

ITT Corp
Form 10-Q
July 31, 2015

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, 2015

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

13-5158950

(State or Other Jurisdiction

(I.R.S. Employer

of Incorporation or Organization)

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 30, 2015, there were outstanding 89.4 million shares of common stock (\$1 par value per share) of the registrant.

TABLE OF CONTENTS

ITEM	PAGE
PART I – FINANCIAL INFORMATION	
1. <u>Financial Statements</u>	
<u>Consolidated Condensed Income Statements</u>	<u>1</u>
<u>Consolidated Condensed Statements of Comprehensive Income</u>	<u>2</u>
<u>Consolidated Condensed Balance Sheets</u>	<u>3</u>
<u>Consolidated Condensed Statements of Cash Flows</u>	<u>4</u>
<u>Consolidated Condensed Statements of Changes in Shareholders' Equity</u>	<u>5</u>
<u>Notes to Consolidated Condensed Financial Statements:</u>	
<u>Note 1. Description of Business and Basis of Presentation</u>	<u>6</u>
<u>Note 2. Recent Accounting Pronouncements</u>	<u>6</u>
<u>Note 3. Segment Information</u>	<u>7</u>
<u>Note 4. Restructuring Actions</u>	<u>8</u>
<u>Note 5. Income Taxes</u>	<u>10</u>
<u>Note 6. Earnings Per Share</u>	<u>10</u>
<u>Note 7. Receivables, Net</u>	<u>11</u>
<u>Note 8. Inventories, Net</u>	<u>11</u>
<u>Note 9. Other Current and Non-Current Assets</u>	<u>11</u>
<u>Note 10. Plant, Property and Equipment, Net</u>	<u>12</u>
<u>Note 11. Goodwill and Other Intangible Assets, Net</u>	<u>12</u>
<u>Note 12. Accrued Liabilities and Other Non-Current Liabilities</u>	<u>13</u>
<u>Note 13. Commercial Paper</u>	<u>14</u>
<u>Note 14. Postretirement Benefit Plans</u>	<u>14</u>
<u>Note 15. Long-Term Incentive Employee Compensation</u>	<u>15</u>
<u>Note 16. Capital Stock</u>	<u>16</u>
<u>Note 17. Commitments and Contingencies</u>	<u>16</u>
<u>Note 18. Acquisitions</u>	<u>19</u>
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Overview</u>	<u>20</u>
<u>Discussion of Financial Results</u>	<u>20</u>
<u>Liquidity</u>	<u>27</u>
<u>Key Performance Indicators and Non-GAAP Measures</u>	<u>30</u>
<u>Recent Accounting Pronouncements</u>	<u>33</u>
<u>Critical Accounting Estimates</u>	<u>33</u>
3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>33</u>
4. <u>Controls and Procedures</u>	<u>33</u>
PART II – OTHER INFORMATION	
1. <u>Legal Proceedings</u>	<u>34</u>
1A. <u>Risk Factors</u>	<u>34</u>
2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
3. <u>Defaults Upon Senior Securities</u>	<u>35</u>
4. <u>Mine Safety Disclosures</u>	<u>35</u>
5. <u>Other Information</u>	<u>35</u>
6. <u>Exhibits</u>	<u>35</u>
<u>Signature</u>	<u>36</u>
<u>Exhibit Index</u>	<u>37</u>

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 are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about the business and future financial results of the industry in which we operate, and other legal, regulatory and economic developments. These forward-looking statements include, but are not limited to, future strategic plans and other statements that describe the company's business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance.

We use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "future," "may," "will," "could," "should," "potential," "continue," "guidance" and other similar expressions 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 or implied in, or reasonably inferred from, such forward-looking statements.

Where in any forward-looking statement we express an expectation or belief as to future results or events, such expectation or belief is based on current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2014 (particularly under the caption "Risk Factors"), our Quarterly Reports on Form 10-Q (including Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q) and other documents we file from time to time with the SEC.

The forward-looking statements included in this Quarterly Report on Form 10-Q (Report) speak only as of the date of this Report. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You can inspect, read and copy these reports, proxy statements and other information at the SEC's Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that makes available reports, proxy statements and other information regarding issuers that file electronically.

We make available free of charge at www.itt.com (in the "Investors" section) copies of materials we file with, or furnish to, the SEC. ITT uses the Investor Relations page of its Internet site at www.itt.com (in the "Investors" section) to disclose important information to the public.

Information contained on ITT's Internet site, or that can be accessed through its Internet site, does not constitute a part of this Report. ITT has included its Internet site address only as an inactive textual reference and does not intend it to be an active link to its Internet site. Our corporate headquarters are located at 1133 Westchester Avenue, White Plains, NY 10604 and the telephone number of this location is (914) 641-2000.

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	
	2015	2014	2015	2014
Revenue	\$628.2	\$663.0	\$1,216.9	\$1,337.5
Costs of revenue	414.3	448.2	804.0	907.9
Gross profit	213.9	214.8	412.9	429.6
General and administrative expenses	66.5	69.5	126.6	147.2
Sales and marketing expenses	48.8	56.3	96.1	111.6
Research and development expenses	18.9	18.6	37.2	36.3
Asbestos-related (benefit) costs, net	(84.8)	15.9	(69.4)	31.7
Operating income	164.5	54.5	222.4	102.8
Interest and non-operating expenses, net	0.3	0.5	1.5	1.6
Income from continuing operations before income tax expense	164.2	54.0	220.9	101.2
Income tax expense	23.5	12.4	41.6	25.4
Income from continuing operations	140.7	41.6	179.3	75.8
Income (loss) from discontinued operations, including tax benefit of \$0.5, \$2.5, \$4.0 and \$3.0, respectively	1.7	(2.9)	5.1	(3.9)
Net income	142.4	38.7	184.4	71.9
Less: Income attributable to noncontrolling interests	0.1	0.4	—	1.4
Net income attributable to ITT Corporation	\$142.3	\$38.3	\$184.4	\$70.5
Amounts attributable to ITT Corporation:				
Income from continuing operations, net of tax	\$140.6	\$41.2	\$179.3	\$74.4
Income (loss) from discontinued operations, net of tax	1.7	(2.9)	5.1	(3.9)
Net income	\$142.3	\$38.3	\$184.4	\$70.5
Earnings (loss) per share attributable to ITT Corporation:				
Basic:				
Continuing operations	\$1.57	\$0.45	\$1.99	\$0.81
Discontinued operations	0.02	(0.03)	0.06	(0.04)
Net income	\$1.59	\$0.42	\$2.05	\$0.77
Diluted:				
Continuing operations	\$1.56	\$0.44	\$1.97	\$0.80
Discontinued operations	0.02	(0.03)	0.06	(0.04)
Net income	\$1.58	\$0.41	\$2.03	\$0.76
Weighted average common shares – basic	89.3	91.7	90.0	91.5
Weighted average common shares – diluted	90.2	93.0	91.0	92.8
Cash dividends declared per common share	\$0.1183	\$0.11	\$0.2366	\$0.22

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

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(IN MILLIONS)

For the Periods Ended June 30	Three Months		Six Months	
	2015	2014	2015	2014
Net income	\$ 142.4	\$ 38.7	\$ 184.4	\$ 71.9
Other comprehensive income (loss):				
Net foreign currency translation adjustment	13.1	1.6	(47.8)	(0.9)
Net change in postretirement benefit plans, net of tax impacts of \$0.1, \$0.2, \$0.4 and \$0.6, respectively	0.6	0.7	1.1	1.3
Other comprehensive income (loss)	13.7	2.3	(46.7)	0.4
Comprehensive income	156.1	41.0	137.7	72.3
Less: Comprehensive income attributable to noncontrolling interests	0.1	0.4	—	1.4
Comprehensive income attributable to ITT Corporation	\$ 156.0	\$ 40.6	\$ 137.7	\$ 70.9
Disclosure of reclassification and other adjustments to postretirement benefit plans				
Reclassification adjustments (see Note 14):				
Amortization of prior service benefit, net of tax expense of \$(0.9), \$(0.5), \$(1.8) and \$(1.0), respectively	\$(1.6)	\$(0.8)	\$(3.2)	\$(1.7)
Amortization of net actuarial loss, net of tax benefits of \$1.0, \$0.7, \$2.2 and \$1.6, respectively	2.2	1.5	4.3	3.0
Net change in postretirement benefit plans, net of tax	\$ 0.6	\$ 0.7	\$ 1.1	\$ 1.3
The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above statements of comprehensive income.				

CONSOLIDATED CONDENSED BALANCE SHEETS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$497.4	\$584.0
Receivables, net	558.0	500.1
Inventories, net	294.9	302.3
Other current assets	283.1	249.8
Total current assets	1,633.4	1,636.2
Plant, property and equipment, net	421.4	443.9
Goodwill	625.6	632.1
Other intangible assets, net	110.1	91.4
Asbestos-related assets	331.9	374.0
Deferred income taxes	300.1	304.1
Other non-current assets	153.2	149.8
Total non-current assets	1,942.3	1,995.3
Total assets	\$3,575.7	\$3,631.5
Liabilities and Shareholders' Equity		
Current liabilities:		
Commercial paper	\$68.7	\$—
Accounts payable	299.2	309.6
Accrued liabilities	448.1	465.8
Total current liabilities	816.0	775.4
Asbestos-related liabilities	999.5	1,116.6
Postretirement benefits	240.9	249.7
Other non-current liabilities	251.5	269.5
Total non-current liabilities	1,491.9	1,635.8
Total liabilities	2,307.9	2,411.2
Shareholders' equity:		
Common stock:		
Authorized – 250.0 shares, \$1 par value per share (104.5 and 104.3 shares issued, respectively)		
Outstanding – 89.4 shares and 91.0 shares, respectively	89.4	91.0
Retained earnings	1,540.9	1,445.1
Total accumulated other comprehensive loss	(367.9)	(321.2)
Total ITT Corporation shareholders' equity	1,262.4	1,214.9
Noncontrolling interests	5.4	5.4
Total shareholders' equity	1,267.8	1,220.3
Total liabilities and shareholders' equity	\$3,575.7	\$3,631.5
The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above balance sheets.		

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

For the Six Months Ended June 30	2015	2014
Operating Activities		
Net income	\$184.4	\$71.9
Less: Income (loss) from discontinued operations	5.1	(3.9)
Less: Income attributable to noncontrolling interests	—	1.4
Income from continuing operations attributable to ITT Corporation	179.3	74.4
Adjustments to income from continuing operations:		
Depreciation and amortization	41.9	42.2
Stock-based compensation	6.9	6.8
Asbestos-related costs, net	(69.4)	31.7
Asbestos-related payments, net	(6.5)	(6.9)
Changes in assets and liabilities:		
Change in receivables	(71.8)	(79.3)
Change in inventories	2.0	5.8
Change in accounts payable	4.5	(0.4)
Change in accrued expenses	(19.6)	(3.5)
Change in accrued and deferred income taxes	30.4	0.2
Other, net	(8.2)	13.3
Net Cash – Operating activities	89.5	84.3
Investing Activities		
Capital expenditures	(46.0)	(45.7)
Acquisitions, net of cash acquired	(53.5)	(2.8)
Purchases of investments	(73.0)	(120.6)
Maturities of investments	20.6	135.8
Proceeds from sale of businesses and other assets	8.9	1.3
Proceeds from insurance recovery	2.5	—
Other, net	0.3	(0.6)
Net Cash – Investing activities	(140.2)	(32.6)
Financing Activities		
Short-term debt, net	68.7	(15.5)
Long-term debt, repaid	(1.9)	(0.7)
Repurchase of common stock	(83.7)	(14.9)
Proceeds from issuance of common stock	5.3	11.4
Dividends paid	(11.0)	(10.3)
Excess tax benefit from equity compensation activity	3.0	6.4
Other, net	—	(1.6)
Net Cash – Financing activities	(19.6)	(25.2)
Exchange rate effects on cash and cash equivalents	(14.0)	(1.6)
Net Cash – Operating activities of discontinued operations	(2.3)	(4.5)
Net change in cash and cash equivalents	(86.6)	20.4
Cash and cash equivalents – beginning of year	584.0	507.3
Cash and cash equivalents – end of period	\$497.4	\$527.7
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	\$0.5	\$0.1
Income taxes, net of refunds received	\$6.7	\$16.8

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

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(IN MILLIONS)

For the Periods Ended June 30	Three Months		Six Months	
	2015	2014	2015	2014
Common Stock				
Common stock, beginning balance	\$89.2	\$91.7	\$91.0	\$91.0
Activity from stock incentive plans	0.2	0.1	0.5	0.9
Share repurchases	—	(0.2)	(2.1)	(0.3)
Common stock, ending balance	89.4	91.6	89.4	91.6
Retained Earnings				
Retained earnings, beginning balance	1,401.7	1,356.1	1,445.1	1,320.3
Net income attributable to ITT Corporation	142.3	38.3	184.4	70.5
Dividends declared	(11.0)	(10.2)	(21.5)	(20.3)
Activity from stock incentive plans	8.0	6.9	14.5	23.7
Share repurchases	(0.1)	(9.9)	(81.6)	(14.6)
Purchase of noncontrolling interest	—	(0.2)	—	1.4
Retained earnings, ending balance	1,540.9	1,381.0	1,540.9	1,381.0
Accumulated Other Comprehensive Loss				
Postretirement benefit plans, beginning balance	(143.7)	(128.6)	(144.2)	(129.2)
Net change in postretirement benefit plans	0.6	0.7	1.1	1.3
Postretirement benefit plans, ending balance	(143.1)	(127.9)	(143.1)	(127.9)
Cumulative translation adjustment, beginning balance	(237.6)	(83.3)	(176.7)	(80.8)
Net cumulative translation adjustment	13.1	1.6	(47.8)	(0.9)
Cumulative translation adjustment, ending balance	(224.5)	(81.7)	(224.5)	(81.7)
Unrealized loss on investment securities, beginning balance	(0.3)	(0.3)	(0.3)	(0.3)
Unrealized loss on investment securities, ending balance	(0.3)	(0.3)	(0.3)	(0.3)
Total accumulated other comprehensive loss	(367.9)	(209.9)	(367.9)	(209.9)
Noncontrolling interests				
Noncontrolling interests, beginning balance	5.3	4.0	5.4	5.9
Income attributable to noncontrolling interests	0.1	0.4	—	1.4
Purchase of noncontrolling interest	—	—	—	(2.9)
Noncontrolling interests, ending balance	5.4	4.4	5.4	4.4
Total Shareholders' Equity				
Total shareholders' equity, beginning balance	1,114.6	1,239.6	1,220.3	1,206.9
Net change in common stock	0.2	(0.1)	(1.6)	0.6
Net change in retained earnings	139.2	24.9	95.8	60.7
Net change in accumulated other comprehensive loss	13.7	2.3	(46.7)	0.4
Net change in noncontrolling interests	0.1	0.4	—	(1.5)
Total shareholders' equity, ending balance	\$1,267.8	\$1,267.1	\$1,267.8	\$1,267.1

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above statements of changes in shareholders' equity.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(DOLLARS AND SHARE AMOUNTS IN MILLIONS, UNLESS OTHERWISE STATED)

NOTE 1

DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation, and industrial markets. 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 operates through four segments: Industrial Process, consisting of industrial pumping and complementary equipment; Motion Technologies, consisting of friction and shock and vibration equipment; Interconnect Solutions, consisting of electronic connectors; and Control Technologies, consisting of fluid handling, motion control, and noise and energy absorption products. Financial information for our segments is presented in Note 3, “Segment Information.”

On October 31, 2011, ITT completed the tax-free spin-off of its Defense and Information Solutions business, Exelis Inc. (Exelis), and its water-related businesses, Xylem Inc. (Xylem) by way of a distribution of all of the issued and outstanding shares of Exelis common stock and Xylem common stock, on a pro rata basis, to ITT shareholders of record on October 17, 2011. This transaction is referred to in this Report as the “2011 spin-off.”

Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the U.S. 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 Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Annual Report) in preparing these unaudited financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in our 2014 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, revenue recognition, unrecognized tax benefits, deferred tax valuation allowances, projected benefit obligations for postretirement plans, accounting for business combinations, goodwill and other intangible asset impairment testing, environmental liabilities and recoveries from insurers, allowance for doubtful accounts and inventory valuation. 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

RECENT ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all accounting standard updates (ASUs). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced

disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new guidance will be effective for the Company beginning in its first quarter of 2018. The amendments may be applied retrospectively to each prior period presented or with the cumulative effect recognized as of the date of initial application. ITT is currently evaluating the impact of these amendments and the transition alternatives on ITT's financial statements.

NOTE 3

SEGMENT INFORMATION

The Company's segments are reported on the same basis used internally for evaluating performance and for allocating resources. Our four reportable segments are referred to as: Industrial Process, Motion Technologies, Interconnect Solutions and Control Technologies.

Industrial Process manufactures engineered fluid process equipment serving a diversified mix of customers in global infrastructure industries such as chemical, oil and gas, mining, and other industrial process markets and is a provider of plant optimization and efficiency solutions and aftermarket services and parts.

Motion Technologies manufactures brake components, shock absorbers and damping technologies for the global automotive, truck and trailer, public bus and rail transportation markets.

Interconnect Solutions manufactures and designs a wide range of highly engineered harsh environment connector solutions that make it possible to transfer signal and power between electronic devices which service global customers for the aerospace and defense, industrial and transportation, oil and gas, and medical markets.

Control Technologies manufactures specialized equipment, including actuation, fuel management, noise and energy absorption, and environmental control system components, for the aerospace and defense, and industrial markets.

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 asbestos and environmental liabilities, that are managed at a corporate level and are not included in segment results when evaluating performance or allocating resources. Assets of the segments exclude general corporate assets, which principally consist of cash, investments, asbestos-related receivables and certain property, plant and equipment.

	Revenue		Operating Income (Loss)		Operating Margin			
Three Months Ended June 30	2015	2014	2015	2014	2015		2014	
Industrial Process	\$287.5	\$289.4	\$41.5	\$25.4	14.4	%	8.8	%
Motion Technologies	184.4	198.0	37.0	34.7	20.1	%	17.5	%
Interconnect Solutions	82.7	103.7	(0.8)	12.3	(1.0)	%	11.9	%
Control Technologies	74.5	73.7	12.2	16.2	16.4	%	22.0	%
Total segment results	629.1	664.8	89.9	88.6	14.3	%	13.4	%
Asbestos-related benefit (costs), net	—	—	84.8	(15.9)	—		—	
Eliminations / Other corporate costs	(0.9)	(1.8)	(10.2)	(18.2)	—		—	
Total Eliminations / Corporate and Other costs	(0.9)	(1.8)	74.6	(34.1)	—		—	
Total	\$628.2	\$663.0	\$164.5	\$54.5	26.2	%	8.2	%

	Revenue		Operating Income (Loss)		Operating Margin			
Six Months Ended June 30	2015	2014	2015	2014	2015	2014		
Industrial Process	\$543.1	\$574.9	\$61.9	\$49.7	11.4	%	8.6	%
Motion Technologies	375.6	415.8	78.0	74.9	20.8	%	18.0	%
Interconnect Solutions	160.2	203.7	4.0	9.3	2.5	%	4.6	%
Control Technologies	140.3	146.6	26.5	31.7	18.9	%	21.6	%
Total segment results	1,219.2	1,341.0	170.4	165.6	14.0	%	12.4	%
Asbestos-related benefit (costs), net	—	—	69.4	(31.7)	—		—	
Eliminations / Other corporate costs	(2.3)	(3.5)	(17.4)	(31.1)	—		—	
Total Eliminations / Corporate and Other costs	(2.3)	(3.5)	52.0	(62.8)	—		—	
Total	\$1,216.9	\$1,337.5	\$222.4	\$102.8	18.3	%	7.7	%
	Total Assets		Capital Expenditures		Depreciation & Amortization			
Six Months Ended June 30	2015	2014 ^(a)	2015	2014	2015	2014		
Industrial Process	\$1,120.6	\$1,152.3	\$9.1	\$17.0	\$14.2	\$14.5		
Motion Technologies	454.4	450.1	19.9	20.7	13.8	14.6		
Interconnect Solutions	373.1	365.4	12.0	3.7	4.7	5.1		
Control Technologies	379.0	334.1	3.1	1.0	5.9	5.0		
Corporate and Other	1,248.6	1,329.6	1.9	3.3	3.3	3.0		
Total	\$3,575.7	\$3,631.5	\$46.0	\$45.7	\$41.9	\$42.2		

(a) Amounts reflect balances as of December 31, 2014.

NOTE 4

RESTRUCTURING ACTIONS

The table below summarizes the restructuring costs presented within general and administrative expenses in our Consolidated Condensed Income Statements for the three and six months ended June 30, 2015 and 2014.

	Three Months		Six Months	
For the Periods Ended June 30	2015	2014	2015	2014
Severance costs	\$6.2	\$1.3	\$15.1	\$16.6
Asset write-offs	—	1.3	—	1.3
Other restructuring costs	0.5	1.2	0.9	1.2
Total restructuring costs	\$6.7	\$3.8	\$16.0	\$19.1
By segment:				
Industrial Process	\$1.1	\$2.0	\$10.0	\$2.9
Motion Technologies	—	0.2	—	0.2
Interconnect Solutions	5.5	1.6	5.3	16.0
Control Technologies	—	—	0.5	—
Corporate and Other	0.1	—	0.2	—

The following table displays a rollforward of the restructuring accruals, presented on our Consolidated Condensed Balance Sheet within accrued liabilities, for the six months ended June 30, 2015 and 2014.

For the Six Months Ended June 30	2015	2014
Restructuring accruals - beginning balance	\$21.9	\$14.7
Restructuring costs	16.0	19.1
Cash payments	(13.1)	(9.2)
Asset write-offs	—	(1.3)
Foreign exchange translation and other	(0.3)	—
Restructuring accrual - ending balance	\$24.5	\$23.3
By accrual type:		
Severance accrual	\$23.3	\$21.0
Facility carrying and other costs accrual	1.2	2.3

2015 Interconnect Solutions Restructuring Actions

In May 2015, we announced a restructuring action for the Interconnect Solutions (ICS) segment to reduce overall costs and better align the segment with current market conditions. The Company expects to incur cash restructuring costs, principally involuntary severance, of approximately \$12 for approximately 110 employees, which represents 6% of the ICS global workforce. The Company expects to substantially complete these actions in the next twelve months. The following table provides a rollforward of the restructuring accruals associated with the 2015 ICS restructuring action.

For the Six Months Ended June 30	2015
Restructuring accruals - beginning balance	\$—
Restructuring costs	5.5
Cash payments	(1.5)
Restructuring accruals - ending balance	\$4.0

2015 Industrial Process Restructuring Actions

In March 2015, we announced a series of restructuring actions in the Company's Industrial Process segment related to a strategic reorganization of the business and to achieve efficiencies and reduce the overall cost structure. The Company expects to incur cash restructuring costs, principally involuntary severance costs of approximately \$13 to \$14 and other non-cash restructuring costs of approximately \$4 to \$5 in aggregate related to this action. The costs incurred during the six months ended June 30, 2015 primarily relate to employee severance for approximately 200 planned headcount reductions. We expect to incur the remaining restructuring costs of approximately \$7 to \$9 over the next 6 months related to this action. The following table provides a rollforward of the restructuring accruals associated with the 2015 Industrial Process restructuring actions.

For the Six Months Ended June 30	2015
Restructuring accruals - beginning balance	\$—
Restructuring costs	10.0
Cash payments	(2.0)
Restructuring accruals - ending balance	\$8.0

2013 / 2014 Interconnect Solutions Restructuring Actions

In 2013, we initiated a comprehensive restructuring plan to improve the overall cost structure of our ICS segment, including the transition of certain production lines from one location to another existing lower cost manufacturing site. During 2015, we reversed \$0.2 of a previously estimated restructuring liability and made cash payments of \$5.8, resulting in a remaining liability of \$10.9 as of June 30, 2015. The remaining liability, which is primarily related to employee severance, is expected to be fully satisfied over the next 18 months. We do not expect to incur any additional charges related to this restructuring action.

NOTE 5

INCOME TAXES

For the three months ended June 30, 2015 and 2014, the Company recognized income tax expense of \$23.5 and \$12.4, respectively, representing an effective tax rate of 14.3% and 23.0%. For the six months ended June 30, 2015 and 2014, the Company recognized income tax expense of \$41.6 and \$25.4, respectively, representing an effective tax rate of 18.8% and 25.1%. The lower effective tax rate in 2015 is primarily driven by a reduction in the deferred tax liability on foreign earnings which are not considered indefinitely reinvested due to the impact of exchange rates on the undistributed foreign earnings, the release of the valuation allowance on certain net deferred tax assets in China, and a release in the uncertain tax positions due to the settlement of a German tax audit. The Company continues to benefit from earnings eligible for a tax holiday in South Korea, as well as a larger mix of earnings in non-U.S. jurisdictions with favorable tax rates.

The Company operates in various tax jurisdictions and is subject to examination by tax authorities in these jurisdictions. The Company is currently under examination in several jurisdictions including Canada, Germany, Italy, South Korea, the U.S. and Venezuela. The U.S. federal income tax audit for the years 2009 through 2011 has received Joint Committee on Taxation review. We anticipate that we will receive the final audit report within the current year. The calculation of our tax liability for unrecognized tax benefits includes dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. Due to the complexity of some uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit. The settlement of an examination could result in changes in amounts attributable to us through the Tax Matters Agreement from the 2011 spin-off entered into with Exelis, Inc. and Xylem, Inc. Over the next 12 months, the net amount of the tax liability for unrecognized tax benefits in foreign and domestic jurisdictions could change by approximately \$87.1 due to changes in audit status, expiration of statutes of limitations and other events.

NOTE 6

EARNINGS PER SHARE

The following table provides a reconciliation of the data used in the calculation of basic and diluted earnings per share from continuing operations attributable to ITT for the three and six months ended June 30, 2015 and 2014.

	Three Months		Six Months	
For the Periods Ended June 30	2015	2014	2015	2014
Basic weighted average common shares outstanding	89.3	91.7	90.0	91.5
Add: Dilutive impact of outstanding equity awards	0.9	1.3	1.0	1.3
Diluted weighted average common shares outstanding	90.2	93.0	91.0	92.8

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 months ended June 30, 2015 and 2014 because they were anti-dilutive.

	Three Months		Six Months	
For the Periods Ended June 30	2015	2014	2015	2014
Anti-dilutive stock options	0.4	0.2	0.4	0.2
Average exercise price	\$42.42	\$43.51	\$42.61	\$43.51
Year(s) of expiration	2024 - 2025	2024	2024 - 2025	2024

In addition, 0.2 of outstanding return on invested capital (ROIC) awards were excluded from the computation of diluted earnings per share for both the three and six months ended June 30, 2015 and 2014 respectively, as the necessary performance conditions have not been yet been satisfied.

NOTE 7

RECEIVABLES, NET

	June 30, 2015	December 31, 2014
Trade accounts receivable	\$538.7	\$476.8
Notes receivable	3.4	6.1
Other	32.4	30.5
Receivables, gross	574.5	513.4
Less: Allowance for doubtful accounts	16.5	13.3
Receivables, net	\$558.0	\$500.1

NOTE 8

INVENTORIES, NET

	June 30, 2015	December 31, 2014
Finished goods	\$67.8	\$70.5
Work in process	68.1	59.9
Raw materials	155.8	148.5
Inventoried costs related to long-term contracts	46.1	61.4
Total inventory before progress payments	337.8	340.3
Less: Progress payments	(42.9)	(38.0)
Inventories, net	\$294.9	\$302.3

NOTE 9

OTHER CURRENT AND NON-CURRENT ASSETS

	June 30, 2015	December 31, 2014
Asbestos-related current assets	\$102.4	\$102.4
Short-term investments	57.7	5.4
Current deferred income taxes	53.1	56.2
Prepaid income taxes	16.4	25.9
Other	53.5	59.9
Other current assets	\$283.1	\$249.8
Other employee benefit-related assets	\$92.3	\$93.0
Capitalized software costs	30.6	26.8
Other	30.3	30.0
Other non-current assets	\$153.2	\$149.8

NOTE 10

PLANT, PROPERTY AND EQUIPMENT, NET

	June 30, 2015	December 31, 2014
Land and improvements	\$22.7	\$24.0
Machinery and equipment	863.8	870.3
Buildings and improvements	226.2	228.8
Furniture, fixtures and office equipment	64.5	65.8
Construction work in progress	33.6	44.5
Other	6.5	7.8
Plant, property and equipment, gross	1,217.3	1,241.2
Less: Accumulated depreciation	(795.9)	(797.3)
Plant, property and equipment, net	\$421.4	\$443.9

Depreciation expense of \$16.5 and \$34.0 and \$16.7 and \$33.7 was recognized in the three and six months ended June 30, 2015 and the three and six months ended June 30, 2014, respectively.

NOTE 11

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, 2015 by segment.

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Total
Goodwill - December 31, 2014	\$331.9	\$43.9	\$71.2	\$185.1	\$632.1
Acquired	—	—	—	13.2	13.2
Allocated to Divestiture	—	—	—	(2.7)	(2.7)
Foreign currency	(12.0)	(3.6)	(1.4)	—	(17.0)
Goodwill - June 30, 2015	\$319.9	\$40.3	\$69.8	\$195.6	\$625.6

Goodwill acquired during 2015 relates to the Hartzell Aerospace (Hartzell) acquisition. Refer to Note 18, Acquisitions, for additional information.

Goodwill of \$2.7 was written-off during the second quarter of 2015 in connection with the sale of a motors product line within our Control Technologies segment that occurred in June 2015. The sale of this product line resulted in a net gain of \$0.1, which included the allocation of this goodwill.

Other Intangible Assets, Net

	June 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Customer relationships	\$97.3	\$(40.2)	\$57.1	\$83.1	\$(38.3)	\$44.8
Proprietary technology	35.3	(10.4)	24.9	28.1	(9.9)	18.2
Patents and other	16.2	(13.0)	3.2	15.2	(13.1)	2.1
Finite-lived intangible total	148.8	(63.6)	85.2	126.4	(61.3)	65.1
Indefinite-lived intangibles	24.9	—	24.9	26.3	—	26.3
Other Intangible Assets	\$173.7	\$(63.6)	\$110.1	\$152.7	\$(61.3)	\$91.4

The fair value of intangible assets acquired in connection with the purchase of Hartzell, based on a preliminary valuation, included \$17.1 of customer relationships, \$9.6 of proprietary technology, and \$1.9 of backlog. These intangible assets will be amortized straight-line over their estimated useful lives of 20 years, 20 years, and 12 months, respectively. See Note 18, Acquisitions, for additional information.

Amortization expense related to finite-lived intangible assets was \$3.5 and \$5.7 and \$3.3 and \$6.3 for the three and six months ended June 30, 2015 and the three and six months ended June 30, 2014, respectively.

NOTE 12

ACCRUED LIABILITIES AND OTHER NON-CURRENT LIABILITIES

	June 30, 2015	December 31, 2014
Compensation and other employee-related benefits	\$147.9	\$176.5
Asbestos-related liabilities	105.7	106.6
Customer-related liabilities	44.3	41.3
Accrued income taxes and other tax-related liabilities	47.8	28.0
Environmental liabilities and other legal matters	26.6	31.6
Accrued restructuring	24.5	21.9
Accrued warranty costs	23.6	29.4
Other accrued liabilities	27.7	30.5
Accrued liabilities	\$448.1	\$465.8
Deferred income taxes and other tax-related accruals	\$109.7	\$112.2
Environmental liabilities	70.6	80.2
Compensation and other employee-related benefits	35.4	38.6
Other	35.8	38.5
Other non-current liabilities	\$251.5	\$269.5

NOTE 13

COMMERCIAL PAPER

Commercial paper outstanding as of June 30, 2015 was \$68.7, with an associated weighted average interest rate of 0.64% and maturity terms less than one month from the date of issuance. There was no commercial paper outstanding as of December 31, 2014.

NOTE 14

POSTRETIREMENT BENEFIT PLANS

The following tables provide the components of net periodic benefit cost for pension plans and other employee-related benefit plans for the three and six months ended June 30, 2015 and 2014.

	2015			2014		
Three Months Ended June 30	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Service cost	\$1.3	\$0.2	\$1.5	\$1.3	\$0.4	\$1.7
Interest cost	3.6	1.2	4.8	3.9	1.9	5.8
Expected return on plan assets	(5.1)	(0.2)	(5.3)	(5.2)	(0.1)	(5.3)
Amortization of prior service cost (benefit)	0.2	(2.7)	(2.5)	0.2	(1.5)	(1.3)
Amortization of net actuarial loss	2.1	1.1	3.2	1.5	0.8	2.3
Total net periodic benefit cost	\$2.1	\$(0.4)	\$1.7	\$1.7	\$1.5	\$3.2

	2015			2014		
Six Months Ended June 30	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Service cost	\$2.6	\$0.4	\$3.0	\$2.5	\$0.9	\$3.4
Interest cost	7.1	2.4	9.5	7.8	3.9	11.7
Expected return on plan assets	(10.2)	(0.4)	(10.6)	(10.4)	(0.3)	(10.7)
Amortization of prior service cost (benefit)	0.5	(5.5)	(5.0)	0.4	(3.0)	(2.6)
Amortization of net actuarial loss	4.3	2.2	6.5	3.1	1.5	4.6
Total net periodic benefit cost	\$4.3	\$(0.9)	\$3.4	\$3.4	\$3.0	\$6.4

We made contributions to our global postretirement plans of \$5.2 and \$4.8 during the six months ended June 30, 2015 and 2014, respectively. We expect to make additional contributions of approximately \$5 to \$10 during the remainder of 2015, principally related to our other postretirement employee benefit plans.

Amortization from accumulated other comprehensive income into earnings related to prior service cost and net actuarial loss was \$0.6 and \$1.1, and \$0.7 and \$1.3, net of tax, during the three and six months ended June 30, 2015 and 2014, respectively. No other reclassifications from accumulated other comprehensive income into earnings were recognized during any of the presented periods.

NOTE 15

LONG-TERM INCENTIVE EMPLOYEE COMPENSATION

Our long-term incentive plan (LTIP) costs are primarily recorded within general and administrative expenses. The following table provides the components of LTIP costs for the three and six months ended June 30, 2015 and 2014.

For the Periods Ended June 30	Three Months		Six Months	
	2015	2014	2015	2014
Equity based awards	\$3.8	\$3.4	\$6.9	\$6.8
Liability-based awards	0.7	1.9	0.9	1.9
Total share-based compensation expense	\$4.5	\$5.3	\$7.8	\$8.7

At June 30, 2015, there was estimated unrecognized compensation cost of \$29.5 related to unvested equity-based awards that is expected to be recognized ratably over a weighted-average period of 2.2 years, and \$3.0 related to unvested liability-based awards that are expected to be recognized ratably over a weighted-average period of 2.0 years.

Year-to-Date 2015 LTIP Activity

The majority of our LTIP activity occurs during the first quarter of each year. The majority of LTIP grants occurred on February 25, 2015. During the six months ended June 30, 2015, we granted the following LTIP awards as provided in the table below:

	# of Awards Granted	Grant Date Fair Value
Non-qualified stock options (NQOs)	0.2	\$ 11.23
Restricted stock units (RSUs)	0.2	\$41.52
Total shareholder return awards (TSR)	0.1	\$45.67
Return on invested capital awards (ROIC)	0.1	\$40.12

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. RSUs, TSR awards, and ROIC awards vest on the completion of a three-year service period.

During the six months ended June 30, 2015 and 2014, 0.3 and 0.6 NQOs were exercised resulting in proceeds of \$5.3 and \$11.4, respectively. In addition, RSUs of 0.2 and 0.3 vested and were issued during the six months ended June 30, 2015 and 2014, respectively.

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 weighted average assumptions used to measure fair value and the resulting grant date fair value for the first quarter 2015 NQO grants.

Dividend yield	1.1%
Expected volatility	29.4%
Expected life	5.8 years
Risk-free rates	1.7%
Grant date fair value	\$11.23

NOTE 16

CAPITAL STOCK

On October 27, 2006, a three-year \$1 billion share repurchase program was approved by the Board of Directors (2006 Share Repurchase Program). On December 16, 2008, the provisions of the 2006 Share Repurchase Program were modified by the Board of Directors to replace the original three-year term with an indefinite term. We repurchased 2.0 and 0.2 shares of common stock for \$80.0 and \$10.0 during the six months ended June 30, 2015 and 2014, respectively, under this program. To date, under the 2006 Share Repurchase Program, the Company has repurchased 18.4 shares for \$759.3.

Separate from the 2006 Share Repurchase Program, the Company repurchased 0.1 shares and 0.1 shares for an aggregate price of \$3.7 and \$4.9, during the six months ended June 30, 2015 and 2014, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock units.

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 employee benefit matters, government contract issues and commercial or contractual disputes and acquisitions or divestitures. We will continue to aggressively defend all such 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 such legal proceedings will have a material adverse impact on our financial statements, unless otherwise noted below.

Asbestos Matters

ITT, including its subsidiary Goulds Pumps, Inc., has been sued, along with many other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims generally 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. As of June 30, 2015, there were 43 thousand pending active claims against ITT, including Goulds Pumps, filed in various state and federal courts alleging injury as a result of exposure to asbestos. Activity related to these asserted asbestos claims during the period was as follows:

For the Six Months Ended June 30 (in thousands)	2015	2014
Pending claims – Beginning	62	79
New claims	2	2
Settlements	(1)	(2)
Dismissals	(8)	(10)
Pending claims – Ending	55	69
Pending inactive claims ^(a)	12	18
Pending active claims	43	51

Inactive claims represent pending claims in Mississippi filed in 2004 or prior, which have been excluded from our asbestos measurement because the plaintiffs cannot demonstrate a significant compensable loss. As such,

(a) management believes these claims have little-to-no value. There were one thousand inactive claims dismissed or settled during the six months ended June 30, 2015. There were no inactive claims dismissed or settled during the six months ended June 30, 2014.

Frequently, plaintiffs are unable to identify any ITT or Goulds Pumps product as a source of asbestos exposure. Our experience to date is that a majority of resolved claims are dismissed without any payment from the Company. Management believes that a large majority of the pending claims have little or no value. In addition, because claims are sometimes dismissed in large groups, the average cost per resolved claim can fluctuate significantly from period to period. ITT expects more asbestos-related suits will be filed in the future, and ITT will continue to aggressively defend or seek a reasonable resolution, as appropriate.

Asbestos litigation is a unique form of litigation. Frequently, the plaintiff sues a large number of defendants and does not state a specific claim amount. After filing of the complaint, the plaintiff engages defendants in settlement negotiations to establish a settlement value based on certain criteria, including the number of defendants in the case. Rarely do the plaintiffs seek to collect all damages from one defendant. Rather, they seek to spread the liability, and thus the payments, among many defendants. As a result of this and other factors, the Company is unable to estimate the maximum potential exposure to pending claims and claims estimated to be filed over the next 10 years.

Estimating our exposure to pending asbestos claims and those that may be filed in the future is subject to significant uncertainty and risk as there are multiple variables that can affect the timing, severity, quality, quantity and resolution of claims. Any predictions with respect to the variables impacting the estimate of the asbestos liability and related asset are subject to even greater uncertainty as the projection period lengthens. In light of the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, which additional costs may be material, we do not believe there is a reasonable basis for estimating those costs at this time.

The asbestos liability and related receivables reflect management's best estimate of future events. However, future events affecting the key factors and other variables for either the asbestos liability or the related receivables could cause actual costs or 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 cost of resolving all pending and 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 statements.

Income Statement Costs / Benefit

During the second quarter of 2015, the Company changed its asbestos defense strategy and retained a single firm to defend the Company in all asbestos litigation. This long-term strategy will streamline the Company's management of cases and significantly reduce defense costs. Our agreement with the defense firm is currently limited to a certain set of claims and the remaining claims are expected to be transitioned to the firm within the next four years. Based on the terms of the agreement, the Company adjusted its asbestos liability and related assets and recognized a net benefit of \$100.7 during the three months ended June 30, 2015 for the revised estimate of the cost to defend pending claims and claims expected to be filed over the next 10 years.

Additionally, as part of our ongoing review of our net asbestos exposure, each quarter we assess the most recent qualitative and quantitative 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. Based on this evaluation, the Company determined that no additional change in the estimate was warranted for the three months ended June 30, 2015 other than the incremental accrual to maintain a rolling 10-year forecast period and the defense cost adjustment discussed above. The net asbestos charge to maintain a rolling 10-year forecast period was \$15.9 for both the three months ended June 30, 2015 and 2014.

Changes in Financial Position

The Company's estimated asbestos exposure, net of expected recoveries, for the resolution of all pending claims and claims estimated to be filed in the next 10 years was \$670.9 and \$746.8 as of June 30, 2015 and December 31, 2014, respectively. The following table provides a rollforward of the estimated asbestos liability and related assets for the six months ended June 30, 2015.

	Liability	Asset	Net
Balance as of December 31, 2014	\$ 1,223.2	\$476.4	\$ 746.8
Asbestos provision	36.6	5.3	31.3
Defense cost adjustment	(124.2)	(23.5)	(100.7)
Net cash activity	(30.4)	(23.9)	(6.5)
Balance as of June 30, 2015	\$ 1,105.2	\$434.3	\$ 670.9
Current portion	\$ 105.7	\$ 102.4	
Noncurrent portion	\$ 999.5	\$ 331.9	
Environmental			

In the ordinary course of business, we are subject to federal, state, local, and foreign environmental laws and regulations. We are responsible, or are alleged to be responsible, for ongoing environmental investigation and site remediation. These sites are in various stages of investigation and/or remediation and in many of these proceedings our liability is considered de minimis. We have received notification from the U.S. Environmental Protection Agency, and from similar state and foreign environmental agencies, that a number of sites formerly or currently owned and/or operated by ITT, and other properties or water supplies that may be or have been impacted from those operations, contain disposed or recycled materials or wastes and require environmental investigation and/or remediation. These sites include instances where we have been identified as a potentially responsible party under federal and state environmental laws and regulations.

The following table provides a rollforward of the estimated environmental liability and related assets for the six months ended June 30, 2015.

	Liability	Asset	Net
Balance as of December 31, 2014	\$89.9	\$7.7	\$82.2
Change in estimates for pre-existing accruals			
Continuing operations	1.1	0.3	0.8
Discontinued operations	(2.8)	(0.9)	(1.9)
Net cash activity	(7.2)	(0.3)	(6.9)
Foreign currency	(0.3)	—	(0.3)
Balance as of June 30, 2015	\$80.7	\$6.8	\$73.9

We are currently involved with 52 active environmental investigation and remediation sites. At June 30, 2015, we have estimated the potential high-end liability range of environmental-related matters to be \$140.

As actual costs incurred at identified sites in future periods may vary from our current estimates given the inherent uncertainties in evaluating environmental exposures, management believes it is possible that the outcome of these uncertainties may have a material adverse effect on our financial statements.

Other Matters

The Company has received a civil subpoena from the Department of Defense, Office of the Inspector General requesting documents pertaining to certain products manufactured by the Company's Interconnect Solutions segment that are purchased or used by the U.S. government. The Company is cooperating with the request. The inquiry is in the early stages and the Company is unable to estimate the timing or outcome of the matter.

NOTE 18

ACQUISITIONS

Hartzell Aerospace

On March 31, 2015, we completed the acquisition of Hartzell Aerospace (Hartzell) for a purchase price of \$53.5 that was funded through additional commercial paper borrowings. Hartzell, which reported 2014 revenues of \$34, designs and manufactures products to support aerospace applications, featuring a differentiated portfolio of environmental control system components and an established aftermarket business. Hartzell employs approximately 240 employees at its two facilities in California. The acquisition will be reported within the Control Technologies segment and complements the ITT aerospace growth platform, with customer and sales channel alignment and key high-growth and next-generation platform expansion opportunities.

The allocation of purchase price is based on the fair value of assets acquired and liabilities assumed as of the acquisition date. Our assessment of fair value is preliminary, and may be adjusted for information that is currently not available to us. The aggregate estimated fair value of customer relationships, proprietary technology, and backlog was \$17.1, \$9.6 and \$1.9, respectively. Other assets acquired and liabilities assumed, net, as part of the acquisition were \$11.6 and primarily related to working capital balances. The excess of the purchase price over the estimated fair value of net assets acquired of \$13.2 was recorded as goodwill (which is expected to be deductible for income tax purposes). All of the goodwill has been assigned to the Control Technologies segment.

Our financial statements include the results of operations and cash flows from Hartzell, prospectively from the acquisition date; however, these results were not material and accordingly, pro forma results of operations have not been presented.

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 is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation and industrial markets. Building on our heritage of engineering, we partner with our customers to deliver enduring solutions to the key industries that underpin our modern way of life. We manufacture components that are integral to the operation of systems and manufacturing processes in our key markets. Our products provide enabling functionality for applications where reliability and performance are critically important to our customers and the users of their products.

Our businesses share a common, repeatable operating model. Each business applies technology and engineering expertise to solve our customer's most pressing challenges. Our applied engineering aptitude enables a tight business fit with our customers given the critical nature of their applications. This in turn provides us with a unique insight to our customer's requirements and enables us to develop solutions to assist our customers in achieving their business goals. Our technology and customer intimacy in tandem produce opportunities to capture recurring revenue streams, aftermarket opportunities, and long lived original equipment manufacturer (OEM) platforms.

Our product and service offerings are organized into four segments: Industrial Process, Motion Technologies, Interconnect Solutions, and Control Technologies. See Note 3, Segment Information, in this Report for a summary description of each segment. Additional information is also available in our 2014 Annual Report within Part I, Item 1, "Description of Business".

DISCUSSION OF FINANCIAL RESULTS

Three and Six Months Ended June 30

For the Periods Ended June 30	Three Months			Six Months		
	2015	2014	Change	2015	2014	Change
Revenue	\$628.2	\$663.0	(5.2%)	\$1,216.9	\$1,337.5	(9.0%)
Gross profit	213.9	214.8	(0.4%)	412.9	429.6	(3.9%)
Gross margin	34.0	%32.4	%160bp	33.9	%32.1	%180bp
Operating expenses	49.4	160.3	(69.2%)	190.5	326.8	(41.7%)
Expense to revenue ratio	7.9	%24.2	%(1,630)bp	15.7	%24.4	%(870)bp
Operating income	164.5	54.5	201.8%	222.4	102.8	116.3%
Operating margin	26.2	%8.2	%1,800bp	18.3	%7.7	%1,060bp
Income tax expense	23.5	12.4	89.5%	41.6	25.4	63.8%
Effective tax rate	14.3	%23.0	%(870)bp	18.8	%25.1	%(630)bp
Net income attributable to ITT Corporation	142.3	38.3	271.5%	184.4	70.5	161.6%

All comparisons included within Management's Discussion and Analysis of Financial Condition and Results of Operations refer to the comparable three or six month periods ended June 30, 2014, unless stated otherwise.

Executive Summary

During the second quarter of 2015, we recognized revenue of \$628.2 reflecting a decrease of \$34.8, or 5.2%, primarily related to the impact of unfavorable foreign currency translation of \$52.2. On an organic basis, revenue increased 1.3% compared to the prior year, reflecting organic growth of 9.2% from Motion Technologies due to strength in global automotive brake pads, and 4.0% from Industrial Process reflecting higher engineered project activity and growth in aftermarket parts. Organic revenue growth during the quarter was partially offset by weakness at Interconnect Solutions, partially reflecting the challenging conditions across the industrial and oil and gas markets, and revenue declines at Control Technologies due to the timing of commercial aerospace shipments and impacts from the industrial market environment.

Orders received during the second quarter of 2015 were \$586.2 reflecting a decrease of \$88.2, or 13.1%, including a \$54.5 unfavorable impact from foreign currency translation. Organic orders declined 6.4% primarily

due to weak order bookings for highly engineered project pumps related to the current challenging conditions within the oil and gas, chemical and industrial markets, as well as weak connector demand across all markets. The impact of these challenging conditions was partially offset by continued growth from new global OEM automotive platforms wins.

Operating income increased \$110.0, or 201.8%, to \$164.5, during the second quarter of 2015 versus the same prior year period. The higher operating income reflects a \$100.7 benefit from lower expected asbestos defense costs, the benefit of past restructuring and Lean initiatives and our focused cost containment efforts. These benefits outweighed various negative impacts, such as unfavorable foreign currency fluctuations, continued operational disruptions at Interconnect Solutions associated with our North American footprint transition, and increased restructuring costs, resulting in segment operating income growth of 1.5% for the quarter.

Income from continuing operations during the second quarter of 2015 was \$140.6, or \$1.56 per diluted share, representing an increase of \$99.4, or \$1.12 per diluted share, reflecting the benefit from asbestos-related matters, a lower effective tax rate, and lower outstanding shares due to our first quarter 2015 share repurchases. Adjusted income from continuing operations, a non-GAAP measure, was \$62.2, or \$0.69 per diluted share, for the second quarter of 2015, reflecting a \$6.8, or 12.3% increase, over the prior year.

During the second quarter of 2015, we continued to make balanced and effective capital investments, including our Hartzell acquisition, the focused expansion of our brake pad capacity, and upgrades to our IT systems. The Hartzell acquisition aligns with our focus to expand our aerospace solutions and complements our Control Technologies portfolio in various ways. In addition, during the quarter, we successfully divested a non-core industrial product line that resulted in a gain on sale of \$0.1.

Further details related to these results are contained elsewhere in the Discussion of Financial Results section. Refer to the section titled "Key Performance Indicators and Non-GAAP Measures" for reconciliations between GAAP and non-GAAP metrics.

REVENUE

For the Three Months Ended June 30	2015	2014	Change	Organic Growth ^(a)
Revenue by segment:				
Industrial Process	\$287.5	\$289.4	(0.7)%	4.0 %
Motion Technologies	184.4	198.0	(6.9)%	9.2 %
Interconnect Solutions	82.7	103.7	(20.3)%	(14.2)%
Control Technologies	74.5	73.7	1.1 %	(10.0)%
Eliminations	(0.9)	(1.8)	(50.0)%	—
Revenue	\$628.2	\$663.0	(5.2)%	1.3 %
Revenue by country / region:				
United States	\$237.7	\$243.1	(2.2)%	(4.4)%
Germany	68.0	71.3	(4.6)%	14.9 %
Canada	30.4	27.9	9.0 %	9.7 %
France	29.9	33.0	(9.4)%	9.3 %
Other developed markets	61.7	85.6	(27.9)%	(7.2)%
Total developed markets	427.7	460.9	(7.2)%	(1.2)%
South and Central America	56.4	58.0	(2.8)%	8.0 %
Eastern Europe and Russia	34.2	31.6	8.2 %	25.7 %
Middle East and Africa	45.7	37.9	20.6 %	23.4 %
China and Hong Kong	37.6	46.2	(18.6)%	(15.5)%
Other emerging markets	26.6	28.4	(6.3)%	(1.7)%
Total emerging markets	200.5	202.1	(0.8)%	6.9 %
Revenue	\$628.2	\$663.0	(5.2)%	1.3 %

(a) See the section titled "Key Performance Indicators and Non-GAAP Measures" for a definition and reconciliation of organic revenue growth.

For the Six Months Ended June 30	2015	2014	Change	Organic Growth ^(a)
Revenue by segment:				
Industrial Process	\$543.1	\$574.9	(5.5)%	(1.1)%
Motion Technologies	375.6	415.8	(9.7)%	5.9 %
Interconnect Solutions	160.2	203.7	(21.4)%	(15.5)%
Control Technologies	140.3	146.6	(4.3)%	(9.5)%
Eliminations	(2.3)	(3.5)	(34.3)%	—
Revenue	\$1,216.9	\$1,337.5	(9.0)%	(2.0)%
Revenue by country / region:				
United States	\$460.2	\$465.4	(1.1)%	(2.0)%
Germany	145.0	165.0	(12.1)%	6.1 %
Canada	62.1	61.3	1.3 %	3.2 %
France	61.1	70.6	(13.5)%	4.2 %
Other developed markets	121.8	178.5	(31.8)%	(13.5)%
Total developed markets	850.2	940.8	(9.6)%	(2.7)%
South and Central America	102.5	114.5	(10.5)%	(1.2)%
Eastern Europe and Russia	63.6	62.5	1.8 %	19.0 %
Middle East and Africa	76.5	69.3	10.4 %	12.6 %
China and Hong Kong	72.1	90.8	(20.6)%	(17.8)%
Other emerging markets	52.0	59.6	(12.8)%	(8.0)%
Total emerging markets	366.7	396.7	(7.6)%	(0.3)%
Revenue	\$1,216.9	\$1,337.5	(9.0)%	(2.0)%

(a) See the section titled "Key Performance Indicators and Non-GAAP Measures" for a definition and reconciliation of organic revenue growth.

Industrial Process

Revenue for the three months ended June 30, 2015 decreased \$1.9, or 0.7%, including an unfavorable foreign currency translation impact of \$13.6. Organic revenue increased \$11.7, or 4.0%, primarily due to growth of 33% in our highly engineered project pump business primarily due to strong project backlog entering the year and aftermarket growth of 13% primarily related to higher pump parts volume. Revenue for the quarter was partially offset by a 34% decline in short-cycle baseline pumps compared to a strong prior year and due to industrial market uncertainty. In addition, lower project activity was experienced within the chemical market due to weak market conditions primarily in the Asia Pacific Region.

Orders for the three months ended June 30, 2015 decreased \$59.4, or 20.4%, including an unfavorable foreign currency translation impact of \$14.2. Organic orders decreased \$45.2, or 15.5%, reflecting capital project uncertainty and delays primarily within the oil and gas and chemical markets due to soft market conditions and global oil volatility and market uncertainty. These declines were partially offset by order growth in the Latin American mining market, primarily related to strength in aftermarket parts and several large projects, as well as strength in the general industrial market, primarily the North American pulp and paper and power markets.

Revenue for the six months ended June 30, 2015 decreased \$31.8, or 5.5%, including an unfavorable foreign currency translation impact of \$25.3. Organic revenue decreased \$6.6, or 1.1%, as revenue gains stemming from prior year oil and gas market order bookings, were more than offset by slower than anticipated U.S. short-cycle baseline pump demand.

Orders for the six months ended June 30, 2015 decreased \$94.3 or 16.0%, including an unfavorable foreign currency translation impact of \$28.1. Organic orders decreased \$66.3, or 11.3%, primarily due to the oil and gas market softness and difficult prior year comparisons, which included multiple large-scale highly engineered pump project wins. Similarly, orders within the chemical and industrial markets decreased primarily due to market uncertainty and a large North American order that was received in the first half of 2014.

Backlog

The level of order and shipment activity related to engineered pumps can vary from period to period, which may affect the year-over-year comparisons. Backlog as of June 30, 2015 was \$540.3, reflecting a decrease of \$63.1, or 10.5%, from the December 31, 2014 balance, and includes a \$13.8 unfavorable foreign currency translation impact. The decrease reflects a delinquency reduction through improved operational performance combined with a lower project order in-take due to global capital project delays and lower chemical and general industrial orders due to market uncertainty and volatility.

Motion Technologies

Revenue for the three months ended June 30, 2015 decreased \$13.6, or 6.9%, resulting from an unfavorable foreign currency translation impact of \$31.8. Organic revenue increased \$18.2, or 9.2% against the prior year, driven by growth of 12% within our Friction Technologies business reflecting strength in OEM, original equipment suppliers (OES), and the independent aftermarket sales channels. Strength in OEM brake pads was delivered across all major geographic regions, and reflects incremental benefits from platform wins that are now entering production. Sales into the independent aftermarket channel increased approximately 14% due to timing impacts from our customer's inventory management. Sales from our KONI business increased approximately 5%, reflecting growth within the U.S. defense market related to our placement on a U.S. military platform and higher automotive shock absorber volume, which was partially offset by a decline in volumes to the U.S. and European rail markets.

Revenue for the six months ended June 30, 2015 decreased \$40.2, or 9.7%, resulting from an unfavorable foreign currency translation impact of \$64.7. Organic revenue increased \$24.5, or 5.9%, primarily reflecting strength in OEM brake pads across all major geographic regions. Sales to OES were relatively flat as strength in the U.S. and China were offset by a decline in Europe. Sales into the independent aftermarket channel decreased approximately 7% primarily due to timing impacts from our customer's inventory management. Sales from our KONI business increased slightly, reflecting sales growth within the U.S. defense market related to our placement on a U.S. military platform which was offset by a decline in volume to the European rail market.

Orders for the three and six months ended June 30, 2015 decreased \$23.2, or 11.1%, and \$49.8, or 11.5%, respectively, reflecting unfavorable foreign currency translation impacts of \$33.2 and \$67.4, respectively. Organic orders for the three and six months ended June 30, 2015 increased \$10.0, or 4.8%, and \$17.6, or 4.1%, respectively. The continued strength by our Friction Technologies business in winning OEM platforms was the primary driver of organic order growth, which was partially offset by an order decline from our KONI business primarily within the rail market.

Interconnect Solutions

Interconnect Solutions revenue for the three months ended June 30, 2015 decreased by \$21.0, or 20.3%, including an unfavorable foreign currency translation impact of \$6.3. Organic revenue declined \$14.7, or 14.2% for the three month period. Revenue for the six months ended June 30, 2015 decreased by \$43.5, or 21.4%, including an unfavorable foreign currency translation impact of \$12.0. Organic revenue declined \$31.5, or 15.5% for the six month period. Sales volumes for both the quarter and year-to-date periods were down across all market categories. Weakness in the oil and gas and other strategic markets, declining revenue from end-of-life non-strategic connector platforms, shipment delays due to operational disruptions from the relocation of certain North American operations, and a decline in market share were significant factors contributing to the overall decline in sales.

Orders for the three months ended June 30, 2015 decreased \$15.2, or 15.5%, including an unfavorable foreign exchange translation impact of \$6.7. Organic orders decreased \$8.5, or 8.6%, for the three month period. Orders for the six months ended June 30, 2015 decreased \$35.8, or 17.7%, including an unfavorable foreign exchange translation impact of \$12.2. Organic orders decreased \$23.6, or 11.7% for the six month period. The order decline for both periods reflects a decline in market share and challenging market conditions due to continued softness in the U.S. defense market, the decline in global oil prices, and a slow-down in the industrial market.

Control Technologies

Revenue for the three months ended June 30, 2015 increased by \$0.8, or 1.1%. Revenue for the six months ended June 30, 2015 decreased by \$6.3, or 4.3%. Revenue for both periods includes sales of approximately \$10 from our second quarter Hartzell acquisition. Revenue for the periods also reflects unfavorabl