ITT Corp
Form 10-Q
May 02, 2011

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

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011
or

o **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 of Incorporation or Organization)	*(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 þ No o

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 þ No o

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 o No þ

As of April 20, 2011, there were outstanding 184.1 million shares of common stock ($1 par value per share) of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED INCOME STATEMENTS (UNAUDITED)
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

QUARTER ENDED MARCH 31	**2011**	2010
Product revenue	**$ 2,053**	$ 1,953
Service revenue	**707**	625
Total revenue	**2,760**	2,578
Costs of product revenue	**1,352**	1,307
Costs of service revenue	**623**	553
Total costs of revenue	**1,975**	1,860
Gross profit	**785**	718
Selling, general and administrative expenses	**430**	378
Research and development expenses	**61**	63
Transformation costs	**85**	
Asbestos-related costs, net	**16**	15
Restructuring and asset impairment charges, net	**5**	17
Operating income	**188**	245
Interest and non-operating expenses, net	**17**	26
Income from continuing operations before income tax expense	**171**	219
Income tax expense	**45**	75
Income from continuing operations	**126**	144
(Loss) income from discontinued operations, including tax benefit (expense) of $1 and $(2), respectively	**(2)**	2
Net income	**$ 124**	$ 146
Earnings Per Share:		
Basic:		
Continuing operations	**$ 0.68**	$ 0.78
Discontinued operations	**(0.01)**	0.02
Net income	**$ 0.67**	$ 0.80

Diluted:				
Continuing operations	**$**	**0.67**	$	0.78
Discontinued operations		**(0.01)**		0.01
Net income	**$**	**0.66**	$	0.79
Weighted average common shares basic		**185.0**		183.3
Weighted average common shares diluted		**186.5**		184.9
Cash dividends declared per common share	**$**	**0.25**	$	0.25

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

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ITT CORPORATION AND SUBSIDIARIES

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

QUARTER ENDED MARCH 31	**2011**	2010
Net income	**$ 124**	$ 146
Other comprehensive income:		
Net foreign currency translation adjustment	**118**	(91)
Net change in postretirement benefit plans, net of tax benefit of $11 and $9, respectively	**21**	15
Net change in unrealized gains on investment securities, net of tax expense of $3 and $2, respectively	**(7)**	3
Other comprehensive income (loss)	**132**	(73)
Comprehensive income	**$ 256**	$ 73
Disclosure of reclassification adjustment:		
Net change in postretirement benefit plans, net of tax:		
Amortization of prior service costs, net of tax benefit of less than $1	**$ 1**	$
Amortization of net actuarial loss, net of tax benefit of $11 and $9, respectively	**20**	15
Net change in postretirement benefit plans, net of tax	**$ 21**	$ 15
Net change in unrealized gains on investment securities, net of tax:		
Unrealized holding (losses) gains arising during period, net of tax expense of $0 and $2, respectively	**$ (1)**	$ 3
Gains realized during the period, net of tax expense of $3 for 2011	**(6)**	
Net change in unrealized gains on investment securities, net of tax	**$ (7)**	$ 3

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

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,074**	$ 1,032
Receivables, net	**2,075**	1,944
Inventories, net	**950**	856
Other current assets	**611**	562
Total current assets	**4,710**	4,394
Plant, property and equipment, net	**1,207**	1,205
Goodwill	**4,318**	4,277
Other intangible assets, net	**756**	766
Asbestos-related assets	**931**	930
Other non-current assets	**804**	866
Total non-current assets	**8,016**	8,044
Total assets	**$ 12,726**	$ 12,438
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	**$ 981**	$ 1,020
Accrued and other current liabilities	**1,703**	1,714
Short-term borrowings and current maturities of long-term debt	**85**	11
Total current liabilities	**2,769**	2,745
Postretirement benefits	**1,715**	1,733
Long-term debt	**1,354**	1,354
Asbestos-related liabilities	**1,572**	1,559
Other non-current liabilities	**548**	542
Total non-current liabilities	**5,189**	5,188
Total liabilities	**7,958**	7,933
Shareholders Equity:		

Common stock:				
Authorized 500.0 shares, $1 par value per share (207.0 shares issued)				
Outstanding 184.8 shares and 184.0 shares, respectively[a]		**184**		183
Retained earnings		**5,539**		5,409
Total accumulated other comprehensive loss		**(955)**		(1,087)
Total shareholders equity		**4,768**		4,505
Total liabilities and shareholders equity	**$**	**12,726**	$	12,438

[a] Shares outstanding include unvested restricted common stock of 0.8 at March 31, 2011 and 1.0 at December 31, 2010.

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 (UNAUDITED)
(IN MILLIONS)

QUARTER ENDED MARCH 31	**2011**	2010
Operating Activities		
Net income	**$ 124**	$ 146
Less: (Loss) income from discontinued operations	**(2)**	2
Income from continuing operations	**126**	144
Non-cash adjustments to income from continuing operations:		
Depreciation and amortization	**84**	68
Stock-based compensation	**7**	8
Transformation costs	**55**	
Change in receivables	**(102)**	(72)
Change in inventories	**(76)**	3
Change in accounts payable	**(13)**	(10)
Other, net	**(61)**	(74)
Net Cash Operating activities	**20**	67
Investing Activities		
Capital expenditures	**(47)**	(52)
Acquisitions, net of cash acquired		(391)
Other, net	**15**	2
Net Cash Investing activities	**(32)**	(441)
Financing Activities		
Short-term debt, net	**74**	151
Issuance of common stock	**33**	10
Dividends paid	**(92)**	(85)
Other, net	**(7)**	
Net Cash Financing activities	**8**	76
Exchange rate effects on cash and cash equivalents	**46**	(48)
Net cash from discontinued operations		10
Net change in cash and cash equivalents	**42**	(336)
Cash and cash equivalents beginning of year	**1,032**	1,216
Cash and Cash Equivalents End of Period	**$ 1,074**	$ 880

Supplemental Disclosures of Cash Flow Information
Cash paid during the year for:

Interest	**$**	**3**	$	3
Income taxes (net of refunds received)	**$**	**17**	$	66

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

ITT CORPORATION AND SUBSIDIARIES

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

NOTE 1
BASIS OF PRESENTATION

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

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

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

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

NOTE 2
COMPANY TRANSFORMATION

On January 12, 2011, the Company announced that its Board of Directors had unanimously approved a plan to separate the Company s businesses into three independent, publicly traded companies (the Transformation). Under the Transformation, ITT will execute tax-free spinoffs to shareholders of its water-related businesses and its Defense segment. The water-related business will include the Water & Wastewater division, including its analytical instrumentation component, and the Residential & Commercial Water division, as well as the Flow Control division that is currently reported within the Motion & Flow segment. The Industrial Process division, which is currently reported within the Fluid segment, will continue to operate as a subsidiary of ITT. After completion of the Transformation, ITT shareholders will own shares in all three corporations. Following the Transformation, ITT will continue to trade on the New York Stock Exchange as an industrial company that supplies highly engineered solutions in the aerospace, transportation, energy and industrial markets. The Transformation is anticipated to be completed by the end of 2011.

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ITT CORPORATION AND SUBSIDIARIES

During the first quarter of 2011, we recognized expenses of $85 related to the planned Transformation. The components of transformation costs incurred during the first quarter of 2011 are presented below.

Transformation Costs:		
Asset impairments	$	55
Advisory fees		22
Other costs		8
Total transformation costs	$	85
Total costs incurred to date	$	87

The $55 million non-cash impairment charge relates a decision to discontinue development of an information technology consolidation initiative. These costs have not been included in segment operating results.

Transformation accrual 12/31	$	2
Charges for actions during the period		85
Cash payments		(15)
Asset impairment		(55)
Transformation accrual 3/31	$	17

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

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

NOTE 3
RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amended the accounting for revenue arrangements that contain multiple elements by eliminating the criteria that objective and reliable evidence of fair value for undelivered products or services needs to exist in order to be able to account separately for deliverables and eliminates the use of the residual method of allocating arrangement consideration. The amendments establish a hierarchy for determining the selling price of a deliverable and will allow for the separation of products and services in more instances than previously permitted.

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

The deliverables in our arrangements with multiple elements include various products and may include related services, such as installation and start-up services. For multiple element arrangements entered into or materially modified after adoption of the revised multiple element arrangement guidance, we allocate arrangement consideration based on the relative selling prices of the separate units of accounting determined in accordance with the hierarchy described above. For deliverables that are sold separately, we establish VSOE based on the price when the deliverable is sold separately. We establish TPE, generally for services, based on prices similarly situated customers pay for similar services from third party vendors. For those deliverables for which we are unable to establish VSOE or TPE, we estimate the selling price considering various factors including market and pricing trends, geography, product customization, and profit objectives. Revenue allocated to products and services are generally recognized as the products are delivered and the services are performed, provided all other revenue recognition criteria have been satisfied. The adoption of ASU 2009-13 did not result in a material change in either the units of accounting or the pattern or timing of revenue

recognition. Additionally, the adoption of the revised multiple element arrangement guidance did not have a material impact on our financial condition, results of operations or cash flows.

In October 2009, the FASB issued ASU No. 2009-14, which amended the accounting requirements for software revenue recognition. The objective of this update is to address the accounting for revenue arrangements that contain tangible products and software. Specifically, products that contain software that is more than incidental to the product as a whole will be removed from the scope of the software revenue recognition literature. The amendments align the accounting for these revenue transaction types with the amendments described under ASU 2009-13 above. We adopted the provisions of this ASU for new or materially modified arrangements entered into on or after January 1, 2011 on a prospective basis. The adoption of this ASU did not have a material impact on our financial condition, results of operations or cash flows.

In April 2010, the FASB issued ASU No. 2010-17, which establishes authoritative guidance permitting use of the milestone method of revenue recognition for research or development arrangements that contain payment provisions or consideration contingent on the achievement of specified events. On January 1, 2011, we adopted the provisions of this ASU on a prospective basis. The adoption of this ASU did not have a material impact on our financial condition, results of operations or cash flows.

In December 2010, the FASB issued ASU No. 2010-28, which provides additional guidance when testing goodwill for impairment. Specifically, for reporting units with zero or negative carrying amounts, an entity is required to perform the second step of the goodwill impairment test (a comparison between the carrying amount of a reporting unit s goodwill to its implied fair value) if it is more likely than not that a goodwill impairment exists, considering any adverse qualitative factors. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. As of the date of our most recent goodwill impairment test, none of our reporting units would have been affected by the application of this ASU as each reporting unit had a carrying amount that exceeded zero.

NOTE 4
ACQUISITIONS & DIVESTITURES

Acquisitions

We did not engage in any acquisitions during the first quarter of 2011. During the first quarter of 2010, we spent $391, net of cash acquired. The substantial majority of the first quarter 2010 aggregate purchase price pertained to the acquisition of Nova Analytics Corporation (Nova) on March 23, 2010 for $385 which broadened our Fluid segment s portfolio of analytical instrumentation tools.

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

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

Divestitures

We did not engage in any divestitures during the first quarter of 2011 or 2010.

On September 8, 2010 we completed the sale of CAS, Inc. (CAS), a component of our Defense segment that was engaged in systems engineering and technical assistance for the U.S. Government. Subsequent to this divestiture, we do not have any significant continuing involvement in the operations of CAS, nor do we expect significant continuing cash flows from CAS. Accordingly, the financial position, results of operations and cash flows from CAS are reported as a discontinued operation and prior year amounts have been reclassified to conform to the current year presentation. During the first quarter of 2010, CAS provided third-party revenue and operating income of $57 and $4, respectively, included within discontinued operations.

NOTE 5
RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

During the first quarter of 2011 we recognized restructuring costs of $5, related to actions initiated primarily within our Defense segment. We do not expect to incur significant future charges related to these actions.

2010 Defense Segment Realignment Activities

During the first quarter of 2010, we recognized a $12 restructuring charge related to a strategic realignment of our Defense segment to enable better product portfolio integration, encourage a more coordinated market approach and provide reductions in overhead costs. The Defense segment was renamed ITT Defense & Information Solutions and the previous organizational structure, consisting of seven divisions, was consolidated into three larger divisions.

This initiative was substantially completed during 2010 and resulted in a total charge of $27 and headcount reductions of 642, which included 162 factory workers, 457 office workers and 23 management employees. In addition, the operations at three of the Defense segment s production sites were relocated and integrated with other existing sites during the fourth quarter of 2010. We estimate our Defense segment realignment actions will yield approximately $61 in annual net savings. The remaining liability related to the realignment action was $5 as of March 31, 2011, and is expected to be fully paid during the remainder of 2011.

NOTE 6
INCOME TAXES

Effective Tax Rate

For the quarter ended March 31, 2011 we recorded an income tax expense of $45, compared to $75 for the comparable prior year period, reflecting an effective tax rate of 26.3% and 34.2%, respectively. The decrease in income tax expense was primarily attributable to a tax benefit of $23 from separation-related costs related to the planned

Transformation. The effective tax rate for the first quarter of 2010 was unfavorably impacted by a discrete income tax charge of $12 associated with the ratification of the U.S. Patient Protection and Affordable Care Act (the Healthcare Reform Act). Effective January 1, 2013, the Healthcare Reform Act eliminates the tax deduction for benefits related to subsidies received for prescription drug benefits provided under retiree healthcare benefit plans that were determined to be actuarially equivalent to Medicare Part D.

NOTE 7
EARNINGS PER SHARE

The following table provides a reconciliation of the data used in the calculation of basic and diluted earnings per share computations for income from continuing operations for the first quarter of 2011 and 2010.

	2011	2010
Income from continuing operations	**$ 126**	$ 144
Weighted average common shares outstanding	**183.6**	181.8
Add: Weighted average restricted stock awards outstanding[(a)]	**1.4**	1.5
Basic weighted average common shares outstanding	**185.0**	183.3
Add: Dilutive impact of stock options	**1.5**	1.6
Diluted weighted average common shares outstanding	**186.5**	184.9
Basic earnings per share from continuing operations	**$ 0.68**	$ 0.78
Diluted earnings per share from continuing operations	**$ 0.67**	$ 0.78

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

The following table provides the number of shares underlying stock options excluded from the computation of diluted earnings per share as of March 31, 2011 and 2010 because they were anti-dilutive.

	2011	2010
Anti-dilutive stock options	**1.2**	1.8
Average exercise price	**$ 56.28**	$ 54.62
Years of expiration	**2014-2021**	2012- 2020

NOTE 8
RECEIVABLES, NET

	March 31, 2011	December 31, 2010
Trade accounts receivable	**$ 1,597**	$ 1,579
Unbilled contract receivable	**475**	367

Other		**47**		47
Receivables, gross		**2,119**		1,993
Allowance for doubtful accounts		**(41)**		(42)
Allowance for cash discounts		**(3)**		(7)
Receivables, net	**$**	**2,075**	$	1,944

Unbilled contract receivables represent revenue recognized on construction-type or production-type contracts that arise based on performance attainment which, by contract, cannot be billed as of the balance sheet date. We expect to bill and collect substantially all of the March 31, 2011 unbilled contract receivables during the next twelve months as billing milestones are completed or units are delivered.

Our outstanding accounts receivable balance, including both trade and unbilled receivables, from the U.S. Government was $850 and $806 as of March 31, 2011 and December 31, 2010, respectively.

NOTE 9
INVENTORIES, NET

	March 31, 2011	December 31, 2010
Finished goods	**$ 231**	$ 231
Work in process	**117**	88
Raw materials	**358**	317
	706	636
Inventoried costs related to long-term contracts	**326**	296
Less progress payments	**(82)**	(76)
Inventoried costs related to long-term contracts, net	**244**	220
Inventories, net	**$ 950**	$ 856

NOTE 10
OTHER CURRENT AND NON-CURRENT ASSETS

	March 31, 2011	December 31, 2010
Current deferred income taxes	**$ 282**	$ 280
Asbestos-related current assets	**105**	105
Other	**224**	177
Other current assets	**$ 611**	$ 562
Deferred income tax	**$ 552**	$ 554
Other employee benefit-related assets	**109**	106
Capitalized software costs	**71**	118
Other	**72**	88
Other non-current assets	**$ 804**	$ 866

As described in Note 2, Transformation Costs, during the first quarter of 2011 we discontinued the development of an information technology consolidation initiative and recorded a capitalized software impairment charge of $55.

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ITT CORPORATION AND SUBSIDIARIES

NOTE 11
PLANT, PROPERTY AND EQUIPMENT, NET

	March 31, 2011	December 31, 2010
Land and improvements	**$ 61**	$ 59
Buildings and improvements	**657**	642
Machinery and equipment	**1,895**	1,809
Equipment held for lease or rental	**140**	132
Furniture, fixtures and office equipment	**241**	231
Construction work in progress	**122**	160
Other	**32**	29
Plant, property and equipment, gross	**3,148**	3,062
Less accumulated depreciation	**(1,941)**	(1,857)
Plant, property and equipment, net	**$ 1,207**	$ 1,205

Depreciation expense of $55 and $44 was recognized in the quarter ended March 31, 2011 and 2010, respectively.

NOTE 12
GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

The following table provides a rollforward of the carrying amount of goodwill for the quarter ended March 31, 2011 by segment.

	DEFENSE	FLUID	MOTION & FLOW	TOTAL
Goodwill 12/31	$ 2,156	$ 1,634	$ 487	$ 4,277
Foreign currency		35	6	41
Goodwill 3/31	$ 2,156	$ 1,669	$ 493	$ 4,318

Other Intangible Assets, Net

	MARCH 31, 2011	DECEMBER 31, 2010

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET INTANGIBLES	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET INTANGIBLES
Customer and distributor relationships	**$ 863**	**$ (331)**	**$ 532**	$ 855	$ (312)	$ 543
Proprietary technology	**111**	**(39)**	**72**	109	(35)	74
Trademarks	**36**	**(11)**	**25**	35	(10)	25
Patents and other	**33**	**(19)**	**14**	32	(18)	14
Indefinite-lived intangibles	**113**		**113**	110		110
Other Intangible Assets	**$ 1,156**	**$ (400)**	**$ 756**	$ 1,141	$ (375)	$ 766

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Amortization expense related to finite-lived intangible assets for the first quarter 2011 and 2010 was $22 and $20, respectively. Estimated amortization expense for the remaining nine months of 2011 and each of the five succeeding years is as follows:

Remaining 2011	$	71
2012		76
2013		61
2014		56
2015		52
2016		48
Total	$	364

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

	March 31, 2011		December 31, 2010	
Compensation and other employee-benefits	**$**	**558**	$	625
Customer advances and deferred revenue		**513**		478
Asbestos-related liability		**117**		117
Other accrued liabilities		**515**		494
Accrued and other current liabilities	**$**	**1,703**	$	1,714
Deferred income taxes and other tax-related accruals	**$**	**186**	$	179
Environmental		**127**		128
Compensation and other employee-related benefits		**127**		117
Product liability, guarantees and other legal matters		**52**		52
Other		**56**		66
Other non-current liabilities	**$**	**548**	$	542

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

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NOTE 14
DEBT

	March 31, 2011	December 31, 2010
Commercial paper	$ 70	$ -
Short-term loans	5	1
Current maturities of long-term debt and other	10	10
Short-term borrowings and current maturities of long-term debt	85	11
Non-current maturities of long-term debt	1,314	1,314
Non-current capital leases	4	3
Deferred gain on interest rate swaps	44	45
Unamortized discounts and debt issuance costs	(8)	(8)
Long-term debt	1,354	1,354
Total debt	$ 1,439	$ 1,365

The fair value of total debt, excluding the deferred gain on interest rate swaps, was $1,547 and $1,483 as of March 31, 2011 and December 31, 2010, respectively. Fair value was primarily determined using quoted prices in active markets for the identical security obtained from an external pricing service.

NOTE 15
POSTRETIREMENT BENEFIT PLANS

The following table provides the components of net periodic benefit cost for pension plans, disaggregated by U.S. and international plans, and other employee-related benefit plans for the quarters ended March 31, 2011 and 2010.

	2011					2010				
	U.S.	**Int l**	**Total Pension**	**Other Benefits**	**Total**	U.S.	Int l	Total Pension	Other Benefits	Total
Net periodic benefit cost										
Service cost	$ 29	$ 4	$ 33	$ 1	$ 34	$ 27	$ 4	$ 31	$ 2	$ 33
Interest cost	74	8	82	10	92	77	7	84	10	94
Expected return on plan assets	(102)	(7)	(109)	(6)	(115)	(104)	(6)	(110)	(6)	(116)
	27	1	28	3	31	20	1	21	3	24

Amortization of net actuarial loss										
Amortization of prior service cost	**1**		**1**		**1**	1		1		1
Net periodic benefit cost (income)	**29**	**6**	**35**	**8**	**43**	21	6	27	9	36

We contributed approximately \$11 and \$2 to our various plans during the three months ended March 31, 2011 and 2010, respectively. Additional contributions ranging between \$80 and \$100 are expected during the remainder of 2011.

NOTE 16
LONG-TERM INCENTIVE EMPLOYEE COMPENSATION

Our long-term incentive awards program (LTIP) comprises three components: non-qualified stock options (NQOs), restricted stock (RS) and a target cash award (TSR). We account for NQOs and RS as equity-based compensation awards. TSR awards are cash settled and accounted for as liability-based compensation. LTIP employee compensation costs are primarily recorded within SG&A

expenses, and are reduced by an estimated forfeiture rate. The following table provides the impact of these costs in our consolidated results of operations for the quarters ended March 31, 2011 and 2010.

	2011	2010
Compensation costs on equity-based awards	**$ 7**	$ 8
Compensation costs on liability-based awards	**3**	2
Total compensation costs, pre-tax	**$ 10**	$ 10
Future tax benefit	**$ 3**	$ 3

At March 31, 2011, there was $73 of unrecognized compensation cost related to non-vested NQOs and RS. This cost is expected to be recognized ratably over a weighted-average period of 2.2 years. Unrecognized compensation cost of $16 is projected to be incurred under the TSR based on performance measurements as of March 31, 2011. The TSR unamortized expense is expected to be recognized over a weighted average

period of 2.5 years. Actual performance measurements in future periods, may differ from current estimates and positively or negatively impact the TSR compensation cost recognized, as well as create volatility between periods.

First Quarter 2011 LTIP Activity

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

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

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

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

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

During the first quarter of 2011, 0.8 stock options were exercised resulting in proceeds of $33. Restrictions on 0.3 shares of RS granted in 2008 lapsed on March 10, 2011 and a corresponding number of shares were issued out of treasury stock. Typically, during the first quarter of each year, cash payments are made to settle TSR awards that vested on December 31st of the preceding year. However, no payments were made during the first quarter of 2011 as the TSR performance metric for the 2008 to 2010 performance period was less than the minimum stipulated in the TSR Award Agreement. During the first quarter of 2010, payments totaling $18 were made to settle the vested 2007 TSR award.

NOTE 17
COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. We will continue to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including our assessment of the merits of the particular claim, as well as our current reserves and insurance coverage, we do not expect that such legal proceedings will have any material adverse impact on our cash flow, results of operations, or financial condition, unless otherwise noted below.

Asbestos Matters

Background

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

As of March 31, 2011, there were 103,678 open claims against ITT 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:

	2011[(a)]
Pending claims 12/31	103,575
New claims	1,339
Settlements	(475)
Dismissals	(761)
Pending claims 3/31	103,678

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

Frequently, plaintiffs are unable to identify any ITT or Goulds product as a source of asbestos exposure. In addition, in a large majority of the 103,678 pending claims against the Company, the plaintiffs are unable to demonstrate any injury. Many of those claims have been placed on inactive dockets (including 39,680 claims in Mississippi). Our experience to date is that a substantial portion of resolved claims have been dismissed without payment by the Company. As a result, management believes that a large majority of the 103,678 open claims has little or no settlement value.

In the third quarter each year, we conduct a detailed study with the assistance of outside consultants to review and update, as appropriate, the underlying assumptions used to estimate our asbestos liability and related assets. Additionally, we periodically reassess the time horizon over which a reasonable estimate of unasserted claims can be projected. As part of our ongoing review of our net asbestos exposure, each quarter we assess the most recent data available for the key inputs and assumptions, comparing the data to the expectations on which the most recent annual liability and asset estimates were based.

Results of Operations

The table provided below summarizes the net asbestos charge for the quarters ended March 31, 2011 and 2010.

	2011		2010	
	Pre-tax	**After-tax**	Pre-tax	After-tax
Continuing operations	**$ 16**	**$ 10**	$ 15	$ 10
Discontinued operations	**3**	**2**	1	1
Total	**$ 19**	**$ 12**	$ 16	$ 11

Changes in Financial Position

The Company s estimated asbestos exposure, net of expected recoveries from insurers and other responsible parties, for the resolution of all pending and unasserted asbestos claims estimated to be filed in the next 10 years was $653 and $641 as of March 31, 2011 and December 31, 2010, respectively. The following table provides a rollforward of the estimated total asbestos liability and related assets for the quarter ended March 31, 2011.

	Liability	Asset	Net
Balance as of 12/31	$ 1,676	$ 1,035	$ 641
Changes in estimate during the period:			
Continuing operations	21	5	16
Discontinued operations	7	4	3
Net cash activity	(15)	(8)	(7)
Balance as of 3/31	$ 1,689	$ 1,036	$ 653

The total asbestos liability and related assets as of March 31, 2011 and December 31, 2010 include $117 presented within accrued liabilities and $105 presented within other current assets on our Consolidated Condensed Balance Sheets, respectively.

The asbestos liability and related receivables are based upon current, known information. However, future events affecting the key factors and other variables for either the asbestos liability or related receivables could cause the actual costs an