \$ 651 | (13.2)% |
| Fluid | 425 | 323 | 31.6% | 797 | 609 | 30.9% |
| Motion & Flow | 129 | 115 | 12.2% | 263 | 239 | 10.0% |
| Total gross profit | \$ 840 | \$ 781 | 7.6% | \$ 1,625 | \$ 1,499 | 8.4% |
| Gross margin: | | | | | | |
| Consolidated | 27.8% | 28.5% | (70)bp | 28.1% | 28.2% | (10)bp |
| Defense | 19.0% | 22.8% | (380)bp | 19.9% | 22.5% | (260)bp |
| Fluid | 38.4% | 36.8% | 160bp | 38.0% | 36.3% | 170bp |
| Motion & Flow | 31.2% | 31.8% | (60)bp | 31.2% | 31.8% | (60)bp |

OPERATING EXPENSES

Operating expenses increased \$123 and \$247 during the three and six months ended June 30, 2011. The quarter-to-date increase includes costs of \$62 related to the Transformation and incremental operating costs of \$24 associated with the business acquisitions completed during 2010, as well as a \$9 unfavorable impact from foreign currency fluctuations. Excluding the impact of these items, operating expenses increased by \$28, or 6.1%, for the three months ended June 30, 2011, primarily driven by additional sales and marketing costs. The year-to-date increase includes costs of \$147 recognized related to the Transformation and incremental operating costs of \$64 associated with the business acquisitions completed during 2010, as well as a \$17 unfavorable impact from foreign currency fluctuations. Excluding the impact of these items, operating expenses increased by \$19,

Table of Contents

or 2.0%, for the six months ended June 30, 2011, primarily driven by additional sales and marketing costs. The following table provides further information by expense type, as well as a breakdown of operating expense by segment.

| | Three Months Ended | | | Six Months Ended June 30 | | |
|-------------------------------------------------|--------------------|-----------------|--------------|--------------------------|---------------|--------------|
| | 2011 | June 30 2010 | Change | 2011 | 2010 | Change |
| Selling, general and administrative expenses | \$ 429 | \$ 375 | 14.4% | \$ 859 | \$ 753 | 14.1% |
| Research and development expenses | 70 | 60 | 16.7% | 131 | 123 | 6.5% |
| Transformation costs | 62 | | (a) | 147 | | (a) |
| Asbestos-related costs, net | 16 | 12 | 33.3% | 32 | 27 | 18.5% |
| Restructuring and asset impairment charges, net | 3 | 10 | (70.0)% | 8 | 27 | (70.4)% |
| Total operating expenses | \$ 580 | \$ 457 | 26.9% | \$ 1,177 | \$ 930 | 26.6% |
| By Segment: | | | | | | |
| Defense | \$ 144 | \$ 149 | (3.4)% | \$ 287 | \$ 316 | (9.2)% |
| Fluid | 263 | 193 | 36.3% | 510 | 389 | 31.1% |
| Motion & Flow | 72 | 72 | | 141 | 141 | |
| Corporate & Other | 101 | 43 | 134.9% | 239 | 84 | 184.5% |

(a) Not meaningful

Selling, General & Administrative Expenses (SG&A)

SG&A expenses incurred within our Fluid segment increased \$62, or 35.8%, and \$112, or 32.4%, during the three and six months ended June 30, 2011, respectively. The increase in SG&A expense for the quarter-to-date period reflects incremental operating costs from our 2010 acquisitions of \$21, an unfavorable impact of \$16 from foreign currency fluctuations, additional sales and marketing costs of \$13 and other miscellaneous operating costs, net of \$12. The increase in SG&A expense for the year-to-date period reflects incremental operating costs from our 2010 acquisitions of \$55, an unfavorable impact of \$22 from foreign currency fluctuations, additional sales and marketing costs of \$20 and other miscellaneous operating costs, net of \$15.

SG&A expenses incurred within our Defense segment increased \$2, or 1.8%, for the three months ended June 30, 2011, primarily related to a 12.2% increase in marketing expense related to international marketing efforts which was partially offset by lower intangible amortization expense of \$3. SG&A expenses for the six months ended June 30, 2011 decreased \$5 or 2.1%, as a reduction in intangible amortization expense of \$6 more than offset an increase in marketing expense.

SG&A expenses incurred within our Motion and Flow segment decreased \$5, or 8.8%, and \$6, or 5.5%, during the three and six months ended June 30, 2011, respectively, primarily due to a reduction in costs across all divisions.

Corporate and other SG&A expenses decreased \$2, or 6.7%, during the second quarter of 2011, primarily resulting from a \$3 loss realized on corporate-owned life insurance policies during the prior year. Corporate and other SG&A expenses increased \$7, or 12.1%, during the six months ended June 30, 2011, primarily due to additional information technology costs of \$9.

Research and Development Expenses (R&D)

The increase in R&D spending for both the quarter and year-to-date periods as compared to the prior year reflects an increase in spending at our commercial business segments of \$11 and \$19, respectively, partially offset by reduced first quarter 2011 spending of \$9 at our Defense segment. The increase in R&D costs is primarily attributable to new programs within our Water & Wastewater division, including impacts from our March 2010 Nova acquisition, and Residential & Commercial Water division. The decrease in R&D spending within the Defense segment is primarily due to the completion of certain R&D projects for integrated electronic warfare systems, other radio frequency technologies and space systems.

Table of Contents***Transformation Costs***

During the three and six month periods ended June 30, 2011, we recognized expenses of \$62 and \$147, respectively, related to the planned Transformation. The components of transformation costs incurred during these periods are presented below.

| | Three Months 2011 | Six Months 2011 |
|---------------------------|----------------------|--------------------|
| Transformation Costs: | | |
| Non-cash asset impairment | \$ | \$ 55 |
| Advisory fees | 22 | 43 |
| IT costs | 21 | 22 |
| Employee retention | 8 | 11 |
| Other costs | 11 | 16 |
| Transformation costs | 62 | 147 |

To execute the Transformation, we expect major areas of spending to include debt refinancing, tax impacts, information technology investments to build out independent environments for the new companies, advisory fees, and other Transformation activities. See the *Income Tax Expense* section within the results of operations discussion for information related to the 2011 tax impacts associated with the planned Transformation. Our current estimate of the after-tax cash impact of pre-spin activities associated with the Transformation, including those initiated during the first six months of 2011, is expected to be approximately \$500. In addition, we recorded \$55 related to non-cash impairment charges during the first six months of 2011, primarily related to information system initiatives that were discontinued as a result of the Transformation. The Company may incur additional costs that are not currently estimable prior to completion of the Transformation.

In addition, the Company anticipates incurring material separation-related spending following the Transformation, primarily consisting of additional tax impacts, employee-related costs, continued information systems investments, and advisory fees.

Asbestos-Related Costs, Net

During the three and six months ended June 30, 2011, we recognized net asbestos related costs of \$16 and \$32, respectively, reflecting an increase of \$4 and \$5 over the corresponding prior year periods. As part of our annual asbestos measurement process, the underlying assumptions used to estimate asbestos liabilities and potential recoveries are estimated based on our experience since our last detailed review, the appropriate reference period of years of experience used in determining each assumption is reassessed, and our expectations regarding future conditions are evaluated. The net asbestos-related costs primarily reflect the recognition of incremental asbestos liabilities and related asbestos assets to maintain our rolling 10-year projection of unasserted claims.

The net asbestos expense is primarily recorded within Corporate and Other; however, an additional net asbestos expense of \$3 associated with businesses that were disposed of a number of years ago, was recognized during the first quarter of 2011, and is reported within discontinued operations in our Consolidated Condensed Financial Statements. See Note 17, *Commitments and Contingencies*, in our Notes to the Consolidated Condensed Financial Statements for further information on our asbestos-related liabilities and assets.

Restructuring and Asset Impairment Charges, Net

During the three and six months ended June 30, 2011, we recognized restructuring and asset impairment charges of \$9 and \$14, respectively, primarily relating to various reduction in force initiatives within our Defense segment.

Table of Contents

During the three and six months ended June 30, 2010, we recognized restructuring charges of \$10 and \$36, respectively, primarily related to a strategic realignment of our Defense segment to enable better product portfolio integration, encourage a more coordinated market approach and provide reductions in overhead costs. The Defense segment was renamed ITT Defense & Information Solutions and the previous organizational structure, consisting of seven divisions, was consolidated into three larger divisions. This initiative was substantially completed during 2010.

The table provided below summarizes the presentation of restructuring and asset impairment charges within our Consolidated Condensed Income Statements for the three and six month periods ended June 30, 2011 and 2010.

| For the Periods Ended June 30 | Three Months | | Six Months | |
|-----------------------------------------------------|--------------|-------|------------|-------|
| | 2011 | 2010 | 2011 | 2010 |
| Restructuring costs presented in costs of revenue | \$ 6 | \$ | \$ 6 | \$ 9 |
| Restructuring costs presented in operating expenses | 2 | 10 | 7 | 27 |
| Asset impairment | 1 | | 1 | |
| Total restructuring and asset impairment costs | \$ 9 | \$ 10 | \$ 14 | \$ 36 |

OPERATING INCOME

Operating income for the three and six months ended June 30, 2011, which benefited from revenue growth at our Fluid and Motion & Flow segments, declined on a consolidated basis by \$64 and \$121, respectively, reflecting declines from our Defense segment and costs of \$62 and \$147 associated with the planned Transformation. Operating margin decreased 320 basis points to 8.6% during the second quarter of 2011, and 300 basis points to 7.7% during the year-to-date period. Transformation costs equated to a 210 basis point and 250 basis point impact to operating income, respectively, for these periods. The following table illustrates operating income results of our segments, including operating margin results for the three and six month periods ended June 30, 2011 and 2010. Further discussion on operating income results is provided below.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--------------------------|----------------------------|--------|---------|--------------------------|--------|---------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Defense | \$ 142 | \$ 194 | (26.8)% | \$ 278 | \$ 335 | (17.0)% |
| Fluid | 161 | 130 | 23.8% | 286 | 221 | 29.4% |
| Motion & Flow | 57 | 42 | 35.7% | 122 | 97 | 25.8% |
| Segment operating income | 360 | 366 | (1.6)% | 686 | 653 | 5.1% |
| Corporate and Other | (100) | (42) | 138.1% | (238) | (84) | 183.3% |
| Total operating income | \$ 260 | \$ 324 | (19.8)% | \$ 448 | \$ 569 | (21.3)% |
| Operating margin: | | | | | | |
| Consolidated | 8.6% | 11.8% | (320)bp | 7.7% | 10.7% | (300)bp |
| Defense | 9.4% | 12.9% | (350)bp | 9.8% | 11.6% | (180)bp |
| Fluid | 14.5% | 14.8% | (30)bp | 13.6% | 13.2% | 40bp |
| Motion & Flow | 13.8% | 11.6% | 220bp | 14.5% | 12.9% | 160bp |

Defense & Information Solutions

Operating income at the Defense segment declined \$52 and \$57 during the three and six months ended June 30, 2011, respectively, primarily due to lower demand of surge-related equipment such as CREW 2.1 and SINCGARS and increased volume in our operational services business on contracts such as K-BOSSS and the U.S. Armed Services contracts in Kuwait and Afghanistan. The higher concentration of service revenue is in line with longer term revenue mix expectations and will provide an unfavorable impact to operating margin percentages. The unfavorable impact from change in revenue mix was partially offset by net savings from productivity and other cost saving initiatives.

Table of Contents***Fluid Technology***

Operating income for our Fluid segment increased \$31 for the quarter and \$65 for the six months ended June 30, 2011. Organic revenue growth drove operating income gains of \$28 and \$52 for the three and six month periods, respectively. Contributions from the Godwin and Nova acquisitions provided incremental benefits of approximately \$18 and \$35 to operating income for the three and six month periods. Operating income was unfavorably impacted by \$3 of Transformation costs incurred during the three and six months ended June 30, 2011. In addition, operating income was reduced by \$12 and \$19 related to unfavorable fluctuations in general and administrative costs.

Motion & Flow Control

Operating income for our Motion & Flow segment increased \$15, or 35.7%, for the quarter ended June 30, 2011, primarily driven by benefits from organic revenue growth of approximately \$9, which was partially offset by a \$3 unfavorable change in product mix, as well as increasing material and labor costs. Additional impacts to operating income include favorability from foreign currency fluctuations of \$5.

Operating income for our Motion & Flow segment increased \$25, or 25.8%, for the six months ended June 30, 2011, primarily driven by benefits from organic revenue growth of approximately \$22, which was partially offset by a \$5 unfavorable change in product mix as well as increasing material and labor costs. Additional impacts to operating income include favorability from foreign currency fluctuations of \$5.

Corporate and Other

Corporate expenses during the second quarter of 2011 increased \$58 primarily attributable to \$57 of costs incurred in connection with the planned Transformation. Corporate expenses during the six months ended June 30, 2011 increased \$154 primarily attributable to \$142 of costs incurred in connection with the planned Transformation. The increase in year-to-date corporate expenses was also impacted by an increase in costs incurred in connection with an information technology initiative, the development of which was discontinued during the first quarter of 2011.

INTEREST AND NON-OPERATING EXPENSES, NET

| | Three Months Ended | | | Six Months Ended June 30 | | |
|------------------------------------------------|--------------------|-------|----------|--------------------------|-------|---------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Interest expense | \$ 23 | \$ 23 | | \$ 50 | \$ 48 | 4.2% |
| Interest income | 4 | 8 | (50.0)% | 7 | 11 | (36.4)% |
| Miscellaneous (income) expense, net | (7) | 4 | (275.0)% | (14) | 8 | 275.0% |
| Total interest and non-operating expenses, net | \$ 12 | \$ 19 | (36.8)% | \$ 29 | \$ 45 | (35.6)% |

The change in total interest and non-operating expenses, net for the quarter and six months ended June 30, 2011, is primarily driven by a \$7 gain realized in the quarter-to-date period and a \$16 gain realized in the year-to-date period related to the sale of investment securities.

INCOME TAX EXPENSE

Effective Tax Rate

Our quarterly income tax expense is measured using an estimated annual effective tax rate, adjusted for discrete items within the period. The comparison of effective tax rates between periods is significantly affected by discrete items recognized during the periods, the level and mix of earnings by tax jurisdiction and permanent differences. The estimated annual effective tax rate for 2011 and 2010 was comparable before the impact of discrete items.

Table of Contents

Income tax expense for the three months ended June 30, 2011 and 2010 was \$80 and \$79, respectively, resulting in effective tax rates of 32.3% and 25.9%, respectively. The 2011 effective tax rate was increased by approximately 1.0% for costs related to the Transformation and approximately 2.0% for recognition of an adjustment for a prior year transaction. The second quarter 2010 effective tax rate was reduced by approximately 3.0% related to the closure of a tax examination.

Income tax expense for the six months ended June 30, 2011 and 2010 was \$125 and \$154, respectively, resulting in effective tax rates of 29.8% and 29.4%, respectively. The 2011 effective tax rate was increased by 1.0% for costs related to the Transformation. The second quarter 2010 effective tax rate was increased by 2.2% due the impact of the Medicare Part D subsidy reversal and reduced by 1.8% related to the closure of a tax examination.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX

Income from discontinued operations, net of tax, of \$12 and \$14 during the three and six months ended June 30, 2010, respectively, reflects the results of CAS, Inc., a component of our Defense segment, which was sold on September 8, 2010.

LIQUIDITY

Funding and Liquidity Strategy

Our funding needs are monitored and strategies are executed to meet overall liquidity requirements, including the management of our capital structure on both a short- and long-term basis. We believe that cash flows from operations and our access to the commercial paper market are sufficient to meet our short-term funding requirements. If our access to the commercial paper market were adversely affected, we believe that alternative sources of liquidity, including our existing committed credit facility and access to the public debt market, would be sufficient to meet our short-term funding requirements.

Our cash is predominantly held by our foreign subsidiaries in currencies where we have operations. We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We continue to look for opportunities to access cash balances in excess of local operating requirements to meet global liquidity needs in a cost-efficient manner. We have and may continue to transfer cash from certain international subsidiaries to the U.S. and other international subsidiaries when it is cost effective to do so. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to indefinitely reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Significant factors that affect our overall management of liquidity include our credit ratings, the adequacy of commercial paper and supporting bank lines of credit, and the ability to attract long-term capital on satisfactory terms. We assess these factors along with current market conditions on a continuous basis, and as a result, may alter the mix of our short- and long-term financing when it is advantageous to do so.

We access the commercial paper market to supplement the cash flows generated internally to provide additional short-term funding for strategic investments and other non-recurring funding requirements. We manage our short-term liquidity through the use of our commercial paper program by adjusting the level of commercial paper borrowings as opportunities to deploy additional capital arise, it is cost effective to do so and a sufficient return on investment can be generated.

Our credit ratings as of June 30, 2011 are as follows:

| Rating Agency | Short-Term Ratings | Long-Term Ratings |
|---------------------------|--------------------|-------------------|
| Standard & Poor's | A-2 | BBB+ |
| Moody's Investors Service | P-2 | Baa1 |
| Fitch Ratings | F2 | A- |

Table of Contents

Subsequent to our January 2011 announced plan to separate ITT into three publicly traded entities, our short-and long-term credit ratings were modified as follows:

- n Standard & Poor's CreditWatch Negative
- n Moody's Investor Service Under review for possible downgrade
- n Fitch Ratings Ratings Watch Evolving

The credit rating agencies continue to refine and update their expectations for our credit ratings following the Transformation. Please refer to the rating agency websites and press releases for more information.

Future Capital Structure

At or prior to the spin-offs of our water-related businesses and Defense & Information Solutions segment, we expect the two new companies will issue debt totaling approximately \$2,100, the proceeds of which will be utilized to issue cash dividends to ITT. The proceeds received from the dividends are expected to be utilized to repay all long-term debt and commercial paper obligations of ITT present at the time of the spin-offs.

On July 11, 2011, we announced that at or prior to the spin-offs, we expect to retire all outstanding commercial paper and long-term debt, including \$500 of 4.9% Senior Unsecured Notes due May 1, 2014, \$500 of 6.125% Senior Unsecured Notes due May 1, 2019, and \$250 of 7.4% Senior Unsecured Notes due November 15, 2025.

On July 5, 2011, we entered into a definitive agreement to acquire YSI Incorporated (YSI) for an aggregate purchase price of \$310, which is expected to be funded using a combination of cash on hand and debt. The transaction is expected to close in the third quarter of 2011, pending customary closing conditions and approval of YSI's shareholders.

As part of the Transformation, we expect to transfer certain postretirement benefit plans, including the ITT Salaried Retirement Plan to the Defense & Information Solutions segment and other plans to the water-related businesses which will assume all liabilities and assets associated with such plans and become the plans' sponsor. The net liabilities associated with such plans to be transferred are approximately \$1,150, excluding deferred tax assets of \$424.

Sources and Uses of Liquidity

Our principal source of liquidity is our cash flow generated from operating activities, which provides us with the ability to meet the majority of our short-term funding requirements. The following table summarizes net cash provided by or used in operating, investing and financing activities for the six months ended June 30.

| | 2011 | 2010 |
|------------------------------------------------|---------------|----------|
| Operating Activities | \$ 204 | \$ 356 |
| Investing Activities | (99) | (504) |
| Financing Activities | (43) | (148) |
| Foreign Exchange | 67 | (85) |
| Total net cash flow from continuing operations | \$ 129 | \$ (381) |

Net cash provided by operating activities was \$204 for the six months ended June 30, 2011, representing a decrease of \$152 from the comparable prior year period. Benefits from revenue and segment operating income growth during 2011 were more than offset by an unfavorable change in working capital. The primary drivers impacting working capital include additional inventory purchases within the Fluid and Defense segments and an increase in unbilled receivables from the U.S. government which were partially offset by an increase in accounts payable. The Fluid segment's increased inventory level primarily relates to year-over-year sales growth expectations based on recent order trends. The increase in Defense segment inventory primarily relates to the

Table of Contents

replenishment of inventory levels for various programs. The increase in unbilled receivables and accounts payable primarily relate to new service program starts, including K-BOSSS and APS-5, which have yet to achieve specific billing milestones. Achievement of billing milestones generally precedes the timing of subcontractor payments. In addition to the above, cash provided by operating activities was reduced by \$61 spent in connection with the transformation and increased contributions of \$22 to our postretirement benefit plans.

Net cash used in investing activities decreased by \$405 in 2011 as compared to 2010, primarily related to the Nova acquisition in March 2010.

Net cash used in financing activities decreased by \$105 in 2011 as compared to 2010, primarily related to a 2010 repayment of \$70 to retire two outstanding debentures, an increase in commercial paper borrowings of \$30 and additional cash inflow of \$27 related to proceeds from the exercise of employee stock options.

Our average daily outstanding commercial paper balance for the three and six months ended June 30, 2011 was \$164 and \$131, respectively, and the maximum outstanding commercial paper balance during the first half of 2011 was \$233 on April 21, 2011. As of June 30, 2011, we had \$51 of outstanding commercial paper.

Funding of Postretirement Plans

Funding requirements under IRS rules are a major consideration in making contributions to our U.S. postretirement benefit plans. With respect to U.S. qualified postretirement benefit plans, we intend to contribute annually not less than the minimum required by applicable law and regulations.

While the Company has significant discretion in making voluntary contributions, the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006 and further amended by the Worker, Retiree, and Employer Recovery Act of 2008 and applicable Internal Revenue Code regulations mandate minimum funding thresholds. Failure to satisfy the minimum funding thresholds could result in restrictions on our ability to amend the plan or make benefit payments. We currently do not believe mandatory contributions will be required to our U.S. Salaried Retirement Plan during 2011. However, we contributed \$28 to our other postretirement benefit plans and do anticipate making further contributions in the range of \$65 to \$85 during the remainder of 2011.

The funded status at the end of 2011 and future required contributions will depend primarily on the actual return on assets during the year and the discount rate used to measure the benefit obligation at the end of the year. Depending on these factors, and the resulting funded status of our pension plans, the level of future statutory minimum contributions could be material.

Table of Contents**CRITICAL ACCOUNTING ESTIMATES**

The preparation of ITT's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. ITT believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis in the 2010 Annual Report describes the critical accounting estimates used in preparation of the Consolidated Condensed Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in the information concerning ITT's critical accounting estimates as stated in our 2010 Annual Report on Form 10-K.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Some of the information included herein includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995 (the "Act"). These forward-looking statements include, but are not limited to, statements about the separation of ITT Corporation (the "Company") into three independent publicly traded companies (the "companies"), the terms and the effect of the separation, the nature and impact of such a separation, capitalization of the companies, future strategic plans and other statements that describe our business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance. Whenever used, words such as "anticipate," "estimate," "expect," "project," "intend," "plan," and other terms of similar meaning are intended to identify such forward-looking statements. Forward-looking statements are uncertain and to some extent unpredictable, and involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in, or implied from, such forward-looking statements. Factors that could cause results to differ materially from those anticipated include, but are not limited to:

- n Economic, political and social conditions in the countries in which we conduct our businesses;
- n Changes in U.S. or International government defense budgets;
- n Decline in consumer spending;
- n Sales and revenue mix and pricing levels;
- n Availability of adequate labor, commodities, supplies and raw materials;
- n Interest and foreign currency exchange rate fluctuations and changes in local government regulations;
- n Competition, industry capacity and production rates;
- n Ability of third parties, including our commercial partners, counterparties, financial institutions and insurers, to comply with their commitments to us;
- n Our ability to borrow or refinance our existing indebtedness and availability of liquidity sufficient to meet our needs;
- n Changes in the value of goodwill or intangible assets;
- n Our ability to achieve stated synergies or cost savings from acquisitions or divestitures;
- n The number of personal injury claims filed against the company or the degree of liability;
- n Uncertainties with respect to our estimation of asbestos liability exposures, third party recoveries and net cash flows;
- n Our ability to affect restructuring and cost reduction programs and realize savings from such actions;
- n Government regulations and compliance therewith, including compliance with and costs associated with new Dodd-Frank legislation;
- n Changes in technology;

- n Intellectual property matters;
- n Governmental investigations;
- n Potential future postretirement benefit plan contributions and other employment and pension matters;
- n Contingencies related to actual or alleged environmental contamination, claims and concerns;
- n Changes in generally accepted accounting principles;
- n Other factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and our other filings with the Securities and Exchange Commission; and

Table of Contents

- n In addition, there are risks and uncertainties relating to the planned tax-free spinoffs of our Water and Defense businesses, including the timing and certainty of the completion of those transactions, whether those transactions will result in any tax liability, the operational and financial profile of the Company or any of its businesses after giving effect to the spinoff transactions and the ability of each business to operate as an independent entity. The guidance for full-year 2011 is based on the Company's current structure and does not give effect to the separation of our water-related businesses and Defense & Information Solutions segment into newly independent public companies.

The Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the information concerning market risk as stated in our 2010 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report the Company's disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the last fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. We will continue to defend vigorously against all claims. See information provided below and Note 17, Commitments and Contingencies, in the Notes to Consolidated Condensed Financial Statements for further information.

Asbestos Proceedings

ITT, including its subsidiary Goulds Pumps, Inc. (Goulds), has been joined as a defendant with numerous other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims allege that certain of our products sold prior to 1985 contained a part manufactured by a third party (e.g., a gasket) which contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. In certain other cases, it is alleged that former ITT companies were distributors for other manufacturers' products that may have contained asbestos. Frequently, the plaintiffs are unable to identify any ITT or Goulds product as a source of asbestos exposure. In addition, in a large majority of the claims against the Company, the plaintiffs are unable to demonstrate any injury. Many of those claims have been placed on inactive dockets. Our experience to date is that a substantial portion of resolved claims have been dismissed without payment by the Company.

We record a liability for pending asbestos claims and asbestos claims estimated to be filed over the next 10 years. While it is probable that we will incur additional costs for future claims to be filed against the Company, a liability for potential future claims beyond the next ten years is not reasonably estimable due to a number of factors. As of June 30, 2011, we have recorded an undiscounted asbestos-related liability for pending claims and unasserted claims estimated to be filed over the next 10 years of \$1,692, including expected legal fees, and an associated asset of \$1,028, which represents estimated recoveries from insurers and other responsible parties, resulting in a net asbestos exposure of \$664.

ITEM 1A. RISK FACTORS

There has been no material change in the information concerning risk factors as disclosed in our 2010 Annual Report.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

| (IN MILLIONS) PERIOD | TOTAL NUMBER OF SHARES PURCHASED | AVERAGE PRICE PAID PER SHARE(1) | TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS(2) | MAXIMUM DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS(2) |
|-------------------------|-------------------------------------------|------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| 4/1/11 - 4/30/11 | | | | \$ 569 |
| 5/1/11 - 5/31/11 | | | | \$ 569 |
| 6/1/11 - 6/30/11 | | | | \$ 569 |

(1) Average price paid per share is calculated on a settlement basis and excludes commission.

(2) On October 27, 2006, a three-year \$1 billion share repurchase program was approved by our Board of Directors. On December 16, 2008, the provisions of the share repurchase program were modified by our Board of Directors to replace the original three-year term with an indefinite term. As of March 31, 2011, we had repurchased 7.1 million shares for \$431, including commission fees, under the \$1 billion share repurchase program. The program is consistent with our capital allocation process, which has centered on those investments necessary to grow our businesses organically and through acquisitions, while also providing cash returns to shareholders. Our strategy for cash flow utilization is to invest in our business, repay debt, pay dividends, execute strategic acquisitions, and repurchase common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION**Mine Safety Disclosure**

Pursuant to the reporting requirements under Section 1503(a) of the Dodd-Frank Act, the Company is providing the following information: one facility owned and operated by ITT Water and Wastewater Leopold, Inc. is regulated by the Federal Mine Health and Safety Act (MSHA). This facility is a coal processing facility located in Watsontown, Pennsylvania. In December 2010, the Watsontown facility was inspected by the MSHA and was issued a minor citation. Corrective actions have been taken and this citation has been terminated by the MSHA inspector.

ITEM 6. EXHIBITS

(a) See the Exhibit Index for a list of exhibits filed herewith.

Table of Contents

SIGNATURE

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

ITT Corporation

(Registrant)

By: /s/ Janice M. Klettner
Janice M. Klettner
Vice President and Chief Accounting Officer
(Principal accounting officer)

August 1, 2011

Table of Contents**EXHIBIT INDEX**

| EXHIBIT NUMBER | DESCRIPTION | LOCATION |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (31.1) | Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith. |
| (31.2) | Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith. |
| (32.1) | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference. |
| (32.2) | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference. |
| (101) | The following materials from ITT Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Income Statements, (ii) Consolidated Condensed Statements of Comprehensive Income, (iii) Consolidated Condensed Balance Sheets, (iv) Consolidated Condensed Statements of Cash Flows and (v) Notes to Consolidated Condensed Financial Statements | Submitted electronically with this report. |