

ITT CORP  
Form 10-Q  
April 27, 2009

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**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 March 31, 2009**

**or**

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

**For the transition period from            to**

**Commission File Number: 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:

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

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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 April 20, 2009, there were outstanding 182.0 million shares of common stock (\$1 par value per share) of the registrant.

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## FINANCIAL INFORMATION

**Item 1.****FINANCIAL STATEMENTS****ITT CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED INCOME STATEMENTS****(In millions, except per share amounts)****(Unaudited)**

	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Product sales	\$ 1,965.7	\$ 2,222.8
Service revenues	591.4	583.6
Total sales and revenues	2,557.1	2,806.4
Costs of product sales	1,370.8	1,534.3
Costs of service revenues	517.2	511.2
Total costs of sales and revenues	1,888.0	2,045.5
Gross profit	669.1	760.9
Selling, general and administrative expenses	384.0	420.6
Research and development expenses	52.9	52.6
Restructuring and asset impairment charges, net	10.7	3.6
Operating income	221.5	284.1
Interest expense	26.4	40.6
Interest income	4.3	8.4
Miscellaneous expense, net	2.9	3.0
Income from continuing operations before income tax expense	196.5	248.9
Income tax expense	10.0	78.0
Income from continuing operations	186.5	170.9
(Loss) Income from discontinued operations, including tax (benefit) expense of \$(1.3) and \$0.2, respectively	(2.4)	1.0

Net income		\$ 184.1	\$ 171.9
<b>Earnings Per Share</b>			
Income from continuing operations:			
Basic		\$ 1.02	\$ 0.94
Diluted		\$ 1.02	\$ 0.93
Discontinued operations:			
Basic		\$ (0.01)	\$ 0.01
Diluted		\$ (0.01)	\$ 0.00
Net income:			
Basic		\$ 1.01	\$ 0.95
Diluted		\$ 1.01	\$ 0.93
Cash dividends declared per common share		\$ 0.2125	\$ 0.1750
Average Common Shares	Basic	182.0	181.8
Average Common Shares	Diluted	183.2	184.0

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 BALANCE SHEETS****(In millions, except per share amounts)  
(Unaudited)**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 911.0	\$ 964.9
Receivables, net	1,853.6	1,961.1
Inventories, net	826.2	803.8
Deferred income taxes	203.0	203.4
Other current assets	159.3	131.0
Total current assets	3,953.1	4,064.2
Plant, property and equipment, net	960.5	993.9
Deferred income taxes	602.8	608.5
Goodwill	3,798.8	3,831.3
Other intangible assets, net	584.5	616.5
Other assets	398.1	365.8
Total non-current assets	6,344.7	6,416.0
Total assets	\$ 10,297.8	\$ 10,480.2
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,231.3	\$ 1,234.6
Accrued expenses	926.2	991.2
Accrued taxes	69.1	30.2
Short-term debt and current maturities of long-term debt	1,510.9	1,679.0
Pension and postretirement benefits	68.8	68.8
Deferred income taxes	28.2	26.7
Total current liabilities	3,834.5	4,030.5
Pension benefits	1,684.0	1,689.9
Postretirement benefits other than pensions	450.7	451.7
Long-term debt	466.5	467.9
Other liabilities	707.8	780.3
Total non-current liabilities	3,309.0	3,389.8
Total liabilities	7,143.5	7,420.3

**Shareholders Equity**

Common stock:

Authorized 500 shares, \$1 par value per share, outstanding 182.0 shares and 181.7 shares, respectively <sup>(1)</sup>	180.9	180.6
Retained earnings	4,358.7	4,203.0
Accumulated other comprehensive (loss) income:		
Pension and other benefits	(1,524.2)	(1,534.1)
Cumulative translation adjustments	138.3	209.8
Unrealized gain on investment securities	0.6	0.6
Total accumulated other comprehensive loss	(1,385.3)	(1,323.7)
Total shareholders equity	3,154.3	3,059.9
Total liabilities and shareholders equity	\$ 10,297.8	\$ 10,480.2

<sup>(1)</sup> Shares outstanding include unvested restricted common stock of 1.1 at both March 31, 2009 and December 31, 2008, respectively.

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



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## ITT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Net income	\$ 184.1	\$ 171.9
Loss (Income) from discontinued operations	2.4	(1.0)
Income from continuing operations	186.5	170.9
Adjustments to income from continuing operations:		
Depreciation and amortization	66.2	71.2
Stock-based compensation	8.1	8.1
Restructuring and asset impairment charges, net	10.7	3.6
Payments for restructuring	(25.9)	(14.6)
Change in receivables	75.6	(2.7)
Change in inventories	(44.2)	(49.7)
Change in accounts payable and accrued expenses	(16.8)	0.9
Change in accrued and deferred taxes	(3.8)	63.9
Change in other current and non-current assets	(46.5)	(27.4)
Change in other current and non-current liabilities	(6.5)	(3.8)
Other, net	9.7	(1.1)
<b>Net Cash Operating Activities</b>	<b>213.1</b>	<b>219.3</b>
<b>Investing Activities</b>		
Capital expenditures	(47.7)	(33.9)
Acquisitions, net of cash acquired	(1.6)	(195.9)
Proceeds from sale of assets and businesses	10.3	3.2
Other, net	2.0	0.8
<b>Net Cash Investing Activities</b>	<b>(37.0)</b>	<b>(225.8)</b>
<b>Financing Activities</b>		
Short-term debt, net	(166.2)	(972.5)
Long-term debt repaid	(2.6)	(14.1)
Long-term debt issued		0.5
Proceeds from issuance of common stock	2.4	4.3
Dividends paid	(31.8)	(25.4)
Tax impact from stock option exercises and restricted stock award lapses	(1.4)	0.6
Other, net		(1.8)
<b>Net Cash Financing Activities</b>	<b>(199.6)</b>	<b>(1,008.4)</b>

<b>Exchange rate effects on cash and cash equivalents</b>	(29.8)	74.0
<b>Net Cash Discontinued Operations Operating Activities</b>	(0.6)	0.5
Net change in cash and cash equivalents	(53.9)	(940.4)
Cash and cash equivalents beginning of period	964.9	1,840.0
<b>Cash and cash equivalents end of period</b>	\$ 911.0	\$ 899.6
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest	\$ 25.5	\$ 34.7
Income taxes	\$ 15.1	\$ 14.1

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

**Table of Contents****ITT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(Dollars and share amounts in millions, except per share amounts, unless otherwise stated)****1) Basis of Presentation**

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 have been condensed or omitted pursuant to such SEC rules. 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. ITT believes the disclosures made are adequate to make the information presented not misleading. ITT consistently applied the accounting policies described in ITT's 2008 Annual Report on Form 10-K in preparing these unaudited financial statements, except as noted within Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - New Accounting Pronouncements. These financial statements should be read in conjunction with the financial statements and notes thereto included in ITT's 2008 Annual Report on Form 10-K.

ITT's 2009 and 2008 quarterly financial periods end on the Saturday closest to the last day of the quarter, except for the last quarterly period of the fiscal year, which ends on December 31st. For simplicity of presentation, the quarterly financial statements included herein are presented as ending on the last day of the quarter.

**2) Stock-Based and Long-Term Incentive Employee Compensation**

Stock-based and long-term incentive employee compensation cost reduced consolidated results of operations as follows:

	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Pre-tax compensation cost	\$ 7.7	\$ 2.8
Future tax benefit	\$ 2.4	\$ 0.7

At March 31, 2009, there was \$60.9 and \$22.7 of total unrecognized compensation cost for the stock-based and long-term incentive plans, respectively, which are expected to be recognized ratably over a weighted-average period of 2.2 years and 1.5 years. During the first quarter of 2009, payments totaling \$21.1 were made to settle the Long-Term Incentive Plan 2006 annual grant liability.

**3) Restructuring and Asset Impairment Charges*****First Quarter 2009 Restructuring Activities***

During the first quarter of 2009, ITT recorded a net restructuring charge of \$10.7, reflecting costs of \$6.3 related to new actions and \$4.6 related to prior actions, as well as the reversal of \$0.2 of restructuring accruals that management determined would not be required. The charges associated with actions announced during the first quarter of 2009

represent a reduction of structural costs, primarily in the Fluid Technology business segment. Planned position eliminations total 118, including 11 factory workers, 94 office workers and 13 management

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## ITT CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**  
**(Dollars and share amounts in millions, except per share amounts, unless otherwise stated)**

employees. The costs associated with prior years plans primarily reflect additional severance costs. The following table details the components of the first quarter 2009 restructuring charge.

	2009 Actions							Reversal of Accruals
	Other		Asset Write-offs	Total	Planned Position Eliminations	Prior Years Plans Additional Costs		
	Employee							
	Severance	Related Costs						
Fluid Technology	\$ 5.1	\$	\$ 0.3	\$ 5.4	82	\$ 2.6	\$ (0.2)	
Motion & Flow Control	0.6	0.1		0.7	32	1.7		
Defense Electronics & Services						0.3		
Corporate and Other	0.2			0.2	4			
	\$ 5.9	\$ 0.1	\$ 0.3	\$ 6.3	118	\$ 4.6	\$ (0.2)	

*First Quarter 2008 Restructuring Activities*

During the first quarter of 2008, ITT recorded a net restructuring charge of \$3.6, reflecting costs of \$1.2 related to new actions and \$2.6 related to prior year plans, as well as the reversal of \$0.2 of restructuring accruals that management determined would not be required. The charges associated with actions announced during the first quarter of 2008 represent a reduction of structural costs, primarily in the Fluid Technology business segment. Planned position eliminations total 22, including 17 office workers and five management employees. The costs associated with prior years plans primarily reflect severance costs. The following table details the components of the first quarter 2008 restructuring charge.

	2008 Actions					Prior Years Plans Additional Costs	Reversal of Accruals	
	Severance	Lease Cancellation & Other Costs		Total	Planned Position Eliminations			
Fluid Technology	\$ 0.5	\$	0.2	\$ 0.7	21	\$ 1.7	\$	
Motion & Flow Control						0.9	(0.2)	
Corporate and Other	0.5			0.5	1			
	\$ 1.0	\$	0.2	\$ 1.2	22	\$ 2.6	\$ (0.2)	

The restructuring accrual balance as of March 31, 2009 was \$42.2, presented on our Consolidated Condensed Balance Sheet within current accrued liabilities, includes \$36.1 for accrued severance and \$6.1 for accrued facility carrying costs and other. The following table displays a rollforward of the restructuring accruals for the first quarter ended March 31, 2009.

	<b>Fluid Technology</b>	<b>Defense Electronics &amp; Services</b>	<b>Motion &amp; Flow Control</b>	<b>Corporate and Other</b>	<b>Total</b>
Balance December 31, 2008	\$ 25.9	\$ 10.5	\$ 20.3	\$ 1.7	\$ 58.4
Additional charges for prior years plans	2.6	0.3	1.7		4.6
Reversals of prior year charges	(0.2)				(0.2)
Cash payments and other related to prior years plans	(15.2)	(2.6)	(8.1)	(0.3)	(26.2)
Charges for 2009 actions	5.4		0.7	0.2	6.3
Cash payments and other related to 2009 actions	(0.1)		(0.3)		(0.4)
Asset write-offs	(0.3)				(0.3)
Balance March 31, 2009	\$ 18.1	\$ 8.2	\$ 14.3	\$ 1.6	\$ 42.2

**Table of Contents****ITT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**  
**(Dollars and share amounts in millions, except per share amounts, unless otherwise stated)**

The following table displays a rollforward of employee positions eliminated associated with restructuring activities through March 31, 2009.

Planned reductions as of December 31, 2008	510
Planned reductions from 2009 actions	118
Actual reductions, January 1 – March 31, 2009	(394)
Planned reductions as of March 31, 2009	234

As of March 31, 2009, all announced planned facility closures have been completed.

**4) Employee Benefit Plans**

Components of net periodic benefit cost as of March 31, 2009 and 2008 were as follows:

	Pension		Other Benefits	
	2009	2008	2009	2008
Service cost	\$ 25.6	\$ 24.2	\$ 2.0	\$ 2.1
Interest cost	81.6	81.7	10.7	10.7
Expected return on plan assets	(108.4)	(110.3)	(4.5)	(6.9)
Amortization of prior service cost	0.9	0.8	0.9	0.9
Amortization of actuarial loss	10.4	3.8	3.7	1.1
Total net periodic benefit cost	\$ 10.1	\$ 0.2	\$ 12.8	\$ 7.9

Net periodic benefit cost increased in the first quarter of 2009, primarily due to the effect of an increase in the amortization of deferred losses, and lower expected returns on plan assets due to lower asset levels, partially offset by an increase in the discount rate for our foreign plans.

ITT contributed approximately \$5.4 to its various plans during the first quarter of 2009. Additional contributions ranging between \$38.0 and \$43.0 are expected over the balance of 2009.

See Note 16, Employee Benefit Plans, in the Notes to Consolidated Financial Statements of the 2008 Annual Report on Form 10-K for additional details.

**5) Comprehensive Income**

## Three Months Ended March 31

2009

2008

	<b>Pretax (Expense) Income</b>	<b>Tax Expense</b>	<b>Net-of-Tax Amount</b>	<b>Pretax Income</b>	<b>Tax Expense</b>	<b>Net-of-Tax Amount</b>
Net income			\$ 184.1			\$ 171.9
Other comprehensive (loss) income:						
Foreign currency translation adjustments	\$ (71.5)	\$	(71.5)	\$ 99.7	\$	99.7
Changes in pension and other benefit plans	15.9	(6.0)	9.9	6.6	(2.4)	4.2
Other comprehensive (loss) income	\$ (55.6)	\$ (6.0)	(61.6)	\$ 106.3	\$ (2.4)	103.9
Comprehensive income			\$ 122.5			\$ 275.8



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**(Dollars and share amounts in millions, except per share amounts, unless otherwise stated)****6) Earnings Per Share**

A reconciliation of the data used in the calculation of basic and diluted earnings per share computations for income from continuing operations is as follows:

	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Basic Earnings Per Share:		
Income from continuing operations	\$ 186.5	\$ 170.9
Average common shares outstanding	182.0	181.8
Basic earnings per share	\$ 1.02	\$ 0.94
Diluted Earnings Per Share:		
Income from continuing operations	\$ 186.5	\$ 170.9
Average common shares outstanding	182.0	181.8
Add: Impact of stock options and restricted stock	1.2	2.2
Average common shares outstanding on a diluted basis	183.2	184.0
Diluted earnings per share	\$ 1.02	\$ 0.93

Shares underlying stock options and restricted stock awards excluded from the computation of diluted earnings per share because they were anti-dilutive were as follows:

	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Stock options	4.3	0.8
Average exercise price	\$ 48.50	\$ 56.68

In June 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. ITT s adoption of this statement effective January 1, 2009 did not have a material effect on its financial statements. For comparability purposes, prior periods have been adjusted to reflect the impact of adoption of this statement. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations New Accounting

Pronouncements for further details.

**7) Receivables, Net**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Trade	\$ 1,818.9	\$ 1,909.4
Other	77.5	92.9
Less: allowance for doubtful accounts and cash discounts	(42.8)	(41.2)
	<b>\$ 1,853.6</b>	<b>\$ 1,961.1</b>

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**(Dollars and share amounts in millions, except per share amounts, unless otherwise stated)****8) Inventories, Net**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Finished goods	\$ 196.5	\$ 196.2
Work in process	344.7	323.0
Raw materials	369.0	365.5
Less: progress payments	(84.0)	(80.9)
	<b>\$ 826.2</b>	<b>\$ 803.8</b>

**9) Plant, Property and Equipment, Net**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Land and improvements	\$ 56.8	\$ 59.0
Buildings and improvements	584.3	575.9
Machinery and equipment	1,593.2	1,620.2
Furniture, fixtures and office equipment	224.5	230.9
Construction work in progress	104.9	132.4
Other	87.7	82.3
	2,651.4	2,700.7
Less: accumulated depreciation and amortization	(1,690.9)	(1,706.8)
	<b>\$ 960.5</b>	<b>\$ 993.9</b>

**10) Goodwill and Other Intangible Assets, Net**

Changes in the carrying amount of goodwill for the quarter ended March 31, 2009 by business segment are as follows:

<b>Defense Electronics &amp; Services</b>	<b>Fluid Technology</b>	<b>Motion &amp; Flow Control</b>	<b>Corporate and Other</b>	<b>Total</b>
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Balance as of January 1, 2009	\$	2,210.6	\$	1,122.3	\$	493.4	\$	5.0	\$	3,831.3
Adjustments to purchase price allocations				(0.8)						(0.8)
Other net, including foreign currency translation		(2.3)		(17.8)		(11.6)				(31.7)
Balance as of March 31, 2009	\$	2,208.3	\$	1,103.7	\$	481.8	\$	5.0	\$	3,798.8

Table of Contents**ITT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**  
**(Dollars and share amounts in millions, except per share amounts, unless otherwise stated)**

Information regarding other intangible assets is as follows:

	<b>March 31, 2009</b>			<b>December 31, 2008</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Other Intangibles Net</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Other Intangibles Net</b>
Finite-lived intangibles:						
Customer relationships	\$ 637.4	\$ (172.0)	\$ 465.4	\$ 643.7	\$ (149.9)	\$ 493.8
Proprietary technology	66.8	(21.2)	45.6	68.4	(20.2)	48.2
Trademarks	31.5	(5.4)				