

ITT CORP
Form 10-Q
October 27, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

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

For the transition period from to

Commission file number 1-5672

ITT CORPORATION

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

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

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

Telephone Number: (914) 641-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 October 17, 2008, there were outstanding 181,589,443 shares of common stock (\$1 par value per share) of the registrant.

ITT CORPORATION
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FINANCIAL INFORMATION

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Product sales	\$ 2,249.8	\$ 1,712.2	\$ 6,892.7	\$ 5,067.7
Service revenues	629.5	469.0	1,857.1	1,406.9
Total sales and revenues	2,879.3	2,181.2	8,749.8	6,474.6
Costs of product sales	1,521.9	1,125.7	4,693.1	3,369.6
Costs of service revenues	546.7	414.4	1,618.0	1,237.3
Total costs of sales and revenues	2,068.6	1,540.1	6,311.1	4,606.9
Gross profit	810.7	641.1	2,438.7	1,867.7
Selling, general, and administrative expenses	417.0	327.6	1,283.4	978.5
Research and development expenses	60.7	46.8	172.5	129.9
Restructuring and asset impairment charges, net	5.0	7.2	15.9	31.1
Total costs and expenses	2,551.3	1,921.7	7,782.9	5,746.4
Operating income	328.0	259.5	966.9	728.2
Interest expense	29.3	25.8	101.3	68.7
Interest income	8.3	12.6	24.6	31.0
Miscellaneous expense, net	3.9	4.6	10.6	10.6
Income from continuing operations before income tax expense	303.1	241.7	879.6	679.9
Income tax expense	98.6	73.1	279.9	175.3
Income from continuing operations	204.5	168.6	599.7	504.6
	11.8	61.5	9.5	79.2

Income from discontinued operations, including tax (benefit) expense of \$(2.4), \$1.0, \$(1.2) and \$(7.8), respectively

Net income	\$ 216.3	\$ 230.1	\$ 609.2	\$ 583.8
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Earnings Per Share:

Income from continuing operations:

Basic	\$ 1.13	\$ 0.94	\$ 3.32	\$ 2.79
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Diluted	\$ 1.11	\$ 0.92	\$ 3.26	\$ 2.74
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Discontinued operations:

Basic	\$ 0.07	\$ 0.34	\$ 0.05	\$ 0.44
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Diluted	\$ 0.07	\$ 0.33	\$ 0.05	\$ 0.43
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Net income:

Basic	\$ 1.20	\$ 1.28	\$ 3.37	\$ 3.23
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Diluted	\$ 1.18	\$ 1.25	\$ 3.31	\$ 3.17
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Cash dividends declared per common share	\$ 0.175	\$ 0.14	\$ 0.525	\$ 0.42
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Average common shares basic	180.6	180.2	180.8	180.7
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Average common shares diluted	183.8	183.7	183.8	184.0
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The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above income statements.

Table of Contents**ITT CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS**

(In millions, except share and per share amounts)
(Unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 957.3	\$ 1,840.0
Receivables, net	1,921.2	1,935.0
Inventories, net	881.9	887.6
Deferred income taxes	103.0	105.9
Other current assets	157.4	161.3
Total current assets	4,020.8	4,929.8
Plant, property and equipment, net	971.4	980.3
Deferred income taxes	42.9	29.7
Goodwill	3,872.2	3,829.7
Other intangible assets, net	647.8	733.0
Other assets	1,081.8	1,050.2
Total non-current assets	6,616.1	6,622.9
Total assets	\$ 10,636.9	\$ 11,552.7
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 1,267.3	\$ 1,296.8
Accrued expenses	976.2	958.9
Accrued taxes	76.5	40.9
Short-term debt and current maturities of long-term debt	1,662.3	3,083.0
Pension and postretirement benefits	68.5	68.5
Deferred income taxes	8.0	8.2
Total current liabilities	4,058.8	5,456.3
Pension benefits	383.9	381.4
Postretirement benefits other than pensions	362.6	383.2
Long-term debt	479.1	483.0
Other liabilities	940.2	904.0
Total non-current liabilities	2,165.8	2,151.6
Total liabilities	6,224.6	7,607.9

Shareholders Equity:

Common stock:

Authorized 250,000,000 shares, \$1 par value per share, outstanding
181,562,293 shares and 181,490,121 shares, respectively⁽¹⁾

	180.4	180.7
Retained earnings	4,035.5	3,528.8
Accumulated other comprehensive income:		
Pension and other benefits	(183.9)	(196.4)
Cumulative translation adjustments	379.8	431.0
Other	0.5	0.7
Total accumulated other comprehensive income	196.4	235.3
Total shareholders equity	4,412.3	3,944.8
Total liabilities and shareholders equity	\$ 10,636.9	\$ 11,552.7

⁽¹⁾ Shares outstanding include unvested restricted common stock of 1.2 million and 0.8 million at September 30, 2008 and December 31, 2007, respectively.

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

Table of Contents**ITT CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(In millions)****(Unaudited)**

	Nine Months	
	Ended September 30	
	2008	2007
Operating Activities		
Net income	\$ 609.2	\$ 583.8
Less: Income from discontinued operations	(9.5)	(79.2)
Income from continuing operations	599.7	504.6
Adjustments to reconcile income from continuing operations to net cash from operating activities:		
Depreciation and amortization	215.8	134.7
Stock-based compensation	23.2	26.6
Restructuring and asset impairment charges, net	15.9	31.1
Payments for restructuring	(37.3)	(35.8)
Change in receivables	(16.9)	(116.4)
Change in inventories	1.3	17.7
Change in accounts payable and accrued expenses	57.4	70.2
Change in accrued and deferred taxes	48.3	(62.7)
Change in other current and non-current assets	(36.6)	(84.9)
Change in non-current liabilities	17.7	(1.4)
Other, net	7.5	6.4
Net cash operating activities	896.0	490.1
Investing Activities		
Additions to plant, property, and equipment	(136.6)	(108.2)
Acquisitions, net of cash acquired	(241.0)	(395.7)
Proceeds from sale of assets and businesses	11.5	232.4
Other, net	3.6	1.5
Net cash investing activities	(362.5)	(270.0)
Financing Activities		
Short-term debt, net	(1,254.1)	532.8
Long-term debt repaid	(15.4)	(7.2)
Long-term debt issued	0.5	0.4
Repurchase of common stock	(75.0)	(299.0)
Proceeds from issuance of common stock	31.6	55.2
Dividends paid	(89.1)	(71.3)
Tax benefit from stock option exercises and restricted stock award lapses	5.7	13.0
Other, net	(0.6)	(2.4)

Net cash financing activities	(1,396.4)	221.5
Foreign exchange rate effects on cash and cash equivalents	(12.2)	70.7
Net Cash Discontinued Operations:		
Operating activities	(5.7)	(2.7)
Investing activities	(1.9)	(5.6)
Financing activities		(1.0)
Net change in cash and cash equivalents	(882.7)	503.0
Cash and cash equivalents beginning of period	1,840.0	937.1
Cash and cash equivalents end of period	\$ 957.3	\$ 1,440.1
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	\$ 84.2	\$ 65.2
Income taxes	\$ 244.2	\$ 238.0

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

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

The unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules. Unless the context otherwise indicates, references herein to ITT, the Company, and such words as we, us, and our include ITT Corporation and its subsidiaries. ITT believes the disclosures made are adequate to make the information presented not misleading. ITT consistently applied the accounting policies described in ITT's 2007 Annual Report on Form 10-K in preparing these unaudited financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in ITT's 2007 Annual Report on Form 10-K.

ITT's 2008 and 2007 quarterly financial periods end on the Saturday closest to the last day of the quarter, except for the last quarterly period of the fiscal year, which ends on December 31st. For simplicity of presentation, the quarterly financial statements included herein are presented as ending on the last day of the quarter.

Certain amounts in the prior periods' consolidated condensed financial statements have been reclassified to conform to the current period presentation.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Impact on income before income taxes	\$ (8.5)	\$ (13.5)	\$ (35.3)	\$ (45.1)
Impact on net income available to shareholders	\$ (5.8)	\$ (8.7)	\$ (23.8)	\$ (29.3)
Impact on net income per common share:				
Basic	\$ (0.03)	\$ (0.05)	\$ (0.13)	\$ (0.16)
Diluted	\$ (0.03)	\$ (0.05)	\$ (0.13)	\$ (0.16)

At September 30, 2008, there was \$48.3 and \$20.4 of total unrecognized compensation cost under the ITT 2003 Equity Incentive Plan and the ITT 1997 Long-Term Incentive Plan (the LTIP), respectively, which is expected to be recognized ratably over a weighted-average period of 1.9 years and 1.3 years, respectively.

The total cash paid to settle the LTIP liability for the 2005 and 2004 annual grants during the first nine months of 2008 and 2007 was \$19.3 and \$17.6, respectively.

3) Restructuring and Asset Impairment Charges

2008 Impairment Charges

During the third quarter of 2008, we recognized a \$1.1 impairment charge related to one of our Motion & Flow Control businesses. This charge reflects the reduction of our expected future earnings for this business.

Table of Contents**ITT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**
(In millions, except per share amounts, unless otherwise stated)***2008 Restructuring Activities******Three Months Ended September 30***

During the third quarter of 2008, we recorded a net restructuring charge of \$3.9, reflecting costs of \$1.9 related to new actions and \$2.0 related to prior actions.

Components of Charges

	2008 Actions		Three Months Ended September 30		
	Severance	Other Employee- Related Costs	Total	Planned Position Eliminations	Prior Actions Additional Costs
Fluid Technology	\$ 1.2	\$	\$ 1.2	22	\$ 1.4
Motion & Flow Control	0.5	0.2	0.7	1	0.6
	\$ 1.7	\$ 0.2	\$ 1.9	23	\$ 2.0

The charges associated with actions announced during the third quarter of 2008 represent a reduction of structural costs in the Fluid Technology and Motion & Flow Control business segments. Planned position eliminations total 23, including 21 office workers and two management employees. The costs associated with prior actions reflect severance, lease cancellation and move related costs.

Nine Months Ended September 30

During the nine months ended September 30, 2008, we recorded a net restructuring charge of \$14.8, reflecting costs of \$9.3 related to new actions and \$6.6 related to prior years plans, as well as the reversal of \$1.1 of restructuring accruals that management determined would not be required.

Components of Charges

	2008 Actions		Nine Months Ended September 30		
	Other Employee- Related	Lease Cancellation &	Planned Position	Prior Years Plans Additional	Reversal of

	Severance	Costs	Other Costs	Total	Eliminations	Costs	Accruals
Fluid Technology	\$ 5.4	\$ 0.2	\$ 0.4	\$ 6.0	73	\$ 3.0	\$ (0.6)
Defense Electronics & Services	1.3		0.3	1.6	13	0.1	(0.2)
Motion & Flow Control	0.9	0.2		1.1	11	3.5	(0.3)
Corporate and Other	0.5		0.1	0.6	1		
	\$ 8.1	\$ 0.4	\$ 0.8	\$ 9.3	98	\$ 6.6	\$ (1.1)

The charges associated with actions announced during the first nine months of 2008 primarily represent a reduction of structural costs in all business segments and a site closure within the Motion & Flow Control business segment. Planned position eliminations total 98, including 13 factory workers, 73 office workers and 12 management employees. The costs associated with the prior years' plans primarily reflect severance costs, as well as lease cancellation and move related costs.

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(In millions, except per share amounts, unless otherwise stated)***2007 Restructuring Activities******Three Months Ended September 30***

During the third quarter of 2007, we recorded a net restructuring charge of \$7.2, reflecting costs of \$5.8 related to actions during the quarter and \$1.9 related to prior actions, as well as the reversal of \$0.5 of restructuring accruals that management determined would not be required.

Components of Charges

	2007 Actions		Three Months Ended September 30					Prior Actions	Reversal of
	Other Employee-Related Severance	Costs	Lease Cancellation & Other Costs	Asset Impairments	Total	Planned Position Eliminations	Additional Costs		
Fluid Technology	\$ 4.3	\$ 0.1	\$ 0.1	\$ 0.7	\$ 5.2	47	\$ 1.4	\$	
Defense Electronics & Services	0.1				0.1	4	0.1	(0.3)	
Motion & Flow Control	0.5				0.5	27	0.4	(0.2)	
	\$ 4.9	\$ 0.1	\$ 0.1	\$ 0.7	\$ 5.8	78	\$ 1.9	\$ (0.5)	

The charges associated with actions announced during the third quarter of 2007 represent a reduction of structural costs in all business segments. Planned position eliminations total 78, including 22 factory workers, 49 office workers and seven management employees. The costs associated with the prior actions are largely due to additional severance costs as well as asset impairments.

Nine Months Ended September 30

During the nine months ended September 30, 2007, we recorded a net restructuring charge of \$31.1, reflecting costs of \$26.1 related to actions during the nine months and \$6.7 related to prior years plans, as well as the reversal of \$1.7 of restructuring accruals that management determined would not be required.

*Components of Charges***2007 Actions Nine Months Ended September 30**

	Other					Planned	Prior Years Plans	Reversal of
	Employee- Related Severance	Lease Cancellation & Other Costs	Asset Impairments	Total	Eliminations	Additional Costs	Accruals	
Fluid Technology	\$ 15.6	\$ 0.4	\$ 0.9	\$ 1.3	\$ 18.2	254	\$ 2.9	\$ (0.9)
Defense Electronics & Services	2.4		1.3		3.7	43	2.9	(0.3)
Motion & Flow Control	2.4				2.4	48	0.9	(0.5)
Corporate and Other	1.8				1.8	2		
	\$ 22.2	\$ 0.4	\$ 2.2	\$ 1.3	\$ 26.1	347	\$ 6.7	\$ (1.7)

The charges associated with actions announced during the first nine months of 2007 primarily represent a reduction of structural costs in all business segments and the planned closure of three facilities in the Fluid Technology business segment and one facility in the Defense Electronics & Services business segment. Planned

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

position eliminations total 347, including 172 factory workers, 160 office workers and 15 management employees. The costs associated with the prior years' plans primarily reflect additional costs related to an adjustment to the write-off of leased space as well as asset impairments and severance costs.

The following table displays a rollforward of the restructuring accruals:

	Fluid Technology	Defense Electronics & Services	Motion & Flow Control	Corporate and Other	Total
Balance as of December 31, 2007	\$ 21.0	\$ 7.9	\$ 9.1	\$ 2.0	\$ 40.0
Additional charges for prior year plans	3.0	0.1	3.5		6.6
Cash payments and other related to prior charges	(18.3)	(4.4)	(9.5)	(1.5)	(33.7)
Reversals of prior charges	(0.6)	(0.2)	(0.3)		(1.1)
Charges for 2008 actions	6.0	1.6	1.1	0.6	9.3
Cash payments and other related to 2008 charges	(3.0)	(0.8)	(0.4)	(0.1)	(4.3)
Balance as of September 30, 2008	\$ 8.1	\$ 4.2	\$ 3.5	\$ 1.0	\$ 16.8

The accrual balance at September 30, 2008 of \$16.8 includes \$11.2 for severance and \$5.6 for facility carrying costs and other.

The following is a rollforward of employee positions eliminated associated with restructuring activities through September 30, 2008:

Planned reductions as of December 31, 2007	313
Planned reductions from 2008 actions	98
Actual reductions, January 1 - September 30, 2008	(382)
Planned reductions as of September 30, 2008	29

As of September 30, 2008, of the planned facility closures, one facility in the Defense Electronics & Services business segment remains to be closed. This closure is expected to occur in early 2009.

4) Discontinued Operations

Discontinued operations are comprised of several businesses, the most significant of which are the Switches businesses. Sales and revenues from discontinued operations were \$1.1 and \$23.2 for the quarters ended September 30, 2008 and 2007, respectively. For the first nine months of 2008 and 2007, sales and revenues were \$7.7 and \$174.2, respectively.

During 2007, we sold the majority of the Switches businesses to a private equity firm, for net proceeds of \$223.2, and an after-tax gain of \$84.4 (\$58.7 recognized through September 30, 2007). During the third quarter of 2008, we completed the sale of the remaining component of the Switches businesses to the same buyer, for net proceeds of \$5.1. As a result, we recorded an after-tax gain on sale of \$7.3 and \$5.4 for the quarter and nine months ended September 30, 2008, respectively. The year-to-date gain reflects \$2.9 of expenses (\$1.9 net of tax) incurred during the first six months of 2008, related to the disposition.

The divestiture of the businesses is consistent with our strategy of concentrating resources in core product areas and de-emphasizing products that are determined to be less strategic to future operations.

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

The components of income from discontinued operations were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Income before tax	\$ 3.8	\$ 4.2	\$ 5.6	\$ 20.8
Income tax (benefit) expense on operations	(0.7)	6.4	1.5	0.3
Gain on disposal	5.6	58.3	2.7	50.6
Income tax benefit on disposal	(1.7)	(5.4)	(2.7)	(8.1)
Income from discontinued operations	\$ 11.8	\$ 61.5	\$ 9.5	\$ 79.2

5) Employee Benefit Plans

Components of net periodic pension cost were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Service cost	\$ 24.2	\$ 25.0	\$ 72.6	\$ 75.0
Interest cost	81.7	74.2	245.0	222.5
Expected return on plan assets	(110.3)	(99.3)	(331.0)	(298.0)
Amortization of prior service cost	0.8	0.7	2.4	2.0
Amortization of actuarial loss	3.8	16.3	11.3	49.0
Net periodic pension cost	\$ 0.2	\$ 16.9	\$ 0.3	\$ 50.5

Net periodic pension cost decreased in the first nine months of 2008, compared with the same prior year period, as a result of the higher discount rate adopted at year-end 2007 leading to a lower amortization of actuarial losses, and higher expected returns on plan assets due to increased asset levels. The decrease was partially offset by an increase in interest costs and amortization of prior service cost. Based on the facts and circumstances described below the decrease in net periodic pension cost will be partially offset by reduced recoveries of costs under our U.S. Government contracts.

The Defense Electronics & Services business segment represents approximately 67% of the active U.S. Salaried Plan participants. As a result, we have sought and will seek reimbursement from the Department of Defense for a portion of our pension costs, in accordance with government regulations. U.S. Government Cost Accounting Standards govern

the extent to which pension costs are allocable to and recoverable under contracts with the U.S. Government.

ITT contributed \$21.6 to its various plans during the first nine months of 2008. We expect to make additional contributions, in the range of \$3.4 to \$8.4, during the fourth quarter of 2008.

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

Components of net periodic postretirement cost were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Service cost	\$ 2.1	\$ 2.0	\$ 6.3	\$ 6.0
Interest cost	10.7	10.5	32.1	31.4
Expected return on plan assets	(6.9)	(6.2)	(20.7)	(18.8)
Amortization of prior service benefit	0.9	0.6	2.7	1.8
Amortization of actuarial loss	1.1	1.3	3.4	3.8
Net periodic postretirement cost	\$ 7.9	\$ 8.2	\$ 23.8	\$ 24.2

Net periodic postretirement cost decreased in the first nine months of 2008, compared with the prior year period, primarily as a result of the higher expected returns on plan assets due to increased asset levels, partially offset by higher amortization of prior service benefits.

6) Comprehensive Income

	Pretax (Expense) Income	Tax Benefit (Expense)	Net-of-Tax Amount
Three Months Ended September 30, 2008			
Net income			\$ 216.3
Other comprehensive loss:			
Foreign currency translation adjustments	\$ (144.4)	\$	(144.4)
Other	(0.3)	0.1	(0.2)
Pension and postretirement classification adjustments included in net periodic benefit cost:			
Amortization of actuarial loss	4.9	(2.0)	2.9
Amortization of prior service cost	1.7	(0.4)	1.3
Other comprehensive loss	\$ (138.1)	\$ (2.3)	(140.4)
Comprehensive income			\$ 75.9

	Pretax Income	Tax Expense	Net-of-Tax Amount
Three Months Ended September 30, 2007			
Net income			\$ 230.1
Other comprehensive income:			
Foreign currency translation adjustments	\$ 170.2	\$	170.2
Pension and postretirement classification adjustments included in net periodic benefit cost:			
Amortization of actuarial loss	17.6	(6.2)	11.4
Amortization of prior service cost	1.3	(0.4)	0.9
Other comprehensive income	\$ 189.1	\$ (6.6)	182.5
Comprehensive income			\$ 412.6

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

	Pretax (Expense) Income	Tax Benefit (Expense)	Net-of-Tax Amount
Nine Months Ended September 30, 2008			
Net income			\$ 609.2
Other comprehensive loss:			
Foreign currency translation adjustments	\$ (51.2)	\$	(51.2)
Other	(0.3)	0.1	(0.2)
Pension and postretirement classification adjustments included in net periodic benefit cost:			
Amortization of actuarial loss	14.7	(6.1)	8.6
Amortization of prior service cost	5.1	(1.2)	3.9
Other comprehensive loss	\$ (31.7)	\$ (7.2)	(38.9)
Comprehensive income			\$ 570.3
Disclosure of 2008 foreign currency translation reclassification:			
Foreign currency translation adjustments			\$ (44.7)
Add: Reclassification adjustment for gains included in net income			(6.5)
Net foreign currency translation adjustments			\$ (51.2)
	Pretax Income	Tax Expense	Net-of-Tax Amount
Nine Months Ended September 30, 2007			
Net income			\$ 583.8
Other comprehensive income:			
Foreign currency translation adjustments	\$ 197.8	\$	197.8
Pension and postretirement classification adjustments included in net periodic benefit cost:			
Amortization of actuarial loss	52.8	(18.4)	34.4
Amortization of prior service cost	3.8	(1.3)	2.5
Other comprehensive income	\$ 254.4	\$ (19.7)	234.7
Comprehensive income			\$ 818.5

Disclosure of 2007 foreign currency translation reclassification:

Foreign currency translation adjustments	\$	157.4
Add: Reclassification adjustment for losses included in net income		40.4

Net foreign currency translation adjustments	\$	197.8
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(In millions, except per share amounts, unless otherwise stated)**7) Earnings Per Share**

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Basic earnings per share:				
Income from continuing operations available to common shareholders	\$ 204.5	\$ 168.6	\$ 599.7	\$ 504.6
Average common shares outstanding	180.6	180.2	180.8	180.7
Basic earnings per share	\$ 1.13	\$ 0.94	\$ 3.32	\$ 2.79
Diluted earnings per share:				
Income from continuing operations available to common shareholders	\$ 204.5	\$ 168.6	\$ 599.7	\$ 504.6
Average common shares outstanding	180.6	180.2	180.8	180.7
Add: Impact of stock options and restricted stock	3.2	3.5	3.0	3.3
Average common shares outstanding on a diluted basis	183.8	183.7	183.8	184.0
Diluted earnings per share	\$ 1.11	\$ 0.92	\$ 3.26	\$ 2.74

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Stock options	0.6	0.4	0.8	0.6
Average exercise price	\$ 55.14	\$ 58.40	\$ 55.79	\$ 50.25

8) Receivables, Net

	September 30,	December 31,
	2008	2007
Trade	\$ 1,865.3	\$ 1,843.3

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Other	92.2	127.9
Less: Allowance for doubtful accounts and cash discounts	(36.3)	(36.2)
	\$ 1,921.2	\$ 1,935.0

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(In millions, except per share amounts, unless otherwise stated)**9) Inventories, Net**

	September 30, 2008	December 31, 2007
Finished goods	\$ 219.3	\$ 209.4
Work in process	355.4	304.0
Raw materials	413.3	470.8
Less: Progress payments	(106.1)	(96.6)
	\$ 881.9	\$ 887.6

10) Plant, Property and Equipment, Net

	September 30, 2008	December 31, 2007
Land and improvements	\$ 61.5	\$ 58.7
Buildings and improvements	584.5	573.3
Machinery and equipment	1,654.2	1,598.8
Furniture, fixtures and office equipment	233.3	232.6
Construction work in progress	91.6	93.3
Other	85.9	76.5
	2,711.0	2,633.2
Less: Accumulated depreciation and amortization	(1,739.6)	(1,652.9)
	\$ 971.4	\$ 980.3

11) Goodwill and Other Intangible Assets

The application of purchase accounting under SFAS No. 141, *Business Combinations* (SFAS 141), requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair value at the acquisition date, with amounts exceeding the net fair value being recorded as goodwill. The allocation process requires an analysis of items such as acquired contracts, customer relationships, fixed assets, contractual commitments, legal contingencies, and brand value to identify and record the fair value of all assets and liabilities assumed. In valuing acquired assets and liabilities, fair values are based on, but not limited to, future expected discounted cash flows, comparable market rates, replacement costs, expected settlement amounts, and discount and growth rates.

On December 20, 2007, ITT acquired all of the outstanding shares of EDO Corporation (EDO), a global aerospace and defense company. As a result, we assigned preliminary fair value amounts to the tangible and intangible assets acquired and liabilities assumed. We have obtained additional information during the current year, which has resulted in adjustments to the preliminary purchase price allocation. These adjustments are reflected in the tables below within the Defense Electronics & Services business segment. As of September 30, 2008, our analysis was substantially complete, with the exception the fair value of long-term contracts acquired and the valuation of customer relationships, which are expected to be finalized during the fourth quarter of 2008.

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Changes in the carrying amount of goodwill for the nine months ended September 30, 2008 by business segment are as follows:

	Fluid Technology	Defense Electronics & Services	Motion & Flow Control	Corporate and Other	Total
Balance as of January 1, 2008	\$ 1,167.4	\$ 2,176.8	\$ 480.5	\$ 5.0	\$ 3,829.7
Goodwill acquired during the period	6.8		16.2		23.0
Adjustments to purchase price allocations	0.2	31.1	2.6		33.9
Other net, including foreign currency translation	(12.0)		(2.4)		(14.4)
Balance as of September 30, 2008	\$ 1,162.4	\$ 2,207.9	\$ 496.9	\$ 5.0	\$ 3,872.2

Information regarding other intangible assets are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
2008			
Finite-lived intangibles:			
Customer relationships	\$ 653.3	\$ (131.4)	\$ 521.9
Proprietary technology	68.1	(18.9)	49.2
Trademarks	29.3	(4.4)	24.9
Patents and other	55.9	(25.1)	30.8
Indefinite-lived intangibles:			
Brands and trademarks	21.0		21.0
Balance as of September 30, 2008	\$ 827.6	\$ (179.8)	\$ 647.8
2007			
Finite-lived intangibles:			
Customer relationships	\$ 672.9	\$ (62.1)	\$ 610.8
Proprietary technology	63.2	(15.5)	47.7
Trademarks	28.3	(2.3)	26.0
Patents and other	53.2	(22.2)	31.0

Indefinite-lived intangibles:

Brands and trademarks	17.5			17.5
Balance as of December 31, 2007	\$ 835.1	\$ (102.1)	\$	733.0

Amortization expense related to intangible assets for the nine month periods ending September 30, 2008 and 2007 was \$79.6 and \$20.3, respectively.

Estimated annual amortization expense for each of the five succeeding years is as follows:

2009	2010	2011	2012	2013
\$92.3	\$93.6	\$66.5	\$54.7	\$48.5

Customer relationships, proprietary technology, trademarks, and patents and other are amortized over weighted average lives of approximately 14 years, 13 years, 18 years, and 18 years, respectively.

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(In millions, except per share amounts, unless otherwise stated)**12) Other Assets**

	September 30, 2008	December 31, 2007
Pension assets and prepaid benefit plan costs	\$ 708.3	\$ 675.6
Insurance receivables	196.7	182.0
Other long-term third party receivables, net	48.1	54.3
Other employee benefit-related assets	49.4	51.3
Capitalized software costs	28.3	27.0
Investments in unconsolidated companies	7.6	9.3
Environmental and employee benefit trusts	2.1	8.7
Other	41.3	42.0
	\$ 1,081.8	\$ 1,050.2

13) Other Liabilities

	September 30, 2008	December 31, 2007
Deferred income taxes and other tax-related accruals	\$ 312.4	\$ 310.1
Product liability, guarantees and other legal matters	257.4	237.6
Compensation and other employee-related benefits	147.2	139.5
Environmental	127.9	110.2
Other	95.3	106.6
	\$ 940.2	\$ 904.0

14) Uncertain Tax Positions

In accordance with the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, (FIN 48) we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We adopted the provisions set forth by FIN 48 effective January 1, 2007.

As of September 30, 2008 and December 31, 2007, we have \$109.0 and \$103.3, respectively, of total unrecognized tax benefits. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$48.2

and \$42.8, as of September 30, 2008 and December 31, 2007, respectively. We do not believe that the total amount of unrecognized tax benefits will significantly change within 12 months of the reporting date.

We classify interest relating to tax matters as a component of interest expense and tax penalties as a component of income tax expense in our income statement. We have accrued \$39.5 and \$36.2 for payment of interest and penalties as of September 30, 2008 and December 31, 2007, respectively.

15) Commitments and Contingencies

The Company is from time to time involved in legal proceedings that are incidental to the operation of its businesses. Some of these proceedings allege damages against the Company relating to environmental liabilities, product liabilities (including asbestos), employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. The Company will continue to

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defend itself vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including the Company's assessment of the merits of the particular claim, as well as its current reserves and insurance coverage, the Company does not expect that such legal proceedings will have a material adverse impact on the financial position, results of operations, or cash flows of the Company on a consolidated basis.

See Critical Accounting Estimates within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the 2007 Annual Report on Form 10-K for a discussion of contingent liabilities, including the related estimates, assumptions, uncertainties, and potential financial statement impact from revisions to our estimates.

Environmental

Accruals for environmental matters are recorded on a site by site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. The Company's environmental liability includes matters associated with properties containing disposed or recycled materials or wastes generated by current or former properties of ITT, and nearby properties impacted by those operations. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of necessary remediation and the Company's share, if any, of liability for such conditions, the selection of alternative remedies, and changes in clean-up standards. In management's opinion, the total amount accrued is appropriate based on existing facts and circumstances. Management does not anticipate that these liabilities will have a material adverse effect on the consolidated financial position, results of operations or cash flows.

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. The Company has received notice that it is considered a potentially responsible party (PRP) at a limited number of sites by the United States Environmental Protection Agency (EPA) and/or a similar state agency under the Comprehensive Environmental Response, Compensation and Liability Act or its state equivalent. As of September 30, 2008, the Company is responsible, or is alleged to be responsible, for approximately 101 ongoing environmental investigation and remediation sites in various countries. These sites are in various stages of investigation and/or remediation and in many of these proceedings the Company's liability is considered de minimis. At September 30, 2008, the Company's best estimate for environmental liabilities is \$141.4, which approximates the accrual related to the investigation and remediation of ground water, soil, and soil vapor, as well as related legal fees. This also includes the Company's estimated accrual for environmental liabilities associated with its former automotive business. The low range estimate for its environmental liabilities is \$110.3 and the high range estimate for those liabilities is \$242.5. On an annual basis, the Company spends between \$8.0 and \$12.0 on its environmental remediation liabilities. These estimates, and related accruals, are reviewed periodically and updated for progress of investigation and remediation efforts and changes in facts and legal circumstances. Liabilities for environmental expenditures are recorded on an undiscounted basis.

The Company is involved in an environmental proceeding in Glendale, California relating to the San Fernando Valley. The Company is one of numerous PRPs who are alleged by the EPA to have contributed to impacts to ground water. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California

against the Company and Lockheed Martin Corporation, *United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AJJX*, to recover costs it incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including the Company and Lockheed Martin, reached a settlement, embodied in a consent decree, requiring the PRPs to perform additional remedial activities. Pursuant to the settlement, the PRPs, including the Company, have constructed and are funding operation of a water treatment plant. The operation of the

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water treatment plant is expected to continue until 2013, at which time a separate allocation for continued operation of the plant is expected. ITT and the other PRPs continue to pay their respective allocated costs of the operation of the water treatment plant. In 2007, one PRP defaulted on its percentage share of costs, and the PRP Group is pursuing a remedy of the default; however, this default has increased ITT's allocated share of the liability. Additionally, a regulatory modification to the discharge standard for hexavalent chromium under the National Pollution Discharge Elimination System occurred in 2007, and the impact of this change has resulted in additional costs for potential modifications to the water treatment plant. As of September 30, 2008, the Company's accrual for its share of the operation costs of the water treatment plant through 2013 was \$7.8 representing its best estimate; its low estimate for the liability is \$3.8 and its high estimate is \$12.9. In addition to operation of the water treatment plant, state and federal regulators also have issued administrative orders regarding investigation and potential remediation of chromium and 1,4-Dioxane in ground water under the Company's former facility. Those administrative orders are separately estimated and reserved by the Company.

Prior to the 1995 Distribution Agreement (See Company History and Certain Relationships within Part I, Item 1 of the 2007 Annual Report on Form 10-K for a description of the Distribution Agreement), the predecessor ITT Corporation operated a facility in Madison County, Florida from 1968 until 1991. In 1995, elevated levels of contaminants were detected at the former manufacturing site. Since then, ITT has completed the investigation of the site in coordination with state and federal environmental authorities and evaluated various remedies. A final remedy for the site was selected by USEPA in a Record of Decision dated September 25, 2008. Currently, the estimated range for the remediation is between \$3.8 and \$16.8. The Company has accrued \$6.4 for this matter, which approximates its best estimate.

The Company is involved with a number of PRPs regarding property in the City of Bronson, Michigan, operated by a former subsidiary of the predecessor ITT Corporation, Higbie Manufacturing, prior to the time ITT acquired Higbie. The Company and other PRPs are investigating and remediating permitted discharges of industrial waste, which occurred as early as the 1930s. The Company's current estimates for its exposure are between \$6.9 and \$15.6, and it has an accrual for this matter of \$11.0, which represents its best estimate. The Company does not anticipate a default on the part of the other PRPs. ITT is pursuing legal claims against some other potentially responsible parties for past and future costs while ITT has received notice of potential claims from third parties.

The Company operated a facility in Rochester, New York, called Rochester Form Machine from 1979 until 2003. Rochester Form Machine was a former subsidiary of the predecessor ITT Corporation known as ITT Higbie after ITT acquired Higbie in 1972. In August 2003, the Company, through its subsidiary ITT Fluid Handling Systems, entered into an Order on Consent with the New York State Department of Environmental Conservation to investigate and remediate facility-related impacts to soil, soil vapor, indoor air and ground water. As of September 30, 2008, the Company's current estimate for this exposure is between \$4.4 and \$17.0 and it has an accrual for this matter of \$7.0, which represents the best estimate. The Company is pursuing a legal claim against certain other PRPs who may share responsibility.

In a suit filed in 1991 by the Company, in the California Superior Court, Los Angeles County, *ITT Corporation, et al. v. Pacific Indemnity Corporation et al.*, against its insurers, the Company is seeking recovery of costs it incurred in connection with its environmental liabilities including the matters listed above. Discovery, procedural matters, changes in California law, and various appeals have prolonged this case. For several years, the case had been on

appeal before the California Court of Appeals from a decision by the California Superior Court dismissing certain claims of the Company. The dismissed claims were claims where the costs incurred were solely due to administrative (versus judicial) actions. However, in April 2007, the Superior Court vacated its earlier ruling, dismissing the claims based on the California Supreme Court's decision in *Powerine Oil Co. v. Superior Court*. As a result, the Court of Appeals dismissed the appeal as moot. The case is now back before the Superior Court and the parties are engaged in further discovery. During the course of the litigation, the Company has negotiated settlements

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with certain defendant insurance companies and is prepared to pursue its legal remedies where reasonable negotiations are not productive.

Product Liability and Other Matters

The Company, including its subsidiary Goulds Pumps, Inc. (Goulds), has been joined as a defendant with numerous other industrial companies in product liability lawsuits alleging injury due to asbestos. These claims stem primarily from products sold prior to 1985 that contained a part manufactured by a third party, e.g., a gasket, which allegedly contained asbestos. The asbestos 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 September 30, 2008, there were approximately 104,000 open claims against the Company, essentially unchanged from December 31, 2007. Frequently, the plaintiffs are unable to demonstrate any injury or do not identify any ITT or Goulds product as a source of asbestos exposure. During the first nine months of 2008, the Company resolved approximately 4,500 claims. Most of these claims were dismissed, with settlement on a modest percentage of claims. The average amount of settlement per claim has been nominal and substantially all defense and settlement costs have been covered by insurance. Although it is impossible to predict the ultimate outcome of these product liability suits, based on current information, the Company's experience in handling these matters, and its substantial insurance program, management does not believe that these claims will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company's estimated accrued costs, net of expected insurance recoveries, for the resolution of all of these pending claims were \$26.8 and \$24.8 as of September 30, 2008 and December 31, 2007, respectively. While it is probable that the Company will incur additional costs for claims to be filed in the future, these additional costs are not reasonably estimable at this time.

The Company is involved in two actions, *Cannon Electric, Inc. et al. v. Ace Property & Casualty Company (ACE) et al. Superior Court, County of Los Angeles, CA, Case No. BC 290354*, and *Pacific Employers Insurance Company et al., v. ITT Industries, Inc., et al., Supreme Court, County of New York, N.Y., Case No. 03600463*. The parties in both cases are seeking an appropriate allocation of responsibility for the Company's historic asbestos liability exposure among its insurers. The California action is filed in the same venue where the Company's environmental insurance recovery litigation had been pending since 1991. The New York action has been stayed in favor of the California suit. ITT, ACE and Nationwide Indemnity have successfully resolved the matter and the Company is working with other parties in the suit to resolve the matter as to those insurers.

In addition, Goulds has negotiated coverage-in-place agreements with Utica National (Utica) and ACE allocating the Goulds' asbestos liabilities between insurance policies issued by Utica, ACE and those issued by others. The terms of the settlements provide Goulds with substantial coverage from those two insurers for asbestos liabilities. Goulds will continue to seek coverage from its other insurers for these liabilities.

The Company provides an indemnity to U.S. Silica Company for silica personal injury suits filed prior to September 12, 2005 against its former subsidiary Pennsylvania Glass Sand. ITT sold the stock of Pennsylvania Glass

Sand to U.S. Silica Company in 1985. The Company's indemnity had been paid in part by its historic product liability carrier, however, in September 2005, the carrier communicated to ITT that it would no longer provide insurance for these claims. On October 4, 2005, ITT filed a suit against the insurer, *ITT v. Pacific Employers Insurance Co., CA No. 05CV 5223*, seeking its defense costs and indemnity from the insurance carrier for Pennsylvania Glass Sand product liabilities. In April 2007, the Court granted the Company's motion for summary judgment on the carrier's duty to defend the silica cases; however, that decision was overturned on appeal. The matter was returned to the Superior Court in part for determination of several factual issues. The Company will continue to seek its past and future defense costs for these cases from this carrier. Management believes that these

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matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. All silica related costs, net of insurance recoveries, are shared pursuant to the Distribution Agreement. See **BUSINESS** Company History and Certain Relationships of the Company's 2007 Annual Report on Form 10-K for a description of the Distribution Agreement.

On October 25, 2006, The Hartford and Fencourt Reinsurance Company (Fencourt), a subsidiary of The Hartford, filed a contribution claim against ITT for losses incurred by Fencourt as a result of a reinsurance contract obligation it owes to Century Indemnity Company (a subsidiary of ACE). Century Indemnity Company was an insurer of ITT's Domestic Casualty Program from 1978 through 1992. Fencourt, formed in 1978, was a captive insurer of the predecessor ITT Corporation and provided reinsurance to Century for certain ITT self-insured losses. Fencourt was transferred to The Hartford in the demerger of ITT in 1995. This matter is covered by the 1995 Distribution Agreement (See **BUSINESS** Company History and Certain Relationships of the Company's 2007 Annual Report on Form 10-K for a description of the Distribution Agreement) and that agreement contains clear language that The Hartford agreed to assume the liabilities of Fencourt and indemnify ITT against all claims against Fencourt. The case is stayed pending the resolution of an arbitration proceeding currently pending in New Jersey. The Company believes that this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

In December 2005, the Company received an anonymous complaint regarding the possible payment of commissions to foreign government officials by employees of its Nanjing Goulds Pumps company, in Nanjing, China. Such commission payments may violate the Foreign Corrupt Practices Act. The Company is conducting an investigation utilizing internal and external resources and voluntarily disclosed the preliminary results of the investigation to the United States Department of Justice and the SEC. At the conclusion of the investigation, the U.S. government could impose a civil penalty or a criminal fine and/or order that the Company disgorge any profits derived from contracts where inappropriate commissions were paid. The Company does not expect that this matter will have a material adverse impact on the financial position, results of operations or cash flows of the Company on a consolidated basis.

On March 27, 2007, the Company reached a settlement relating to an investigation of its ITT Night Vision Division's compliance with the International Traffic in Arms Regulations (ITAR) pursuant to which the Company pled guilty to two violations based on the export of defense articles without a license and the omission of material facts in required export reports. The Company was assessed a total of \$50.0 in fines, forfeitures and penalties, which was accrued for fully as of December 31, 2006. Of the total, \$30.0 was paid in 2007 with the remaining balance to be paid by the end of 2011, including \$4.0 which was paid in the first quarter of 2008. ITT also entered into a Deferred Prosecution Agreement with the U.S. government which deferred action regarding a third count of violations related to ITAR pending the Company's implementation of a remedial action plan, including the appointment of an independent monitor. The Company was assessed a deferred prosecution monetary penalty of \$50.0 which the Company will reduce for monies spent by the Company, over the five years following the date of the Plea Agreement, to accelerate and further the development and fielding of advanced night vision technology. On October 11, 2007, the Company and the Department of Defense finalized an Administrative Compliance Agreement wherein the Company agreed to take certain remedial actions including implementing compliance programs and appointing an independent monitor for the oversight of the Company's compliance programs. On December 28, 2007, the Company finalized a Consent Agreement with the Department of State wherein the Company agreed to undertake certain remedial actions, including appointment of a Special Compliance Official. Management believes that these matters will not have a

material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On April 17, 2007, the Company's Board of Directors received a letter on behalf of a shareholder requesting that the Board take appropriate action against the employees responsible for the actions described in the Company's agreements with the United States Attorney's Office for the Western District of Virginia, which were disclosed on

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Form 8-K filed on March 30, 2007. The Board of Directors appointed a Special Litigation Committee to evaluate the request. The Special Litigation Committee conducted an investigation with the assistance of independent counsel and concluded that no legal actions should be brought by the Company.

On April 20, 2007, the Company received notice of a shareholder derivative action, *Sylvia Piven trustee under trust agreement dated April 3, 1973 f/b/o Sylvia B. Piven, derivatively on behalf of ITT Corporation v. Steve Loranger et al. and ITT Corporation*, U.S. District Court for the Southern District of New York, CA No. 07-CV-2878 (the *Piven* action), alleging that the Company's Board of Directors breached their fiduciary duties in connection with the Company's compliance programs at its Night Vision business. The *Piven* Complaint seeks compensatory and punitive damages for the Company from its Directors, the removal of the Directors, and the election of new directors. On July 12, 2007, the Company received notice of a second shareholder derivative action, *Norman Levy, derivatively on behalf of ITT Industries, Inc. v. Steven R. Loranger et al. and ITT Industries, Inc.*, U.S. District Court for the Southern District of New York, CA No. 07-CV-6339 (the *Levy* action). The *Levy* Complaint asserts similar claims as the *Piven* Complaint and seeks compensatory damages for the Company from its Directors. On August 20, 2007, the Company received notice of a third derivative action, *Anthony Reale v. Steven R. Loranger et al. and ITT Company [sic]*, U.S. District Court for the Southern District of New York, CA No. 07-CV-6339 (the *Reale* action). The *Reale* action also names as John Doe defendants the individual managers allegedly responsible for the actions that gave rise to the Night Vision guilty plea, as well as the law firm that advised the Company in connection with a voluntary disclosure of violations. All three actions are consolidated before the U.S. District Court for the Southern District of New York, *In Re ITT Corporation Derivative Litigation*, CA No. 07-CV-2878 (CLB). On April 10, 2008, the Court denied the Company's motion to dismiss the consolidated Complaint. The Company has filed a Motion for Reconsideration and the Defendants have filed a Motion to Dismiss on jurisdictional grounds. Both motions are currently pending before the Court.

On July 14, 2008, the Company received notice that a fourth derivative action was filed in the same court where the above matters are currently pending, *Robert Wilkinson v. Steven R. Loranger et al. and ITT Corporation*, U.S. District Court for the Southern District of New York, CA No. 08-CV-6318 (the *Wilkinson* action). The *Wilkinson* action names the same defendants as the above complaints and asserts similar claims and the Company expects that this action will be consolidated with the above cases. Management believes that these derivative suits will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

16) Guarantees, Indemnities and Warranties

Guarantees & Indemnities

Since ITT's incorporation in 1920, we have acquired and disposed of numerous entities. The related acquisition and disposition agreements contain various representation and warranty clauses and may provide indemnities for a misrepresentation or breach of the representations and warranties by either party. The indemnities address a variety of subjects; the term and monetary amounts of each such indemnity are defined in the specific agreements and may be affected by various conditions and external factors. Many of the indemnities have expired either by operation of law or as a result of the terms of the agreement. We do not have a liability recorded for the historic indemnifications and are not aware of any claims or other information that would give rise to material payments under such indemnities.

In December of 2007, we entered into a sales-type lease agreement for our corporate aircraft and then leased the aircraft back under a five-year operating lease. We have provided, under the lease, a residual value guarantee to the counterparty in the amount of \$50.2, which is the maximum amount of undiscounted future payments. We would have to make payments under the residual value guarantee only if the fair value of the aircraft was less than the residual value guarantee upon termination of the agreement. At September 30, 2008, we do not believe that a loss contingency is probable and therefore do not have an accrual recorded in our financial statements.

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ITT has a number of individually immaterial guarantees outstanding at September 30, 2008, that may be affected by various conditions and external forces, some of which could require that payments be made under such guarantees. We do not believe these payments will have any material adverse impact on the financial position, results of operations or cash flow on a consolidated basis in the foreseeable future.

Product Warranties:

ITT warrants numerous products, the terms of which vary widely. In general, ITT warrants its products against defect and specific non-performance. In the automotive businesses, liability for product defects could extend beyond the selling price of the product and could be significant if the defect shuts down production or results in a recall. Changes in product warranty accruals for September 30, 2008 and 2007 were as follows:

	2008	2007
Balance as of January 1	\$ 52.1	\$ 46.8
Accruals for product warranties issued in the period	23.5	16.4
Changes in pre-existing warranties, including changes in estimates	1.0	(2.8)
Payments	(22.0)	(16.3)
Balance as of September 30	\$ 54.6	\$ 44.1

18) Business Segment Information

	Three Months Ended September 30, 2008					
	Fluid Technology	Defense Electronics & Services	Motion & Flow Control	Corporate and Other	Eliminations	Total
Product sales	\$ 911.5	\$ 948.3	\$ 393.3	\$	\$ (3.3)	\$ 2,249.8
Service revenues	37.8	591.2	0.5			629.5
Total sales and revenues	\$ 949.3	\$ 1,539.5	\$ 393.8	\$	\$ (3.3)	\$ 2,879.3
Operating income (expense)	\$ 132.2	\$ 187.8	\$ 55.9	\$ (47.9)	\$	\$ 328.0
Operating margin	13.9%	12.2%	14.2%			11.4%
Total assets	\$ 3,055.0	\$ 4,334.4	\$ 1,440.2	\$ 1,807.3	\$	\$ 10,636.9

Three Months Ended September 30, 2007

	Fluid Technology	Defense Electronics & Services	Motion & Flow Control	Corporate and Other	Eliminations	Total
Product sales	\$ 819.3	\$ 581.6	\$ 314.6	\$	\$ (3.3)	\$ 1,712.2
Service revenues	39.1	429.9				469.0
Total sales and revenues	\$ 858.4	\$ 1,011.5	\$ 314.6		\$ (3.3)	\$ 2,181.2
Operating income (expense)	\$ 110.7	\$ 137.1	\$ 44.4	\$ (32.7)	\$	\$ 259.5
Operating margin	12.9%	13.6%	14.1%			11.9%
Total assets ⁽¹⁾	\$ 3,106.4	\$ 4,466.2	\$ 1,364.5	\$ 2,615.6	\$	\$ 11,552.7

⁽¹⁾ As of December 31, 2007.

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ITT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(In millions, except per share amounts, unless otherwise stated)

	Nine Months Ended September 30, 2008					
	Fluid	Defense	Motion &	Corporate		
	Technology	& Electronics & Services	Flow Control	and Other	Eliminations	Total
Product sales	\$ 2,744.5	\$ 2,902.2	\$ 1,255.6	\$	\$ (9.6)	\$ 6,892.7
Service revenues	111.8	1,744.1	1.2			1,857.1
Total sales and revenues	\$ 2,856.3	\$ 4,646.3	\$ 1,256.8	\$	\$ (9.6)	\$ 8,749.8
Operating income (expense)	\$ 373.0	\$ 539.5	\$ 195.3	\$ (140.9)	\$	\$ 966.9
Operating margin	13.1%	11.6%	15.5%			11.1%
Total assets	\$ 3,055.0	\$ 4,334.4	\$ 1,440.2	\$ 1,807.3	\$	\$ 10,636.9

	Nine Months Ended September 30, 2007					
	Fluid	Defense	Motion &	Corporate		
	Technology	& Electronics & Services	Flow Control	and Other	Eliminations	Total
Product sales	\$ 2,416.3	\$ 1,699.0	\$ 962.3	\$	\$ (9.9)	\$ 5,067.7
Service revenues	107.6	1,299.3				1,406.9
Total sales and revenues	\$ 2,523.9	\$ 2,998.3	\$ 962.3	\$	\$ (9.9)	\$ 6,474.6
Operating income (expense)	\$ 307.3	\$ 377.3	\$ 149.4	\$ (105.8)	\$	\$ 728.2
Operating margin	12.2%	12.6%	15.5%			11.2%
Total assets ⁽¹⁾	\$ 3,106.4	\$ 4,466.2	\$ 1,364.5	\$ 2,615.6	\$	\$ 11,552.7

⁽¹⁾ As of December 31, 2007.

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Item 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(In millions, except per share amounts, unless otherwise stated)**

Business Overview

ITT Corporation and its subsidiaries (ITT , we , us , our and the Company) is a global multi-industry company with worldwide operations engaged directly and through its subsidiaries in the design and manufacture of a wide range of engineered products and the provision of related services.

We have a diverse business portfolio, which we believe is designed to respond to the following macro-economic growth drivers: global security and infrastructure demands, population growth, and environment trends. Although our business is affected by global, regional and industry-specific economic factors, our geographic and industry diversity, as well as the diversity of our product sales and services, has helped limit the impact of any one industry, or the economy of any single country, on the consolidated operating results. While we do have some businesses that are linked to long- and short-cycle economies such as construction, defense, mining and minerals, transportation, automotive, and aerospace as industries, a disproportionate amount of our portfolio is responsive to large-scale drivers that are less sensitive to economic cycles. Furthermore, we drive our business to have the right mix of products and services by seeking a good combination of original equipment manufacturer (OEM) and after-market participation, a balance between products and services, and a proper global distribution.

Our growth strategy is centered on both organic and acquisition growth. Our ability to grow organically stems from our value-based product development process, new and existing technologies, distribution capabilities, customer relationships and strong market positions. In addition to our growth initiatives, we have a number of strategic initiatives within the framework of the ITT Management System aimed at enhancing our operational performance. These include global sourcing, footprint rationalization and realignment, Six Sigma and lean fulfillment.

Our three principal business segments are Fluid Technology, Defense Electronics & Services, and Motion & Flow Control.

2008 Outlook

We believe that some markets we serve are slowing as a result of the unprecedented credit crisis and projected softening of the global economic environment. In response to anticipated market conditions, we expect to accelerate restructuring activities across our businesses during the fourth quarter. These actions will reduce capacity and costs, optimize our manufacturing footprint and simplify our infrastructure.

Despite these actions, we will remain focused on our strategic long-term growth initiatives, and deployment of operational processes, which contribute to our continuous improvement.

Overall, we expect 2008 revenues to increase to between \$11.5 billion and \$11.6 billion. Revenues in the Defense Electronics & Services business segment are expected to grow between \$6.1 billion and \$6.2 billion led by continued growth in the Advanced Engineering & Sciences and Systems divisions and the integration of the newly acquired EDO Corporation (EDO). The Fluid Technology business segment expects to grow revenues between \$3.7 billion and \$3.8 billion due to growth in the Water & Wastewater and Industrial Process businesses. In the Motion & Flow

Control business segment, revenues of approximately \$1.6 billion are expected, with growth largely attributable to the integration of International Motion Control, Inc. (IMC) into the segment.

Summarized below is information on each of the three business segments, including markets served, goods and services provided, relevant factors that could impact results, business challenges, areas of focus and selected financial data.

Fluid Technology

Fluid Technology is a leading global provider of fluid systems and solutions, including the design, development, production, sale and after-sale support of a broad range of pumps, mixers, controls and treatment systems

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for residential, municipal, commercial, industrial, and agricultural and turf applications. The following provides a summary of the Fluid Technology businesses and the goods and services each provides to its respective end-markets:

<i>Water & Wastewater</i>	Submersible pump systems for water and wastewater control, and biological filtration and disinfection treatment systems for municipal, industrial and commercial applications
<i>Residential & Commercial Water</i>	Pumps, systems and accessories for water wells, pressure boosters, agricultural and irrigation applications, heating, ventilation and air conditioning systems, boiler controls, flood control and fire protection
<i>Industrial Process</i>	Pumps and valves for industrial, mining, pulp and paper, chemical and petroleum processing, and high-purity systems for biopharmaceutical applications

Competitive advantages of the Fluid Technology business segment include selling premier brands, strong distribution capabilities, and benefiting from an installed base of more than 14 million pumps worldwide, which provides a strong foundation for repair, replacement and retrofit aftermarket sales. The demand drivers of the business include population growth, urbanization, migration to coastal areas, social awareness, increased regulation, aging infrastructure, and demand from developing markets.

Factors that could impact Fluid Technology's financial results include: broad economic conditions in markets served, weather conditions, the ability of municipalities to fund projects, raw material prices and continued demand for replacement parts and servicing. Primary areas of business focus include: new product development, geographic expansion into new markets, facility rationalization and global sourcing of direct material purchases.

Defense Electronics & Services

Defense Electronics & Services develops, manufactures, and supports high-technology electronic systems and components for worldwide defense and commercial markets, as well as provides communications systems, engineering and applied research. Defense Electronics & Services consists of two major areas: Systems and Services and Defense Electronics. With the acquisition of EDO completed at the end of 2007, components of EDO have been integrated into various businesses of the Defense Electronics & Services business segment. In addition, we have identified two new businesses, Integrated Structures and Intelligence & Information Warfare, as a result of the acquisition.

The following provides a summary of the Defense Electronics & Services businesses and the goods and services each provides to its respective end-markets:

<i>Advanced Engineering & Services</i>	Homeland defense, telecommunications systems and information technology
<i>Communications Systems</i>	Voice and data systems, and battlefield communication technology
<i>Electronic Systems</i>	Force protection, integrated electronic warfare systems, reconnaissance and surveillance, radar and undersea systems
<i>Integrated Structures</i>	Aircraft armament suspension-and-release systems and advanced composite structures

<i>Intelligence & Information Warfare</i>	Intelligence systems and analysis, information warfare solutions and data acquisition and storage
<i>Night Vision</i>	Image intensifier technology, military and commercial night vision equipment
<i>Space Systems</i>	Satellite imaging systems, meteorological and navigation payloads, related information solutions and systems

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Systems Division Systems integration, communications engineering and technical support solutions

Management believes that the Defense Electronics & Services business segment is well positioned with products and services that support our customers' needs. In addition, we expect new product development to continue to contribute to future growth.

Factors that could impact Defense Electronics & Services' financial results include: the level of defense funding by domestic and foreign governments, our ability to receive contract awards, the ability to develop and market products and services for customers outside of traditional markets and our ability to obtain appropriate export licenses for international sales and business. Primary areas of business focus include: new or improved product offerings, new contract wins, integration of acquisitions and successful program execution.

Motion & Flow Control

The businesses of the Motion & Flow Control business segment primarily serve the high end of their markets, with highly engineered products, high brand recognition, and a focus on new product development and operational excellence. Revenue opportunities are balanced between OEM and aftermarket customers. In addition to its traditional markets of the U.S. and Western Europe, opportunities in emerging markets such as Asia are increasing.

The following list provides a summary of the Motion & Flow Control businesses and the goods and services each provides to its respective end-markets.

<i>Aerospace Controls</i>	Aircraft fuel systems and actuators
<i>Controls</i>	Motion controls, servo-motors and electro-mechanical actuators for industrial, medical and aircraft applications
<i>Energy Absorption</i>	Shock absorbers, suspension systems and pneumatic automation components for transportation, aerospace, industrial and electronics applications
<i>Flow Control</i>	Pump systems, valve actuation controls and accessories for leisure marine craft, whirlpool baths, beverage systems and oil and gas pipelines
<i>Friction Technologies</i>	Brake pads and friction materials for transportation markets
<i>Interconnect Solutions</i>	Connectors and interconnects for the military, industrial, medical and transportation markets

The Motion & Flow Control businesses' financial results are driven by economic conditions in its major markets, the cyclical nature of the transportation industry, production levels of major auto producers, demand for marine and leisure products, weather conditions, raw material prices, the success of new product development, platform life and changes in technology. Primary areas of business focus include: expansion into adjacent markets, new product development, integration of acquisitions, manufacturing footprint optimization, global sourcing of direct material purchases and lean fulfillment.

Table of Contents**Results of Operations**

For the quarter ended September 30, 2008, ITT reported sales and revenues of \$2,879.3 and net income of \$216.3, or \$1.18 per diluted share, compared with sales and revenues of \$2,181.2 and net income of \$230.1 or \$1.25 per diluted share for the quarter ended September 30, 2007. Net income for the quarter ended September 30, 2008 includes income from discontinued operations of \$11.8 or \$0.07 per diluted share compared to \$61.5 or \$0.33 per diluted share for the same comparable prior year period.

For the nine months ended September 30, 2008, ITT reported sales and revenues of \$8,749.8 and net income of \$609.2, or \$3.31 per diluted share, compared with sales and revenues of \$6,474.6 and net income of \$583.8 or \$3.17 per diluted share for the nine months ended September 30, 2007. These results include income of \$9.5 or \$0.05 per diluted share from discontinued operations compared to income from discontinued operations of \$79.2 or \$0.43 per diluted share, during 2008 and 2007, respectively.

Further details related to these results are contained in the following Consolidated Financial Results and Segment Review sections.

Consolidated Financial Results

	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	Increase (Decrease) %/Point Change	2008	2007	Increase (Decrease) %/Point Change
Sales and revenues	\$ 2,879.3	\$ 2,181.2	32.0%	\$ 8,749.8	\$ 6,474.6	35.1%
Costs of sales and revenues	2,068.6	1,540.1	34.3%	6,311.1	4,606.9	37.0%
Gross profit	810.7	641.1	26.5%	2,438.7	1,867.7	30.6%
Selling, general and administrative expenses	417.0	327.6	27.3%	1,283.4	978.5	31.2%
Research & development expenses	60.7	46.8	29.7%	172.5	129.9	32.8%
Restructuring and asset impairment charges, net	5.0	7.2	(30.6)%	15.9	31.1	(48.9)%
Operating income	328.0	259.5	26.4%	966.9	728.2	32.8%
Interest expense	29.3	25.8	13.6%	101.3	68.7	47.5%
Interest income	8.3	12.6	(34.1)%	24.6	31.0	(20.6)%
Income tax expense	98.6	73.1	34.9%	279.9	175.3	59.7%
Income from continuing operations	204.5	168.6	21.3%	599.7	504.6	18.8%
Income from discontinued operations, net of tax	11.8	61.5	(80.8)%	9.5	79.2	(88.0)%

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Gross margin	28.2%	29.4%	(120) bps	27.9%	28.8%	(90) bps
Selling, general and administrative expenses as a % of sales	14.5%	15.0%	(50) bps	14.7%	15.1%	(40) bps
Research & development expenses as a % of sales	2.1%	2.1%		2.0%	2.0%	
Operating margin	11.4%	11.9%	(50) bps	11.1%	11.2%	(10) bps
Effective tax rate	32.5%	30.2%	230bps	31.8%	25.8%	600bps

Table of Contents**Sales and Revenues**

Sales and revenues increased \$698.1 or 32.0% to \$2,879.3 for the third quarter of 2008, over the same prior year period. Excluding the impact of foreign currency translation (constant currency basis), sales and revenues for the third quarter increased \$660.0. Sales and revenues from acquired companies, including EDO (acquired during the fourth quarter of 2007) and IMC (acquired during the third quarter of 2007), contributed \$491.0 during the third quarter of 2008. Organic sales and revenues (defined as sales and revenues from existing businesses on a constant currency basis) contributed \$169.0 to our overall revenue growth, primarily due to higher volume and price, including the impact of new products and programs.

Sales and revenues for the nine months ended September 30, 2008 increased \$2,275.2 to \$8,749.8, representing a 35.1% increase over the same prior year period. On a constant currency basis, sales and revenues increased \$2,083.3, including contributions from acquisitions of \$1,563.6. Organic sales and revenues grew \$519.7 over 2007, primarily attributable to higher volume and price, and the impact of new products and programs.

The following table further illustrates the impact of organic growth, acquisitions, and foreign currency translation fluctuations on sales and revenues during these periods.

	Three Months 2008/2007 % Change	Nine Months 2008/2007 % Change
Organic growth	7.7%	8.0%
Acquisitions	22.6%	24.1%
Foreign currency translation	1.7%	3.0%
Sales and revenues	32.0%	35.1%

During the third quarter of 2008, we received orders of \$3,339.6, an increase of \$961.2 or 40.4% over the same prior year period. On a constant currency basis, orders grew \$918.8 or 38.6%. This increase was attributable to organic growth of \$305.9 or 12.9%, including contributions from each of our business segments, and orders from acquisitions of \$612.9 or 25.7%, including the addition of EDO and IMC. Orders received during the first nine months of 2008 increased \$2,443.2 or 38.2% over the prior year, including \$1,319.9 or 20.6% from acquisitions, and organic growth of \$920.2 or 14.4%. Foreign currency translation had a positive impact of 1.8% and 3.2% for the third quarter and nine month period ended September 30, 2008, respectively.

Costs of Sales and Revenues and Gross Profit

Costs of sales and revenues were \$2,068.6 and \$6,311.1 for the third quarter and nine month period ended September 30, 2008, respectively. This represents increases of \$528.5 or 34.3% and \$1,704.2 or 37.0% over the same prior year periods. These increases were primarily attributable to the acquisitions of EDO and IMC, higher sales volume and an unfavorable impact from foreign exchange translation.

Gross profit for the third quarter of 2008 was \$810.7, a 26.5% increase compared to \$641.1 during the same prior year period. Gross profit for the first nine months of 2008 was \$2,438.7, a 30.6% increase compared to \$1,867.7 during the same prior year period. Gross margin was 28.2% and 27.9% for the third quarter and nine month period ended

September 30, 2008, respectively, compared to 29.4% and 28.8% over the same prior year periods. The year-over-year decreases were driven by higher production costs and unfavorable sales mix, but were partially offset by our productivity and strategic initiatives, including our efforts to improve supply chain productivity and control material costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were \$417.0 and \$1,283.4 for the third quarter and nine month period ended September 30, 2008, respectively, an increase of \$89.4 and \$304.9 over the same prior year period. The year-over-year increases were primarily attributable to the acquisitions of EDO and IMC, and a negative impact from changes in foreign currency exchange rates. SG&A as a percent of sales was 14.5% and 14.7% for the third quarter and first nine months of 2008, compared to 15.0% and 15.1% during the same prior year periods.

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Research & Development Expenses

Research and development expenses (R&D) were \$60.7 and \$172.5 for the third quarter and nine month period ended September 30, 2008, respectively, compared to \$46.8 and \$129.9 during the same prior year periods. The year-over-year increases were primarily attributable to the acquisitions of EDO and IMC. R&D expense as a percentage of sales was consistent over the same periods as we continued our efforts to support product development.

Operating Income

Operating income increased \$68.5 or 26.4% and \$238.7 or 32.8% during the third quarter and first nine months of 2008 over the same prior year periods. These increases were largely due to the impact from the EDO and IMC acquisitions. In addition, organic contributions were realized at each business segment. These contributions were primarily attributable to higher sales volumes and price, benefits from operating efficiencies, and cost savings initiatives, partially offset by unfavorable sales mix, and increased SG&A expenses.

Operating margin decreased 50 basis points to 11.4% and 10 basis points to 11.1% for the third quarter and nine month period ended September 30, 2008, respectively, over the same prior year periods. These results primarily reflect the benefits from operating efficiencies and cost savings initiatives, partially offset by unfavorable sales mix, and the impact of acquisitions (higher amortization of intangible assets).

Interest Expense and Interest Income

Interest expense during the third quarter and first nine months of 2008 increased \$3.5 and \$32.6, respectively, compared to the same prior year periods. These increases were primarily attributable to higher levels of debt, reflecting our funding for acquisitions and capital expenditures during the periods, and tax related charges partially offset by lower interest rates during the current year. In addition, partially offsetting the nine month year-over-year variance is a decrease in accrued interest of \$7.0 as a result of the settlement of a tax examination during the second quarter of 2007.

We recorded interest income of \$8.3 and \$24.6 for the third quarter and nine month period ended September 30, 2008, respectively. This represents year-over-year decreases of \$4.3 and \$6.4, respectively, which were primarily attributable to a lower average balance of cash and cash equivalents during the second and third quarters of 2008.

Income Tax Expense

Income tax expense for the quarter and nine month period ended September 30, 2008 was \$98.6 and \$279.9, respectively, an increase of \$25.5 and \$104.6 over the same prior year periods. The effective tax rate for the quarter and nine month period ended September 30, 2008 was 32.5% and 31.8%, respectively, compared to 30.2% and 25.8% during the prior year.

The year-over-year tax expense increases primarily reflect the impact of a tax benefit of \$44.3 resulting from the settlement of a tax examination during the second quarter of 2007, and higher earnings during the 2008 periods, partially offset by the impact of other tax-related items.

The year-over-year effective tax rate increases primarily reflect the impact of the previously discussed 2007 tax benefit, partially offset by a change in earnings mix and the impact of other tax-related items.

Table of Contents**Segment Review**

Three Months Ended September 30	Sales & Revenues		Operating Income		Operating Margin	
	2008	2007	2008	2007	2008	2007
Fluid Technology	\$ 949.3	\$ 858.4	\$ 132.2	\$ 110.7	13.9%	12.9%
Defense Electronics & Services	1,539.5	1,011.5	187.8	137.1	12.2%	13.6%
Motion & Flow Control	393.8	314.6	55.9	44.4	14.2%	14.1%
Eliminations/Corporate and Other	(3.3)	(3.3)	(47.9)	(32.7)		
	\$ 2,879.3	\$ 2,181.2	\$ 328.0	\$ 259.5	11.4%	11.9%

Nine Months Ended September 30	Sales & Revenues		Operating Income		Operating Margin	
	2008	2007	2008	2007	2008	2007
Fluid Technology	\$ 2,856.3	\$ 2,523.9	\$ 373.0	\$ 307.3	13.1%	12.2%
Defense Electronics & Services	4,646.3	2,998.3	539.5	377.3	11.6%	12.6%
Motion & Flow Control	1,256.8	962.3	195.3	149.4	15.5%	15.5%
Eliminations/Corporate and Other	(9.6)	(9.9)	(140.9)	(105.8)		
	\$ 8,749.8	\$ 6,474.6	\$ 966.9	\$ 728.2	11.1%	11.2%

Fluid Technology

For the quarter and nine months ended September 30, 2008, sales and revenues from the Fluid Technology business segment increased \$90.9 or 10.6% and \$332.4 or 13.2%, respectively, over the same prior year periods. The following table illustrates the impact of organic growth, acquisitions, and foreign currency translation fluctuations on sales and revenues during these periods.

	Three Months 2008/2007 % Change	Nine Months 2008/2007 % Change
Organic growth	7.5%	8.0%
Acquisitions	0.2%	0.3%
Foreign currency translation	2.9%	4.9%
Sales and revenues	10.6%	13.2%

During the third quarter and first nine months of 2008, the Fluid Technology business segment recognized sales and revenues on a constant currency basis of \$924.7 and \$2,731.6, respectively, an increase of \$66.3 or 7.7% and \$207.7 or 8.3% over the same 2007 periods. Organic sales grew by \$64.0 or 7.5% and \$201.3 or 8.0% over the same periods. Factors driving these contributions were as follows:

Water & Wastewater

Organic sales increased \$29.5 or 7.6% and \$83.0 or 7.1% for the quarter and nine month period ended September 30, 2008, respectively, due to strength in water/wastewater transport, particularly within the municipal market, and dewatering, primarily attributable to the mining market. Despite strong results during 2008, order rates suggest a slowing demand within the municipal market.

Residential & Commercial Water

Organic sales increased \$12.4 or 4.1% and \$47.2 or 5.4% for the quarter and nine month period ended September 30, 2008, respectively, due to strength in commercial and agriculture/irrigation applications, offset by weakness in the Americas residential market.

Industrial Process

Organic sales increased by \$24.5 or 14.1% and \$78.5 or 15.3% for the quarter and nine month period ended September 30, 2008, respectively, due to strength in our industrial operations, particularly within the chemical, oil and gas, power and mining markets.

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The Fluid Technology business segment received orders of \$1,017.1 for the third quarter of 2008, an increase of \$87.3 or 9.4% over 2007, including \$26.4 and \$2.3 attributable to the impact of foreign currency translation and acquisitions, respectively. Organic orders increased \$58.6 or 6.3% over the same prior year period. Orders received during the first nine months of 2008 increased \$393.2 or 14.3% over the prior year with \$251.5 or 9.1% attributable to organic growth, an impact of \$134.7 or 4.9% from foreign currency translation, and \$7.0 due to acquisitions.

Operating income for the third quarter and first nine months of 2008 increased \$21.5 or 19.4% and \$65.7 or 21.4%, respectively, over 2007. Excluding the impact of foreign exchange translation/transaction and contributions from acquisitions, operating income increased \$12.3 or 11.1% and \$57.8 or 18.8%, respectively, over the same periods. These increases were attributable to higher sales volume and price, productivity improvements and strategic initiatives, partially offset by material and labor cost increases, and a negative impact from sales mix.

The Fluid Technology business segment reported third quarter 2008 operating margins of 13.9%, an increase of 100 basis points over the same prior year period. Excluding the impact of foreign currency translation/transaction and contributions from acquisitions, operating margins increased 40 basis points to 13.3% for the third quarter of 2008. For the nine month period ended September 30, 2008, the Fluid Technology business segment reported operating margins of 13.1%, an increase of 90 basis points over 2007. Excluding the impact of foreign exchange translation/transaction and contributions from acquisitions, operating margins increased 120 basis points to 13.4% over the same period. The improved profitability over both periods was primarily attributable to the benefit from productivity improvements and strategic initiatives, partially offset by a negative impact from sales mix.

Defense Electronics & Services

For the quarter and nine months ended September 30, 2008, sales and revenues from the Defense Electronics & Services business segment increased \$528.0 or 52.2% and \$1,648.0 or 55.0%, respectively, over the same prior year periods. The following table illustrates the impact of organic growth, and acquisitions on sales and revenues during these periods.

	Three Months 2008/2007	Nine Months 2008/2007
	% Change	% Change
Organic growth	8.7	