

ITT Corp
Form 10-K
February 21, 2014

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

Form 10-K
ANNUAL REPORT
(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the Transition period from _____ to _____

Commission File No. 1-5672

ITT CORPORATION

Incorporated in the State of Indiana

13-5158950

(I.R.S. Employer Identification No.)

1133 Westchester Avenue, White Plains, NY 10604

(Principal Executive Office)

Telephone Number: (914) 641-2000

Securities registered pursuant to Section 12(b) of the Act, all of which are registered on The New York Stock Exchange, Inc.:

COMMON STOCK, \$1 PAR VALUE

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant on June 30, 2013 was approximately \$2.6 billion. As of February 6, 2014, there were outstanding 91.4 million shares of common stock, \$1 par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for its 2014 Annual Meeting of Shareholders are incorporated by reference in Part II and Part III of this Form 10-K.

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* Included pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Some of the information included herein includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995 (the Act). These forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about the business and future financial results of the industry in which we operate, and other legal, regulatory and economic developments. These forward-looking statements include, but are not limited to, future strategic plans and other statements that describe the company's business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance.

We use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "future," "may," "will," "could," "should," "potential," "continue," "guidance" and other similar expressions to identify such forward-looking statements. Forward-looking statements are uncertain and to some extent unpredictable, and involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

Where, in any forward-looking statement we express an expectation or belief as to future results or events, such expectation or belief is based on current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included under the caption "Risk Factors," and in other documents filed from time to time with the SEC.

The forward-looking statements included in this report speak only as of the date of this report. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

WHERE YOU CAN FIND MORE INFORMATION

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

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

Information contained on ITT's Internet site, or that can be accessed through its Internet site, does not constitute a part of this Annual Report on Form 10-K. ITT has included its Internet site address only as an inactive textual reference and does not intend it to be an active link to its Internet site. Our corporate headquarters are located at 1133 Westchester Avenue, White Plains, NY 10604 and the telephone number of this location is (914) 641-2000.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

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

COMPANY OVERVIEW

ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation and industrial markets. Building on its heritage of engineering, ITT partners with its customers to deliver enduring solutions to the key industries that underpin our modern way of life. With approximately 9,400 employees in more than 35 countries and sales in over 100 countries, we are committed to creating long-term sustainable value for all of our stakeholders. That goal is reflected in The ITT Way, which focuses on three main principles of leading with technology, differentiating with customers and optimizing our work.

ITT is a global company with a balanced and diversified portfolio, positioned to capitalize on enduring macro trends such as energy creation and efficiency, resource scarcity, large-scale urbanization, and the growing middle class in emerging economies. In 2013, 64% of our sales were outside the U.S., including 30% from emerging growth markets. Further, approximately 30% of our revenue is derived from aftermarket products and services where we capture repeatable revenues from our large installed base of specialized products. Additionally, approximately 35% of our revenue is derived from positions our products hold on long-lived customer platforms. Similar to the aftermarket, these are also long-term recurring revenues.

We manufacture components that are integral to the operation of systems and manufacturing processes in our key markets. Our products provide enabling functionality for applications where reliability and performance are critically important to our customers and the users of their products. For example, our industrial pumps serve the critical function of transporting inorganic fluids throughout chemical processes at petrochemical plants. The pumps are critical to the production requirements of our customers' plants and their reliability helps our customers meet the delivery time and quality expectations of the users of the petrochemical products they produce.

Our product and service offerings are organized in four segments: Industrial Process, Motion Technologies, Interconnect Solutions, and Control Technologies. These businesses generally operate within niche positions in large, attractive markets where specialized engineered solutions are required to support the needs of large industrial, transportation, and energy customers.

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

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

Interconnect Solutions manufactures a wide range of highly specialized connector products that make it possible to transfer signal and power in various electronic devices that are utilized in the aerospace and defense, industrial and transportation, oil & gas, and medical markets.

Control Technologies manufactures specialized equipment, including actuation, valves, switches, vibration isolation, custom-energy absorption, and regulators for the aerospace and defense, and industrial markets.

The table below provides revenue by segment for each of the last three years. See section titled "Segment Information" in Company Overview and Note 22, "Segment Information" to the Consolidated Financial Statements for further information about each of our segments.

(In Millions)	2013	2012	2011
Industrial Process	\$1,107.4	\$955.8	\$766.7
Motion Technologies	721.8	626.2	634.4
Interconnect Solutions	395.5	375.7	417.8
Control Technologies	278.2	277.1	285.5
Eliminations	(6.0)	(7.0)	(18.8)
Revenue	\$2,496.9	\$2,227.8	\$2,085.6

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 Corporation was incorporated as ITT Industries, Inc. on September 5, 1995 in the State of Indiana. On July 1, 2006, ITT Industries, Inc. changed its name to ITT Corporation.

Business Strengths and Strategies

Management believes that the Company has several competitive advantages that allow it to sustain and grow its market positions. ITT is a diversified industrial technology company with established businesses that share five unifying characteristics:

1. The design and manufacture of highly engineered products for critical applications
2. Leaders in attractive and defensible niches
3. Global footprint and highly diversified
4. Longstanding brands and operating history
5. Proven management system and leadership

As a result, a significant strength for ITT is that our businesses share a common, repeatable operating model. Each business is a leader in applying its technology and engineering expertise to solve some of the most pressing challenges of our customers. Our applied engineering aptitude provides a special business fit with our customers given the critical nature of their applications. This in turn provides us with unique insight to our customers' requirements and enables us to develop solutions to better assist our customers achieve their business goals. Our technology and customer intimacy together produce opportunities to capture recurring revenue streams, aftermarket opportunities and long-lived original equipment manufacturer (OEM) platforms. ITT possesses a core competency operating this unified model across businesses in order to create value. These businesses also tend to operate in varying business cycles, which reduces exposures to any one economic cycle.

The oil & gas business in our Industrial Process segment is representative of the capability that many of ITT's businesses have to generate profitable growth from our common operating model. In 2007, Industrial Process began to pursue growth in the oil & gas market because of its long-term attractiveness, our existing engineering capabilities and brand strength, and the aftermarket potential. We started by investing in our technology through product line extensions and we continue to aggressively build on our portfolio. This has allowed us to expand through pursuing adjacent markets. To supplement these organic growth drivers, we expanded our strategic footprint and increased proximity to our customers through new facilities in India in 2008 and Saudi Arabia in 2009. The acquisitions of Canberra Pumps in Brazil during 2010 and Blakers Pump Engineers in Australia during 2011 provided an opportunity to realize additional growth opportunities in global oil & gas markets, while the acquisition of Joh. Heinr. Bornemann GmbH (Bornemann) in 2012 provides us with a leadership position in the upstream oil & gas market worldwide, especially with respect to multi-phase boosting. Additionally, we have been actively upgrading and expanding our global capabilities to accommodate highly complex pumps that are used in the oil & gas market. For example, we held the grand opening of our Eastern Hemisphere Center of Excellence in Korea in 2013 where we relocated and expanded our testing and production capabilities. We are also significantly expanding our Western Hemisphere Center of Excellence in Seneca Falls, New York to increase production and test capabilities of complex oil & gas pumps. These actions have led to a compound annual growth rate for oil & gas market revenues in our Industrial Process business of 17.6% from 2007 to 2013.

ITT also possesses strong leading brands, such as Goulds Pumps, Bornemann, Cannon, KONI, Enidine and ITT, in many of its niche markets. These brands are associated with quality, reliability, durability, and engineering excellence. The Company's brand extends internationally and is very well recognized in emerging growth markets including China, India, Brazil and Saudi Arabia.

In addition to branding efforts, another strength is our collective utilization of our well-established ITT Management System (IMS), which is the data-driven framework we use to manage our businesses for superior performance. IMS also serves as a guide for the decisions and actions of our employees. The IMS consists of four core integrated processes:

- Profitable Growth – Integrated front-end processes consisting of robust strategic planning, commercial excellence
1. and new product development focused on driving sustainable profitable growth, strengthening our leadership positions in existing markets, and successfully moving into attractive adjacencies.
- 2.

Resource Optimization – Integrated decision-making and resource deployment processes consisting of efficient capital allocation across a portfolio of strategic options and effective deployment of critical resources and assets across the integrated supply chain that aligns our sourcing, manufacturing and footprint strategies with our business strategies.

Operational Excellence – Integrated execution and continuous improvement processes consisting of Value-Based Lean Six Sigma (VBLSS) and goal deployment focused on customer satisfaction, breakthrough growth, and ongoing optimization of our work to drive customer loyalty, pricing power, and productivity through alignment, engagement and empowerment of our co-workers.

Leadership and Learning – Integrated talent and performance management processes focused on creating strategic advantage by providing ongoing development opportunities to our diverse talent and targeted training for ITT leaders to build deeper bench strength and accelerate next generation leaders. Our Partnership for Performance system aligns employee goals with the goals of the business.

We deploy the IMS in each of our segments and we have implemented a system of enterprise councils composed of leaders from each business who focus on core growth and winning capability building across ITT in the areas of: 1) Commercial Excellence; 2) Operational Excellence; and 3) Technology and Innovation. We have also implemented the ITT Risk Center of Excellence which strengthens ITT's risk management process through proactive cross functional risk assessments and Global Sourcing which coordinates sourcing initiatives. While our activities may vary significantly between each of our segments, our subject matter leaders in this collaborative cross-functional, cross-business approach provide us with the opportunity to leverage best practices and our collective strengths in areas such as customer relationship management, product development, coordinated sourcing initiatives, innovation, technology sharing, and risk management.

These strengths support a balanced operating strategy designed to increase the Company's earnings and financial returns. The elements of this strategy are disciplined organic growth through global market expansion and new product development, combined with operational improvements through the IMS that focus on reducing costs and cycle times and improving productivity, quality, and safety on a continuing basis. We believe we can drive growth by helping our existing customers grow, while cultivating new customers through geographic and product expansion. While the IMS is principally an internal tool, IMS benefits our customers through our continuous improvement efforts which are centered on exceeding our customer's requirements.

Our long-term goals are to drive average annual organic revenue growth of approximately 5%-7%, with corresponding operating margin expansion of 50-70 basis points, achieve an adjusted free cash flow conversion rate of greater than 105%, and deliver adjusted earnings per share growth of 10%-15% per year. In 2013, we added a return on invested capital (ROIC) metric to our long-term incentive plan to emphasize management's focus on driving increased shareholder value. We intend to reach these goals through a combination of leveraging our niche market positions, continuing to expand globally by following and supporting our customers and their growth, introducing new products, reducing costs, increasing productivity, and effectively deploying capital. ITT's strategy to achieve these goals consists of the following key areas:

Differentiated Customer Experience

ITT places significant focus on managing the relationships it has with its customers through a formalized process referred to as Value-Based Commercial Excellence (VBCE). VBCE is a continuous improvement process which our businesses use to strategically price our products and services, develop our value propositions, and assist our customers to solve their toughest business challenges through a robust voice of customer process and measurement system leading to a deep holistic understanding and customer insight. ITT is able to accomplish this by providing an efficient and productive customer experience through advanced order configuration, on-time delivery, and reliable products and services. In addition, ITT has key strategic account relationships throughout the industries we serve. Strategic accounts are customer partnerships, often global in scale, which promote the shared benefits of improved business processes between ITT and its customers. Our strategic account agreements promote customer intimacy, optimized service and delivery performance, and provide growth and profit improvement opportunities. In some instances we are able to leverage these relationships across segments. For example, both Industrial Process and Interconnect Solutions supply products and services to certain oil & gas customers through Industrial Process's strategic account relationships. Additionally, ITT's Global Supply Chain Services (GSCS) capabilities and operational excellence initiatives are key supporting elements to the premier customer experience.

The Company views its customer relationships as its primary vehicle for growth and technological advancement. Understanding our customer's growth plans and challenges allows ITT's businesses to tailor and deliver reliable and timely products and services. The benefits from our differentiated customer experience approach often cross

geographic regions as well. For instance, in 2013, Motion Technologies secured a U.S. platform win with a Japanese automotive manufacturer stemming from a relationship developed from R&D activities in Wuxi, China.

The Company has a core competency in application engineering because a majority of our products feature leading technologies that operate in harsh environments. Harsh environments reflect challenging surrounding conditions such as the extreme cold and darkness of outer space or the high pressure of the ocean floor. For example, our electrical

connectors are built specifically to service satellites in space and our oil & gas drilling products are designed to function under the intense pressure of the ocean floor.

In addition, to further satisfy the company's customer base, ITT has differentiated itself in the critical arena of technology and research & development (R&D). ITT has a proven track record in new product development and introduction. ITT's approach to technology is to work with its customers in tailoring the right approach to a particular customer need or problem. In our Industrial Process business, our engineers work with our customers in a number of highly challenging environments to improve the way our pumps are installed and operated. This allows our customers to run their processes more reliably and cost effectively by using less energy, which is the largest operating cost in a pump's life cycle.

Focused Geographic and Aftermarket Market Expansion

ITT is a global company with 64% of its 2013 revenue derived from international markets, including 30% from emerging growth markets. Accordingly, ITT has located approximately half of its manufacturing facilities outside of the U.S. to lower costs, achieve strategic proximity to customers and further increase international sales and market share. For example, ICS has had a long-term presence at its Shenzhen, Guangdong Province, China facility which produces products for both domestic consumption in China and for global customers. Shenzhen is a low-cost manufacturing site that also possesses component fabrication capabilities such as metal stamping, plating, machining and injection molding. The Shenzhen site is staffed with engineers who design specific products for the Asia Pacific and China region.

Because of the global nature of our businesses, ITT benefits from opportunities in emerging growth markets and in developed markets. For example, Motion Technologies is the leading manufacturer of automotive brake pads in Europe. One of the largest growth opportunities for this European-based business is the developed market in North America, which presents a tremendous opportunity. To connect with the opportunity in North America, Motion Technologies has a research, engineering and sales center in Michigan in order to be located close to, and work directly with, customers on the design and development of brake pads specifically tailored to the North American market.

In addition, we have and expect to continue to expand our R&D capabilities to make products that are relevant to local markets. Our focus is on products where reliability and engineered solutions are valued. We have established R&D technology centers in key markets such as India and China. Industrial Process opened its state-of-the-art Korea engineered pump Center of Excellence in order to continue to capture a larger share of the burgeoning oil & gas market in the Eastern Hemisphere. Industrial Process is also expanding its R&D capabilities in North America to serve a growing customer base. In 2012, Motion Technologies opened a R&D center and production facility in Wuxi, China, focused on expanding and enhancing braking technologies for the local transportation market.

In addition to geographic expansion opportunities, expanding our base of reoccurring revenue streams in the aftermarket is a key source of our growth. Aftermarket sources accounted for \$760.7, \$644.3 and \$620.0 of our 2013, 2012, and 2011 revenue, respectively. Our Industrial Process, Motion Technologies, and Control Technologies segments benefit from repeat sales of original products, consumable spare parts, and services as a result of our large, global, and growing installed base of products. Aftermarket business generally carries higher margins than original product sales and tends to be a more stable, recurring revenue stream than project-based businesses. The key drivers of aftermarket demand are the wear and tear on critical components in harsh environment applications. We develop our aftermarket business through our end user sales channels and dedicated service personnel. The Company views this as a valuable source of future earnings and is actively marketing its capabilities while investing in technologies that reduce the customer's total life cycle cost. For example, our Industrial Process business has an established international service center network with eight Pump Repair and Overhaul shops (PRO shops) in the U.S. and facilities in Argentina, Australia, Brazil, Canada, Chile, China, Columbia, England, Saudi Arabia, Singapore, Thailand, and Venezuela.

Control Technologies provides aftermarket spares and repair services for commercial and military aircraft platforms. Our up-front investments to gain positions on aircraft platforms generate long-term repeatable aftermarket revenue. Control Technologies provides aftermarket services through our FAR 145 certified repair station located in our facility. Our dedicated sales channels have strong relationships with global airlines and we have a partnership agreement with a large MRO facility that has regional presence and certifications in China.

Motion Technologies also has recurring revenue streams from automotive and rail platform content. Its products generally serve on long-term platforms whereby once the original equipment products are sold, aftermarket parts are needed to replace and extend the life of a vehicle. Our up-front investments to gain positions on automotive platforms generate long-term repeatable OE revenue, while also providing replacement pad opportunities in certain markets. Another example of a recurring revenue stream is on various aerospace platforms where ICS has been supplying

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content for many decades, such as with our rectangular and circular connectors which have been used in commercial and military aerospace applications for over 45 years.

Operational Excellence

The Company strives to increase its profit margins and improve its competitive position in all of its businesses through its operational excellence strategy. The core elements of this strategy are VBLSS, GSCS, VBCE and shared service utilization. These strategies enable the Company to realize operating efficiencies, increase customer satisfaction, and increase free cash flow while lowering operating costs, streamlining processes, eliminating waste and improving cycle times.

The ITT culture has long embraced VBLSS as its central operating tenet. VBLSS encompasses lean manufacturing as well as continuous process improvement in other critical areas such as customer service and order entry and fulfillment. Our intent is to drive ever increasing levels of quality, speed, and efficiency throughout the organization. In 2012, we launched an enterprise-wide lean transformation initiative with the goal of improving all elements of a lean enterprise that encompasses not only core lean, problem solving and continuous improvement principles but also leadership, talent and cultural aspects. We are targeting achievement and sustainment of a lean assessment score of 80% within the next 3-5 years at our significant revenue producing facilities representing approximately 80% of ITT's total revenue. Driving the lean enterprise as a top priority coupled with significant investments and partnering with outside experts is making a measurable impact on our performance, including customer and safety metrics.

GSCS, which includes low-cost region sourcing and leverage through a shared buying channel, has enabled us to mitigate the effects of inflation and increasing material costs in order to maintain or improve profitability. Certain operations, including shared services, are leveraged among the Company's segments resulting in additional cost savings and synergies through the consolidation of operations and reduced general and administrative expenses.

Effective Capital Deployment

Effective capital deployment and a disciplined focus on liquidity and cash management is a major part of how we achieve our financial performance goals. ITT's businesses operate in growing and highly fragmented markets, which allows for increasing market share opportunities. ITT estimates the sum of its served addressable markets to be in excess of \$35 billion worldwide. Given these dynamics and ITT's technology investments, global reach and vibrant brands, the Company believes it has the opportunity to continue to expand geographically, broaden its product lines, improve its market position, and increase earnings through revenue growth and operational efficiencies on an organic basis and through targeted acquisitions. ITT continues to prioritize deploying capital for organic growth and then acquisitive growth. ITT's acquisition strategy generally targets firms in similar businesses and end-markets that produce unique and differentiated products, services, and technologies.

Targeted Leverage of Our Capabilities

In addition to the key elements of the strategy described above, ITT leverages its diverse set of resources and capabilities across its businesses in order to maximize the Company's value creation potential. By working cohesively across our businesses, we are enhancing products and performance and making strong progress in driving long-term profitable growth. The Company is continually evaluating cross-business revenue synergies, cost saving and value creating opportunities and views the following assets and capabilities as core to this objective:

ITT Brand – The ITT brand is well regarded and widely recognized by most key stakeholders and markets, particularly in emerging growth markets. This provides our segments with brand recognition for new products in key emerging growth markets such as Brazil, China, and India.

Integrated Councils – Cross business operational councils in areas such as operations, commercial excellence, technology and new product development, and global sourcing. While our activities may vary significantly between each of our segments, our subject matter leaders in this collaborative cross-functional, cross-business approach provide us with the opportunity to leverage best practices and our collective strengths in areas such as customer relationship management, product development, coordinated sourcing initiatives, innovation, and technology sharing.

Strategic Accounts – Further development and expansion of our global strategic account program to bring the combined technical capabilities of multiple ITT businesses to address incremental customer opportunities.

Sourcing – Indirect sourcing activities across ITT's businesses are managed centrally to better leverage our third-party contracts and pricing and to evaluate vendor performance.

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Shared Functional Excellence – Centralizing our processes and services so that all four of our businesses can have access to the best resources and better utilize these systems to create additional value, including shared service locations in North America and Europe to reduce overhead costs and improve effectiveness. In information technology, we are focused on utilizing social collaboration and data analytics to drive value

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across ITT. Similarly, we are enhancing the way we approach our most valuable asset, our people. We are continuing to develop a comprehensive talent and human resource capability that will unite and strengthen our collective ability to attract talent, and consolidate and streamline policies and procedures with technological capabilities that support it all.

Our Culture – Our people are at the center of all we do, and our values of respect, responsibility and integrity are central to who we are as a company. They are the standards to which we hold ourselves and they guide our words and actions every day. Our values are also the foundation of The ITT Way, which is how we differentiate ourselves, operate to grow and create value. It is our model for how we create enduring impact for all of our stakeholders.

Segment Information

Industrial Process

The Industrial Process segment is a global manufacturer of industrial pumps, valves and related equipment, and is a provider of plant optimization and efficiency solutions and aftermarket services and parts. Headquartered in Seneca Falls, New York, its operations include five primary product categories:

Goulds Pumps

Goulds Pumps is the largest product category in the Industrial Process segment and is a market leader with over 160 years of product design history and is focused on customer needs primarily in the oil & gas, chemical, mining, general industrial, pulp & paper, and power markets. The Goulds Pumps brand is among the most widely recognized brands in the global pump industry. Goulds has a broad portfolio of centrifugal pumps including ANSI (American National Standard Institute) and ISO (International Standards Organization) chemical pumps, API (American Petroleum Institute) pumps for the petrochemical and oil & gas industry, slurry and process pumps for the mining industry and paper stock pumps for the pulp & paper industry. Our portfolio also includes vertical, axial flow, multi-stage and other pumps that are used in a multitude of industries.

Industrial Process has transformed its Goulds Pumps business considerably over the past five years. Investments have been made in this business to expand our portfolio of products, augment our testing and global R&D capabilities, automate the order entry processes, and strengthen our global manufacturing, service and aftermarket capabilities. Industrial Process has been successful in penetrating target markets, like oil & gas and petrochemical by upgrading existing products and infrastructure, increasing global engineering resources, enhancing global product and project management and driving operational excellence.

Bornemann

Bornemann, acquired during the fourth quarter of 2012, is a manufacturer of pumps and systems utilized in the oil & gas, marine, food and pharmaceutical industries with over a 150 year history. The Bornemann acquisition provided the Industrial Process business with leading edge technologies and multiphase application expertise that strategically aligned with other aspects of the Industrial Process business and further expanded ITT's presence in global oil and gas markets. Technologies include twin screw pumps, multiphase boosting system pumps and progressive cavity pumps. Bornemann twin screw pumps are rotating displacement pumps that are ideal for mixtures of crude oil, gas, water and the finest solids. Twin screw pumps can be used onshore, offshore and sub-sea and the dry running technology also allow the presence of gases. The multiphase boosting system pumps provide a complete system solution for a wide range of performance conditions and harsh environmental conditions. Progressive cavity pumps are used to convey a wide range of media, in particular highly viscous and abrasive materials such as slurry, crude oil and greases. Progressive cavity pumps are an optimum solution to conveying tasks where the conveyed product is too viscous and flows too poorly to be pumped by other types of pumps.

ITT Engineered Valves

ITT Engineered Valves is a manufacturer of process valves for the biopharmaceutical, mining, power, pulp and paper and general industrial markets. ITT Engineered Valves has over 65 years of experience in design, fabrication and engineering of market leading industrial knife-gate (Fabri-Valve) and sanitary diaphragm valves (Pure-Flo). Pure-Flo is a leading provider of sanitary valves to the global biopharmaceutical market.

ITT PRO Services

ITT PRO Services is the aftermarket solutions offering which strives to extend equipment life in its customers' facilities. PRO Services provides an array of services focused on reducing equipment total cost of ownership and increasing plant output by minimizing downtime. The typical services provided include parts supply, inventory

optimization, field service, energy and reliability assessments, repairs, upgrades and overall equipment maintenance. PRO Services offerings include ProShop Repair and Upgrades, ProCast, ProSmart, Goulds Pumps Parts, PumpSmart, and Plant Performance Services.

ITT C'treat

ITT C'treat is a leading provider of water treatment systems for offshore oil and gas production platforms and has been in business since 1980. Its skid-mounted, reverse osmosis watermakers convert seawater to drinking water and process water for the world's largest offshore oil & gas exploration and production corporations.

Industrial Process services an extensive base of customers from large multi-national engineering, procurement and construction firms (EPC) to regional distributors with thousands of customers. We estimate this segment's served addressable market to be in excess of \$14 billion worldwide. In 2013, Industrial Process' customers operated in the oil & gas (35%), chemical & petrochemical (22%), general industrial (18%), mining (12%), pulp & paper (7%) and power (6%) markets. These customers are geographically distributed with a regional mix of North America (49%), Asia Pacific (16%), Latin America (15%), Middle East & Africa (11%) and Europe (9%).

Industrial Process recognizes that serving the customer before, during and after installation is critical. We utilize global and diversified sales channel structures. End-users are serviced by an extensive network of independent industrial distributors (primarily in North America), which account for approximately 27% of sales, and representatives which complement our customer-focused direct sales and service organization. We also have focused channels dedicated to supporting the EPC firms as their needs are often different from those of other customers.

The pump and valve markets served are highly competitive. For most of our products there are hundreds of regional competitors and a limited number of larger global peers. We consider our larger competitors to include Flowserve Corporation, Sulzer Pumps, SPX Corporation, Ebara Corporation, The Weir Group PLC, Colfax Corporation, Gemu Valves, Inc., and KSB. Primary customer purchase decision drivers include price, delivery times and on-time delivery performance, brand recognition and reputation, perceived quality, breadth of product offerings, commercial terms, technical support and localization. Pricing is typically very competitive for large projects because of the engineering complexity and increased potential for aftermarket opportunities for the original equipment provider.

Our ability to compete is based on having a wide range of engineered industrial pumps designed to meet our customers' most demanding applications and our capacity to provide customers with an array of after sale services and support. For large projects, our breadth of product offering is an important sales factor as it simplifies the customer's procurement process. Industrial Process' ability to expand its product portfolio has been, and is expected to continue to be, a competitive strength.

We benefit from our large global installed base of products, which, because of their function in the processes in which they are installed, require frequent maintenance, repair and replacement. The frequency of repair and maintenance services depends on utilization levels, as well as, the conditions and environment in which they operate. Our direct and distributor channels provide market leading service to our customers. As we increase the number of our global installations, we will continue to add service centers and personnel. By positioning our facilities close to customers, we are able to provide quicker responses to their growing aftermarket needs.

The Industrial Process segment demonstrates ITT's ability to achieve the Premier Customer Experience because the organization works with its customers over the life cycle of the installation and operation of its products in the customers' facilities or its customers' end users in the case of an EPC firm. Industrial Process is able to accomplish this because of its extensive global customer relationships, breadth of product offering, product availability, project management skills, and aftermarket and reliability services.

Motion Technologies

Motion Technologies, headquartered in Lainate, Italy, is a global manufacturer of highly engineered and durable components, consisting of brake pads, shock absorbers and damping technologies for the transportation industry. The transportation industry encompasses both personal and public transport equipment, such as passenger cars, light and heavy-duty commercial and military vehicles, buses and rail transportation. Motion Technologies consists of two product categories, Friction Technologies and KONI. Friction Technologies provides the automotive market with high-performance, high-quality brake pads while KONI provides the transportation industry with shock absorber and damping equipment. Motion Technologies primarily serves the high-end of the transportation industry, with a reputation for quality products and a focus on new product development and operational excellence.

We believe that Motion Technologies is positioned and structured to benefit from the anticipated global growth in the transportation industry. We believe this growth will be driven by increasing urban and middle class populations especially in emerging markets, creating a significant need for additional mass transit infrastructure and individual

desire for automobile ownership.

Friction Technologies

Our Friction Technologies business applies innovative research of new friction materials and productive technologies to manufacture a range of brake pads installed as original equipment (OE pads) on cars and light to

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heavy duty commercial vehicles. Our dedication to customers and to the advancement of braking technologies has built a legacy of quality, reliable products that meet the demands of customers across the globe. Demand for Motion Technologies' products stem from a variety of end customers and automotive platforms around the world. OE pads are sold either directly to original equipment manufacturers (OEM) or to Tier-1 and Tier-2 brake manufacturers. Our OE pads are designed to meet customer specifications and environmental regulations, and to satisfy an array of geographic applications. Most automobile OEM platforms (car model) require specific brake pad formulations and have demanding delivery and volume schedules.

Friction Technologies manufactures aftermarket brake pads designed for the automotive service and repairs market. This market consists of both OE dealers, also referred to as original equipment spares (OES) networks, and independent aftermarket (AM) networks. Brake pads sold within the OES network generally match the specifications of an original auto platform OE brake pad, while our catalog of AM pads feature technology designed to provide up to a range of braking performance levels. Within the service and repairs market, pads are sold either directly to OE manufacturers or Tier-1 and Tier-2 brake manufacturers (such as Continental or TRW) or indirectly through independent distributor channels. Historically, revenue for Friction Technologies has been generally balanced between OE pads and AM pads.

Combined sales to Continental and TRW, Motion Technologies' two largest customers, were approximately 46% of 2013 Motion Technologies revenue, however, approximately 20% of this revenue is directly attributable to OES supply agreements signed directly with automakers. In addition, all OE pad contracts are through brake manufacturers even in cases where automakers specify the use of our pads in the braking system.

KONI

The KONI business organizes its various performance shock absorber products into three main product groups: railway rolling stock; car & racing; and bus, truck & trailer. Each product group is managed by a dedicated team for product development and engineering, manufacturing, and sales & marketing, thus assuring the best possible concentration of product specialization and know-how.

Railway Rolling Stock provides a wide range of equipment for passenger rail, locomotives, freight cars, high speed trains and light rail. Offerings include hydraulic shock absorbers (primary, lateral and inter-car), yaw dampers as well as visco-elastic and hydraulic buffers. Revenue opportunities for our rail damping systems are balanced between OE and AM customers. Sales are either directly to train manufacturers and train operators carrying out scheduled train maintenance programs or indirectly through distributors.

Car & Racing features performance shock absorbers often using our Frequency Selective Damping (FSD) technology. FSD products are used by car and racing enthusiasts who desire to modify their cars for increased handling performance and comfort. KONI car shock absorbers are sold all over the world, through a distribution network that markets KONI products into specific geographies or customer groups.

Bus, Truck & Trailer manufactures shock absorbers and bus dampers, destined to both OE and AM customers. The rail damping systems and bus dampers market have attractive growth prospects because mass transit systems are benefiting from ongoing large-scale urbanization trends and infrastructure investments. The long-term, enduring nature of these factors fosters a market environment that tends to demonstrate mitigated levels of cyclicality. In addition, train and bus vehicles are sustainable transportation modes that reduce traffic congestion and smog levels in urban areas.

Motion Technologies has a market reputation derived from many years of mutual collaboration with major OE manufacturers and is focused on customer satisfaction, quality and on-time delivery. Motion Technologies has a global manufacturing footprint, with production facilities in Western Europe, Eastern Europe and China.

Motion Technologies competes in markets primarily served by large, well-established national and global companies. The brake pads and linings market, which we estimate to be in excess of \$7 billion, includes companies such as Nisshinbo Automotive Corporation, Akebono Brake Corporation, and Federal-Mogul Corporation. Key competitive drivers within the brake pad business include technical expertise, formulation development capabilities, scale production, product performance, high-quality standards, customer intimacy, reputation and the ability to meet demanding delivery and volume schedules in a reduced amount of time. OE and OES customers usually require long-lasting and well-established relationships, based on mutual trust, local proximity and a wide range of cooperative activities, starting from the design to the sampling, prototyping and testing phases of brake pads. Within the

independent AM pads market, Motion Technologies is a leading European provider in a highly fragmented global market.

Competitive drivers in the rail damping systems business include price, technical expertise and product performance. Rail damping systems are considered critical components because of safety requirements and thus they have to be specifically designed according to many different train applications, and must satisfy strict compliance

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requirements. We estimate the rail damping systems and bus dampers segments have a combined addressable market of approximately \$0.6 billion. Motion Technologies is a global leader in the rail dampers component of the complete rail damper system.

Interconnect Solutions

Headquartered in Santa Ana, California, Interconnect Solutions (ICS) designs and manufactures a broad range of highly engineered connectors and cable assemblies for critical applications in harsh environments that make it possible to transfer signal and power in an increasingly connected world. ICS also provides custom products for unique applications using its engineering expertise to solve difficult connectivity problems and reliability challenges. Through the Cannon, VEAM and BIW Connector Systems brands, our product portfolio and customized engineered connector solutions serve customers in the aerospace and defense, industrial and transportation, oil & gas, medical, and communications markets. In the oil & gas market, ICS is a major solution provider for down-hole electric submersible pump applications. Within the aerospace and defense markets, ICS has a rich legacy and demonstrated track record of providing a broad portfolio of industry standards-based products as well as customer specific solutions across a broad range of mission critical systems applications. Across all markets, ICS is considered a leading company in the harsh environment niche because of our technological capabilities, customer relationships, cost performance and global footprint.

For each of its four key growth markets, oil and gas, medical, transportation and industrial, and aerospace and defense, ICS has an established and dedicated team of individuals that are accountable and empowered to meet customer expectations and drive innovation and growth. Each dedicated market team includes a general manager and personnel from sales and marketing, engineering, operations and finance.

Our technological capabilities in filtering, sealing, contact geometry, composite materials and plating allow us to deliver innovative connector solutions that address our customers' unique and challenging requirements. Our product portfolio includes high performance, military-specification, and commercial electrical connectors of the following types: Circular, Rectangular, Radio Frequency, Fiber Optic, D-sub Miniature, Micro-Miniature and cable assemblies. Applications include avionics, commercial and military aircraft, rail, industrial automation and production, medical imaging and diagnostics, construction, agriculture and military equipment. ICS currently has eight production facilities, including two in the United States, and one in Mexico, Italy, Germany, England, China and Japan, providing geographic proximity and the highest level of customer support to over 2,500 global customers. Products are sold either directly to OEM's, contract manufacturers and cable system operators or indirectly through our partnerships with leading distribution companies, creating an extensive global distribution channel. We have long-lasting relationships with our distributor partners, as many have been selling ICS products for over 70 years. Sales to distributors represented approximately 32% of 2013 ICS revenue.

We estimate the global market for connectors and related products to be approximately \$44 billion in 2013. ICS competes with a large number of competitors in a highly fragmented industry. We estimate our addressable market to be approximately \$5.5 billion in 2013. The major competitors for these products are Amphenol Corporation, Deutsch (TE Connectivity Ltd.), Souriau (Esterline) and Glenair, Inc.

Control Technologies

Control Technologies, headquartered in Valencia, California, specializes in highly engineered aerospace components and industrial products. We offer an extensive portfolio of qualified products such as fuel management, actuation and noise absorption components in the aerospace market and a range of products that manage motion and absorb energy in a variety of industrial markets. Our application expertise allows us to offer customized solutions using modular platforms that effectively deliver our technologies for various customer applications. We have strong aftermarket opportunities, particularly in our aerospace business, and a broad customer base with no single customer accounting for more than 12% of Control Technologies revenue. Control Technologies' distribution network represents approximately 20% of revenue.

CT Aerospace

CT Aerospace designs and manufactures flow control and actuation components, motion control, energy absorption and vibration isolation products primarily for commercial aerospace, military and other markets. We estimate the served addressable market for CT Aerospace to be in excess of \$6 billion worldwide. Our aircraft component products consist of fuel and water pumps, valves, electro-mechanical rotary and linear actuators, and pressure, temperature,

limit, and flow switches for various aircraft systems. Our aircraft interior products include a variety of engineered elastomer aircraft interior isolators to protect equipment and keep the interior of the aircraft quiet, stowage bin rate controls, rotary hinge dampers and actuators, and seat recline locks and control cables. We also provide electromechanical seat actuation for premium seating products. Defense products generally include energy absorption applications and aerospace components. Most of our products are sold direct to the customer by our in-house sales force. We utilize a small third-party business for government spare parts distribution. CT Aerospace also has a well-established Federal

Aviation Agency (FAA) certified repair station which focuses on the aftermarket. The repair station also carries ISO9001/AS9100 and European Aviation Safety Agency (EASA) accreditations.

Our products are custom designed for specific customer applications. We have a highly skilled engineering group for R&D, application engineering and qualification. We conduct fundamental research internally, with universities, and with our customers. We leverage our technical capability to provide innovative and reliable solutions for our customers. Our flow control and actuation products meet reliability requirements through a unique patented shunt disc technology for pressure and temperature switch applications for hostile environments. In addition, our actuator utilizes a patented optical technology for enhanced reliability. Our pumps have the ability to run dry for extended periods, minimizing potential fire ignition sources in fuel system applications and provide high reliability. Our energy absorption products use patented technology to provide innovative solutions, such as self-compensating valves to allow for wide load variations. Our leading noise/vibration isolation products use patented innovations to improve noise control, reduce weight, and reduce installation time.

CT Aerospace sells a wide range of products to the aerospace industry and has many customers globally. Our business is neither dependent on one or a small number of customers. Our customers are predominantly commercial airframe manufacturers, airframe systems manufacturers, interior manufacturers, seat manufacturers, commercial airlines and defense contractors. We have positions with the leading commercial airframe and systems manufacturers such as Boeing, B/E Aerospace, Parker-Hannifin, Eaton, Woodward, Safran, and Honeywell. We have significant content in a number of large commercial transport platforms. We also have significant content on regional and business aircrafts. These platforms provide a long life cycle of original equipment and aftermarket sales.

In the highly regulated aerospace market, we benefit from our large installed base of products. We compete by offering a wide portfolio of reliable products, coupled with advanced application expertise and customer support. We believe application expertise and our reputation for quality significantly enhance our market position. Our ability to collaborate with our customers to deliver a wide range of product offerings has allowed us to compete effectively, to cultivate and maintain customer relationships, and to expand into new markets.

Competitors range from large multi-national corporations to small privately held firms. Our markets are often fragmented and thus there are several types of competitors. CT Aerospace competitors include Circor Aerospace, Inc., Hydra Electric, Lord Corporation, and Hutchinson Worldwide. Competition in these markets focuses on application expertise with effective solutions, product delivery and performance, previous installation history, quality, price and customer support. We have been successful in establishing long-term supply agreements with a number of our larger customers, thereby increasing opportunities to win future business.

Given the highly fragmented nature of the aerospace repair & overhaul industry, CT Aerospace competes with a large number of Maintenance Repair and Overhaul (MRO) businesses. Some airlines have established repair and overhaul capabilities which makes them competitors as well. We compete in the repair and overhaul segment of our business by offering a high quality service with increased reliability, coupled with advanced technical expertise.

CT Industrial

CT Industrial designs and manufactures energy absorption, precision motion control, and natural gas regulators primarily for heavy industry, infrastructure, automation, and energy markets. We estimate the served addressable market for CT Industrial is over \$3 billion globally. Our energy absorption products consist of customized shocks absorbers, vibration isolators and dampers. CT Industrial possesses a specialized set of skills and capabilities in the energy absorption business. Our precision motion control products consist of servomotors, actuators, and controllers. CT Industrial has solid positions in China, Europe, and North America. It has a broad customer base including end users, OEM's, and distributors. Channels to market include direct, commissioned representation and buy-resell distributors. Our ability to collaborate with our customers to deliver comprehensive product offerings has allowed us to compete effectively.

Competitors change depending on the product line and range from large multi-national corporations to small privately held firms. CT Industrial is one of the leaders in energy absorption, focusing on the automation, heavy industrial energy and infrastructure markets.

The energy absorption, precision motion control and natural gas regulators businesses are highly fragmented and we compete with a global group of industry participants. The main competitors in the energy absorption infrastructure and automation market are Taylor Devices and ACE (a subsidiary of Kaydon). The main competitor in the servomotor

product line is Kollmorgen. Parker-Hannifin Corporation is a leading competitor in the pneumatic actuation market. CT Industrial will continue to focus on delivery lead times, quality and performance while enhancing our application engineering offering. The development of new customer service strategies will create a differentiated service offering and improve turnaround time in product, quotations and service communications.

Other Company Information

Materials

All of our businesses require various OEM products, manufactured components and raw materials, the availability and prices of which may fluctuate. The principal OEM products and manufactured components assembled into our products include motors, castings, mechanical seals, machined castings, metal fabrications and miscellaneous metal, plastic, or electronic components. The primary raw materials used in manufacturing our products include steel, gold, copper, nickel, iron, aluminum, and tin, as well as specialty alloys, including titanium. Materials are purchased in various forms, such as sheet, bar, rod and wire stock, pellets and metal powders.

Our global sourcing initiatives continue to expand and are designed to capitalize on sources in emerging growth markets and other low-cost sources of purchased goods balanced with efficient coordinated global logistics. Raw materials, supplies and product subassemblies are purchased from third-party suppliers, contract manufacturers, and commodity dealers. For most of our products, we have existing alternate sources of supply, or such materials are readily available. In some instances we depend on a single source of supply, manufacturing or assembly or participate in commodity markets that may be subject to a limited number of suppliers.

We continually monitor the business conditions of our supply chain to maintain our market position and to avoid potential supply disruptions. There have been no raw materials shortages that have had a material adverse impact on our business as a whole, and we have been able to develop a robust supply chain such that we do not anticipate shortages of such materials in the future.

Although some cost increases may be recovered through increased prices to customers, our operating results are generally exposed to such fluctuations. We attempt to control such costs through fixed-priced contracts with suppliers and various other cost containment strategies, such as our Global Supply Chain Services initiative. We typically acquire materials and components through a combination of blanket and scheduled purchase orders to support our materials requirements for an average of four to eight weeks, with the exception of some specialty materials. From time to time, we experience price volatility or supply constraints for raw materials based on market supply and demand dynamics. In limited circumstances, we may have to obtain scarce components for higher prices on the spot market, which may have a negative impact on gross margin and can periodically create a disruption to production and delivery. We also acquire certain inventory in anticipation of supply constraints or enter into longer-term pricing commitments with vendors to improve the priority, price and availability of supply. We evaluate hedging opportunities to mitigate or minimize the risk of operating margin erosion resulting from the volatility of commodity prices.

Manufacturing Methods

We utilize two primary methods of fulfilling demand for products: build-to-order and engineer-to-order.

Build-to-order consists of assembling a group of products with the same pre-defined specifications, generally for our OEM customers. Engineer-to-order consists of assembling a customized system for a customer's individual order specifications. In both cases, we offer design, integration, test and other production value-added services. We employ build-to-order capabilities to maximize manufacturing and logistics efficiencies by producing high volumes of basic product configurations. Engineering products to order permits the configuration of units to meet the customized requirements of our customers. Our inventory management and distribution practices in both build-to-order and engineer-to-order seek to minimize inventory holding periods, and improve customer delivery performance.

Backlog

Delivery schedules vary from customer to customer based on their requirements. For example, large complex projects in specialized markets such as oil & gas and mining at Industrial Process require longer lead times and production cycles. Delivery delays could arise from supply chain limitations, internal production challenges, changes in the customer's requirements, or technical difficulties. Total backlog, representing firm orders that have been received, acknowledged and entered into our production systems, was \$1,093 and \$1,017 at December 31, 2013 and 2012, respectively. Total backlog at December 31, 2013 was comprised of 62% from Industrial Process, 18% from Motion Technologies, 11% from ICS, and 9% from Control Technologies. We expect to satisfy nearly all December 31, 2013 backlog commitments during 2014.

Intellectual Property

We generally seek patent protection for those inventions and improvements that are likely to be incorporated into our products or where proprietary rights are expected to improve our competitive position. The highly customized application engineering embedded within our products, our proprietary rights and our knowledge capabilities all contribute to enhancing our competitive position.

While we own and control a significant number of patents, trade secrets, confidential information, trademarks, trade names, copyrights, and other intellectual property rights which, in the aggregate, are of material importance to

our business, management believes that our Company, as a whole, as well as each of our core segments, is not materially dependent on any one intellectual property right or related group of such rights. Patents, patent applications, and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. As the portfolio of our patents, patent applications, and license agreements has evolved over a long period of time, we do not expect the expiration of any specific patent or other intellectual property right to have a material adverse effect on our financial statements.

Research and Development

R&D is a key element of ITT's engineering culture and is generally focused on the design and development of products and solutions that anticipate customer needs and emerging trends. ITT's track record for new product development and introduction is strong given our approach to R&D which is designed to work with our customers to tailor a solution to a particular customer need or problem. As a result, our R&D is based on taking technology quickly to the tangible phase, increasing the competitive offering, and increasing the customer service experience through engineered application solutions.

Product development efforts at Industrial Process focus on technologies that reduce customer's total cost of ownership. We continue to significantly expand our API pump coverage to service the oil & gas market. We have continued to add sizes to our multistage product families for high pressure and high temperature applications and expand the range of single double suction pumps for oil & gas market applications. IP has continued to expand the Goulds Pumps XHD Extra Heavy Duty Lined Slurry Pump which has been designed for even the toughest slurry applications, such as primary metals and mineral processing. The XHD model features patent pending features that provide superior service and easier maintenance than other slurry pumps. An exciting area of technology advancement within our PRO Services product category is our PumpSmart product family. In 2013, IP launched the Medium Voltage PumpSmart Product line for advanced control of high power pumping systems. A new line of very large Vertical Circulating Water Pumps has been released for high flow applications in power and other industrial applications.

Motion Technologies R&D activities focus on the design and development of products and solutions that either meet specific customers' needs or anticipate new market trends and environmental regulations. In 2013, Motion Technologies tackled new regulatory challenges concerning the use of copper and became the first friction manufacturer to release copper-free material for commercial vehicle applications. This successful formulation relied on both product innovation as well as innovative processes in thermal treatment. During 2013, Motion Technologies continued to invest in its R&D centers around the world, including the new R&D center in Wuxi, China, to enable ITT to provide the appropriate engineering solutions with responsive service to our customers and for the development of new local product launches.

ICS has re-invigorated its focus on research and development and subsequently seen a notable increase in its new product pipeline. The majority of 2013 product developments were targeting reduced size, weight and cost requirements; environmental standards compliance; and a general expansion of our existing product lines. The launch of our MKJ Series 5 miniature circular connector completes the MKJ product line offering developed as a smaller, lighter and lower cost alternative to traditional 38999-style connectors. The launch of our CA-Blue line of circular connectors for the transportation and industrial markets, the stainless steel version of our D-Sub connectors, and the TiCu version of our Universal Contact line address the latest North American and European environmental requirements, such as RoHS compliance, while new variants of our Micro and Nano product lines offer enhanced EMI (electromagnetic interference) shielding capability providing increased environmental protection.

Control Technologies R&D efforts are aimed at producing innovative technologies that solve our customer's critical issues. For example, CT Industrial is currently developing a series of liquid spring devices for hydro-electric turbines. The technology, termed VES (Visco-Elastic Support), decouples the turbine from the civil structure and provides reduced thermal forces in the bearing support, thus increasing turbine life. In addition, CT Aerospace is developing vibration isolators for helicopters to reduce rotor vibration and noise, and a high endurance electromechanical actuator for regional jets to improve fuel efficiency.

We anticipate our investments in future R&D activities will moderately increase from current spending levels to ensure a continuing flow of innovative, high quality products and maintain our competitive position in the markets we serve. Such activities are conducted in laboratory and engineering facilities at several of our major manufacturing

locations, as well as in our dedicated R&D facilities strategically positioned close to our customers. During 2013, 2012 and 2011, we recognized R&D expenses of \$67.3, \$62.7, and \$63.5, respectively, which are 2.7%, 2.8%, and 3.0%, of revenues, respectively.

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Cyclical and Seasonality

Many of the businesses in which we operate are subject to specific industry and general economic cycles. Our Interconnect Solutions business tends to be impacted more in the early portion of an economic cycle, while the automotive and aerospace components businesses tend to expand in the middle portion of the economic cycle and the industrial pump business typically benefits from late cycle expansion.

Our businesses experience limited seasonal variations, with demand generally at an annual low during summer months (our third quarter) mainly attributable to manufacturing shutdowns and the planned industrial maintenance activities of our customers. Revenue impacts from the limited seasonal variations are typically mitigated by our backlog of orders that allow us to adjust levels of production across the summer months.

Environmental Matters

We are subject to stringent federal, state, local, and foreign environmental laws and regulations concerning air emissions, water discharges and waste disposal. In the U.S., these include but are not limited to the Federal Clean Air Act, the Clean Water Act, the Resource, Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Environmental requirements are significant factors affecting our operations. We have established an internal program to assess compliance with applicable environmental requirements for our facilities. The program, which includes periodic audits of many of our locations, including our major operating facilities, is designed to identify problems in a timely manner, correct deficiencies and prevent future noncompliance. We closely monitor our environmental responsibilities, together with trends in the environmental laws. In addition, we have purchased insurance protection against certain environmental risks arising from our business activities.

Environmental laws and regulations are subject to change, however, the nature and timing of such changes, if any, is difficult to predict. As actual costs incurred at identified sites in future periods may vary from our current estimates given the inherent uncertainties in evaluating environmental exposures, management believes it is possible that the outcome of these uncertainties may have a material adverse effect on our financial statements.

Accruals for environmental liabilities 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. Our estimated liability is undiscounted and is reduced to reflect the participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective share of the relevant costs. Such estimates are subject to change and may be affected by many factors, such as new information about a site, evolving scientific knowledge about risk associated with any contamination involved, developments affecting remediation technology, and enforcement by regulatory authorities.

Employees

As of December 31, 2013, we had approximately 9,400 employees, of which approximately 3,400 were located in the U.S. Approximately 15% of our U.S. employees are represented by unions. We also have unionized employees in Italy, Germany, and Brazil. No one unionized facility accounts for more than 20% of ITT total revenues. Although our relations with our employees are strong and we have not experienced any material strikes or work stoppages recently, no assurances can be made that we will not experience these or other types of conflicts with labor unions, works councils, other groups representing employees or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in our cost of labor.

Company Transformation

On October 31, 2011 (the Distribution Date), ITT completed the tax-free spin-off (referred to herein as the Distribution) of its Defense and Information Solutions business, Exelis Inc. (Exelis), and its water-related businesses, Xylem Inc. (Xylem) by way of a distribution of all of the issued and outstanding shares of Exelis common stock and Xylem common stock, on a pro rata basis, to ITT shareholders of record on October 17, 2011. Exelis and Xylem are now independent companies trading on the New York Stock Exchange under the symbols "XLS" and "XYL", respectively. The Distribution was made pursuant to a Distribution Agreement, dated October 25, 2011, among ITT, Exelis and Xylem (the Distribution Agreement). Following the Distribution, ITT did not own any shares of common stock of Exelis or Xylem. All information herein has been restated to reflect the Distribution, and the results of Exelis and Xylem are presented as discontinued operations in all periods.

ITEM 1A. RISK FACTORS

We are subject to a wide range of factors that could materially affect future developments and performance. Because of these factors, past performance may not be a reliable indicator of future results. Set forth below and elsewhere in this document are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this document. The most significant factors affecting our business and operations include the following:

Business and Operating Risks

Our exposure to pending and future asbestos claims and related liabilities, assets, and cash flows are subject to significant uncertainties.

ITT, including its subsidiary Goulds Pumps, Inc., has been joined as a defendant in numerous lawsuits and claims in which the plaintiffs claim damages for personal injury arising from exposure to asbestos in connection with certain products sold or distributed that may have contained asbestos. We expect to be named as defendants in similar actions in the future. We record an estimated liability related to pending claims and claims estimated to be filed over the next 10 years based on a number of key assumptions, including the plaintiffs' propensity to sue, claim acceptance rates, disease type, settlement values and defense costs. These assumptions are derived from ITT's recent experience and reflect the Company's expectations about future claim activities. These assumptions about the future may or may not prove accurate, and accordingly, the Company may incur additional liabilities in the future. A change in one or more of the inputs used to estimate our asbestos liability could materially change the estimated liability and associated cash flows for pending claims and those estimated to be filed in the next 10 years. Although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, we do not believe there is a reasonable basis for estimating those costs at this time.

We record an asset that represents our best estimate of probable recoveries from our insurers for the estimated asbestos liabilities. There are significant assumptions made in developing estimates of asbestos-related recoveries, such as policy triggers, policy or contract interpretation, the methodology for allocating claims to policies, and the continued solvency of the Company's insurers. Certain of our primary coverage-in-place agreements are exhausted or will be exhausted in the next several months, which may result in higher net cash outflows until excess carriers begin accepting claims for reimbursement. Performance by our insurers could differ from the assumptions underlying the recognized asset and could result in lower collections of receivables than are currently expected to reduce the Company's asbestos costs.

Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims that may be filed beyond the next 10 years, it is not possible to predict the ultimate outcome of the cost, nor potential recoveries, of resolving the pending and all unasserted asbestos claims. Additionally, we believe it is possible that the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial statements.

Many uncertainties exist surrounding asbestos litigation. The Company will continue to evaluate its estimated asbestos-related liability and corresponding estimated insurance reimbursement, as well as the underlying assumptions and process used to derive these amounts. Changes in estimates related to these uncertainties may result in increases or decreases to the net asbestos liability, particularly if the quality or number of claims or settlement or defense costs change significantly, if there are significant developments in the trend of case law or court procedures, or if legislation or another alternative solution is implemented; however, the Company is currently unable to estimate such future changes. Although the resolution of asbestos claims takes many years, the effect of changes in our estimates related to our pending or estimated future claims in any given period could be material to our financial statements.

In addition, as part of the Distribution, ITT indemnified Exelis and Xylem with respect to asserted and unasserted asbestos claims that relate to the presence or alleged presence of asbestos in products manufactured, repaired or sold prior to the Distribution Date, subject to limited exceptions.

Our operating results and our ability to maintain liquidity or procure capital may be adversely affected by unfavorable economic and capital market conditions associated with global sales and operations and the uncertain geopolitical environment. Adverse conditions in the markets we serve could adversely affect demand for our products.

We have experienced and expect to continue to experience fluctuations in revenues and operating results due to economic and business cycles. Important factors impacting our businesses include the overall strength of the global economy and our customers' confidence in local and global macroeconomic conditions, industrial spending, interest rates, availability of commercial financing for our customers and unemployment rates.

We serve a diverse mix of customers in global infrastructure industries which can be volatile. The markets in which our business operates include automotive, aerospace, oil & gas, industrial, mining, chemical and defense, each of which is impacted by specific industry and general economic cycles. Our revenues, operating results and profitability have varied in the past and may vary from quarter to quarter in the future and can be negatively impacted by volatility in the end markets we serve. We have undertaken measures to reduce the impact of this volatility through diversification of markets we serve and expansion of geographic regions in which we operate. We may be adversely affected by disruptions in financial markets or downturns in macroeconomic conditions in specific countries or regions, or in the various industries in which the Company operates or be subject to adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which the Company operates.

Our international operations, including sales of U.S. exports, comprise a growing portion of our operations and are a strategic focus for continued future growth. Our strategy calls for increasing sales in overseas markets, including emerging growth markets such as Central and South America, China, India and the Middle East. In 2013, 64% of our total sales were to customers operating outside of the United States. Both our sales from international operations and export sales are subject in varying degrees to risks inherent to doing business outside the United States. These risks include the following:

- Possibility of unfavorable circumstances arising from host country laws or regulations;
- Currency exchange rate fluctuations and restrictions on currency repatriation;
- Potential negative consequences from changes to taxation policies;
- The disruption of operations from labor and political disturbances;
- Our ability to hire and maintain qualified staff in these regions; and
- Changes in tariff and trade barriers and import and export licensing requirements.

Instability in the global credit markets, including the recent European economic and financial difficulties related to sovereign debt issues in certain countries and the instability in the geopolitical environment in many parts of the world, may continue to put pressure on global economic conditions. If global economic and market conditions, or economic conditions in key markets, deteriorate further we may experience material impacts on our financial statements.

Adverse changes to financial conditions could jeopardize certain counterparty obligations, including those of our insurers and customers. Restrictive credit markets may also result in customers extending terms for payment and may result in our having higher customer receivables with increased risk of default. We closely monitor the credit worthiness of our insurers and customers and evaluate their ability to service their obligations to us. A tightening of credit markets may reduce funds available to our customers to pay for or buy our products and services for an unknown, but perhaps lengthy, period.

Should market conditions deteriorate, this may adversely affect our ability to manage inventory levels and maintain current levels of profitability. If, for any reason, we lose access to our currently available lines of credit, or if we are required to raise additional capital, we may be unable to do so or we may be able to do so only on unfavorable terms. We are exposed to fluctuations in foreign currency exchange rates, particularly with respect to the Euro, Chinese Renminbi, South Korean Won, Hong Kong Dollar, Mexican Peso, British Pound, Czech Koruna, Australian Dollar, Venezuelan Bolivar, and Canadian Dollar. As we continue to grow our business internationally, our operating results could be affected by the relative strength of the European, Asian and developing economies and the impact of currency exchange rate fluctuations. Any significant change in the value of currencies of the countries in which we do business relative to the value of the U.S. Dollar could affect our ability to sell products competitively and control our cost structure, which could have a material adverse effect on our financial statements. In addition to the general risks that we face outside the U.S., we now conduct more of our operations in emerging growth markets than we have in the

past, which could involve additional uncertainties, including risks that governments may impose limitations on our ability to repatriate funds; governments may impose withholding or other taxes on remittances and other payments to us, or the amount of any such taxes may increase; governments may seek to nationalize our assets; or governments may impose or increase investment barriers or other restrictions affecting our business. In addition, emerging growth markets pose

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other uncertainties, including the protection of our intellectual property, pressure on the pricing of our products, and risks of political instability.

A substantial portion of our earnings is generated by our foreign subsidiaries and repatriation of those earnings to the U.S. may be inefficient from a tax perspective. Any payment of distributions, loans or advances to us by our foreign subsidiaries could be subject to restrictions on, or taxation of, dividends on repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate. The cost of compliance with increasingly complex and often conflicting regulations worldwide can also impair our flexibility in modifying product, marketing, pricing, or other strategies for growing our businesses, as well as our ability to improve productivity and maintain acceptable profit margins.

Failure to compete successfully in our markets could adversely affect our business.

We provide products and services into competitive markets. We believe the principal points of competition in our markets are product performance, reliability and innovation, application expertise, brand reputation, energy efficiency, product life cycle cost, timeliness of delivery, proximity of service centers, effectiveness of our distribution channels and price.

Maintaining and improving our competitive position will require continued investment by us in manufacturing, research and development, engineering, marketing, customer service and support, and our distribution networks. We may not be successful in maintaining our competitive position. Our competitors may develop products that are superior to our products, or may develop more efficient or effective methods of providing products and services or may adapt more quickly than we do to new technologies or evolving customer requirements. Pricing pressures also could cause us to adjust the prices of certain products to stay competitive. We may not be able to compete successfully with existing or new competitors.

Our operating costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, energy and related utilities, freight, and cost of labor. In order to remain competitive, we may not be able to recuperate all or a portion of these higher costs from our customers through product price increases. Further, our ability to realize financial benefits from VBLSS activities may not be able to mitigate fully or in part these manufacturing and operating cost increases and, as a result, could negatively impact our profitability.

Quality problems with our manufacturing processes or finished goods could harm our reputation for producing high-quality products and erode our competitive advantage, sales, and market share.

We manufacture key components that are integral to the operation of systems and manufacturing processes in the energy, transportation and industrial markets. Our products provide enabling functionality for applications where reliability and performance are critically important to our customers and the users of their products. As such, quality is extremely important to us and our customers due to the serious and costly consequences of product failure. Our quality certifications are critical to the marketing success of our goods and services. If we fail to meet these standards, our reputation could be damaged, we could lose customers, and our revenue and results of operations could be materially adversely affected. Aside from specific customer standards, our success in part depends on our ability to manufacture to exact tolerances precision-engineered components, subassemblies, and finished devices from multiple materials. If our components fail to meet these standards or fail to adapt to evolving standards, our reputation as a manufacturer of high-quality components will be harmed, our competitive advantage could be damaged, and we could lose customers and market share.

Our business exposes us to potential product liability risks that are inherent in the design, manufacture, and marketing of products for the markets we serve. In addition, many of the devices we manufacture and sell are designed to be used in harsh environments for long periods of time where the cost of failure is high. Component failures, manufacturing defects, design flaws, or inadequate disclosure of product-related risks or product-related information could result in an unsafe condition or injury to, or death of, an end user of our products. The occurrence of such a problem could result in product liability claims or a recall of, or safety alert relating to, one or more of our products which could ultimately result, in certain cases, in the removal of such products from the marketplace and claims regarding costs associated therewith. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on our business and reputation and on our ability to attract and retain customers for our products.

Our business could be adversely affected by raw material price volatility and the inability of suppliers to meet quality and delivery requirements, and provide us with certifications relating to conflict minerals.

Our business relies on third-party suppliers for raw materials, components, and contract manufacturing services to produce our products. The supply of raw materials to the Company and to its component parts suppliers and the supply of castings, motors, and other critical components could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect the Company's results of operations and profit margins. Due to pricing pressure or other factors, the Company may not be able to pass along increased raw material and components parts prices to its customers in the form of price increases or its ability to do so could be delayed. Consequently, our results of operations and financial condition may be adversely affected.

For most of our products, we have existing alternate sources of supply, or such materials are readily available. In some instances we depend on a single source of supply, manufacturing or assembly or participate in commodity markets that may be subject to a limited number of suppliers. Delays in obtaining supplies may result from a number of factors affecting our suppliers, including production interruptions at suppliers, capacity constraints, labor disputes, the impaired financial condition of a particular supplier, the ability of suppliers to meet regulatory requirements, and suppliers' allocations to other purchasers. Any delay in our suppliers' abilities to provide us with sufficient quality and flow of materials, price increases, or decreased availability of raw materials or commodities could impair our ability to deliver products to our customers and, accordingly, could have an adverse effect on our business, results of operations and financial position.

Since our supply chain is complex, ultimately we may not be able to sufficiently discover the origin of the Conflict Minerals (generally defined as the minerals tin, tantalum, titanium and gold which have been extracted from the Democratic Republic of the Congo or adjoining countries) used in our products through the due diligence procedures that we implement, which may adversely affect our reputation with our customers, shareholders, and other stakeholders. In such event, we may also face difficulties in satisfying customers who require that all of our products are certified as conflict mineral free. If we are not able to meet such requirements, customers may choose not to purchase our products, which could adversely affect our sales and the value of portions of our inventory. Further, there may be only a limited number of suppliers offering conflict free minerals and, as a result, we cannot be sure that we will be able to obtain metals, if necessary, from such suppliers in sufficient quantities or at competitive prices. Any one or a combination of these various factors could harm our business, reduce market demand for our products, and adversely affect our profit margins, net sales, and overall financial results.

If we fail to manage the distribution of our products and services effectively, our revenue, gross margin and profitability could suffer. A significant portion of our revenue is derived from a single customer.

We use a variety of sales channels to sell our products and services, including third-party distributors, agents, and resellers. Successfully managing these sales channels is a complex process as we sell a broad mix of products through a network of over 800 distributors, agents, and resellers. Moreover, since each distribution method has distinct risks and profit margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and profit margins. In addition, changes to the sales channels could introduce additional complexity to the sales and inventory management processes and could cause disruptions to customer service or create channel conflicts.

Further, we must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and potential pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Our reliance on indirect distribution methods may reduce visibility to end-customer demand, generating a time lag to the market trend with potential negative impacts on strategic decisions, including pricing and operational decisions.

Our financial results could be adversely affected by the loss of a distributor, the loss or deterioration of some distribution or reseller arrangements, channel conflicts including the consolidation of third-party distributors, or if the financial conditions of our channel partners were to weaken. It is not unreasonable to suspect that some of our distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness, leading to a slowness or difficulty in the cash collection process.

A significant portion of our total revenue (and a significant portion of the revenue of our Motion Technologies segment) is derived from a single customer, whom we sell to through OE pad contracts and OES supply agreements with automakers and which is also a third-party distributor for us in the independent aftermarket channel.

Changes in our effective tax rates as a result of changes in the realizability of our deferred tax assets, the geographic mix of earnings, tax examinations or disputes, tax authority rulings, or changes in the tax laws applicable to us may adversely affect our financial results.

The Company is subject to income taxes in the U.S. and in various foreign jurisdictions. We exercise significant judgment in calculating our provision for income taxes and other tax liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Furthermore, changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability.

Any significant increase in our future effective tax rates could reduce net income for future periods. Given the global nature of our business, a number of factors may increase our future effective tax rates, including:

• Decisions to repatriate non-U.S. earnings for which we have not previously provided for U.S. income taxes;

• Changes in the geographic mix of our profits among jurisdictions with differing statutory income tax rates;

• Sustainability of historical income tax rates in the jurisdictions in which we conduct business;

• Changes in tax laws applicable to us;

• The resolution of issues arising from tax audits with various tax authorities; and

• Changes in the valuation of our deferred tax assets, deferred tax liabilities and deferred tax asset valuation allowances.

The amount of income taxes and other taxes we have paid are subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts paid or reserved, future financial results may include unfavorable tax adjustments. We are currently under routine examination by the U.S. Internal Revenue Service and other tax authorities, and we may be subject to additional examinations in the future. The tax authorities may disagree with our tax treatment of certain material items and thereby increase our tax liability. Failure to sustain our position in these matters could result in a material adverse effect on our financial statements.

Failure to retain our existing senior management, engineering and other key personnel or the inability to attract and retain new qualified personnel could negatively impact our ability to operate or grow our business.

Our success will continue to depend to a significant extent on our ability to retain or attract a significant number of employees in senior management, engineering and other key personnel. The ability to attract or retain employees will depend on our ability to offer competitive compensation, training and cultural benefits. We will need to continue to develop a roster of qualified talent to support business growth and replace departing employees. A failure to retain or attract highly skilled personnel could adversely affect our operating results or ability to operate or grow our business.

We rely on our information systems in our operations. Our information system structure could make it more difficult to cost-effectively implement changes. Security breaches could adversely affect our business and results of operations. Our information systems infrastructure is centralized, but our information system applications are both centralized and decentralized. The centralized infrastructure presents a risk in that a potential security breach could have a company-wide impact. The decentralized applications could result in significant replacement costs were the Company to decide to replace a number of the independent operating systems or consolidate operating systems. The inter-relationship of information systems also presents an additional risk when upgrading or replacing information systems. Additionally, we are planning numerous initiatives over the next several years to upgrade or replace existing Enterprise Resource Planning (ERP) systems. Implementing new systems may result in unintended changes to the way in which production is performed and transactions are processed. Our ability to execute these ERP systems implementations will directly impact our potential risk exposure during this implementation period.

The efficient operation of our business is dependent on computer hardware and software systems. While we believe we have taken many steps to protect our information systems, even the most well-protected information systems are vulnerable to internal and external security breaches including those by computer hackers and cyber terrorists. The unavailability of our information systems, the failure of these systems to perform as anticipated for any reason or any significant breach of security could disrupt our business and could result in decreased performance and increased overhead costs, causing an adverse effect on our business, reputation and financial statements.

Portfolio management strategies for growth, including cost-saving initiatives, may not meet expectations. We regularly review our portfolio of businesses and pursue growth through the acquisition of other companies, assets and product lines that either complement or expand our existing business. Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses we purchase, a level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of these business assets and their operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations. Acquisitions involve a number of risks and present financial, managerial and operational challenges that could have a material adverse effect on our reputation and business, including that an acquired business could under-perform relative to our expectations, the failure to realize expected synergies, integration of technology, operations, personnel and financial and other systems, the possibility that we have acquired substantial undisclosed liabilities, potentially insufficient internal controls over financial activities or financial reporting at an acquired company that could impact us on a consolidated basis, diversion of management attention from other businesses, loss of key employees of the acquired businesses, and customer dissatisfaction or performance.

Our portfolio reviews also include the potential for cost-saving initiatives through restructuring, realignment and other initiatives. We strive for and expect to achieve cost savings in connection with certain initiatives, including:

(i) manufacturing process and supply chain rationalization; (ii) streamlining redundant administrative overhead and support activities; and (iii) restructuring and repositioning organizations. Cost savings expectations are inherently estimates that are difficult to predict and we cannot provide assurance that we will achieve expected, or any, actual cost savings. Our restructuring activities may place substantial demands on our management, which could lead to the diversion of management's attention from other business priorities and result in a reduced customer focus.

The level of returns on postretirement benefit plan assets, changes in interest rates and other factors could affect our earnings and cash flows in future periods.

A portion of our current and retired employee population is covered by pension and other employee-related defined benefit plans (collectively, postretirement benefit plans). We may experience significant fluctuations in costs related to postretirement benefit plans as a result of macroeconomic factors, such as interest rates, that are beyond our control. The cost of our postretirement plans is incurred over long periods of time and involves various factors and uncertainties during those periods, which can be volatile and unpredictable, including the rates of return on postretirement benefit plan assets and discount rates used to calculate liabilities and expenses. Management develops each assumption using relevant Company experience in conjunction with market-related data. Our liquidity, cash flows and financial statements could be materially affected by significant changes in key economic indicators, volatility in the financial markets, future legislation and other governmental regulatory actions.

We make contributions to fund our postretirement benefit plans when considered necessary or advantageous to do so. The macro-economic factors discussed above, including the return on postretirement benefit plan assets and the minimum funding requirements established by local government funding or taxing authorities, or established by other agreements, may influence future funding requirements. A significant decline in the fair value of our plan assets, or other adverse changes to our overall pension and other employee-related benefit plans could require increased funding contributions and could adversely affect our financial statements. Future minimum funding requirements will depend primarily on the return on plan assets and discount rate. Depending on these factors, the level of future minimum contributions could be material.

Other Risks, Including Litigation and Regulatory Risk

Changes in environmental laws or regulations, the discovery of previously unknown or more extensive contamination, or the failure of a potentially responsible party to perform may adversely affect our financial results.

We could be affected by changes in environmental laws or regulations, including, for example, those imposed in response to vapor intrusion or climate change concerns.

Environmental laws and regulations allow for the assessment of substantial fines and criminal sanctions as well as facility shutdowns to address violations, and may require the installation of costly pollution control equipment or operational changes to limit emissions or discharges.

Accruals for environmental liabilities 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.

Our estimated liability is undiscounted and is reduced to reflect the participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective share of the relevant costs. Such estimates are subject to change and may be affected by many factors, such as new information about a site, evolving scientific knowledge about risk associated

with any contamination involved, developments affecting remediation technology, and enforcement by regulatory authorities.

We record an asset that represents our best estimate of probable recoveries from our insurers for the estimated environmental liabilities. There are significant assumptions made in developing estimates of environmental-related recoveries, such as policy triggers, policy or contract interpretation, and the continued solvency of the Company's insurers. Performance by our insurers could differ from the assumptions underlying the recognized asset and could result in lower collections of receivables than are currently expected.

Developments such as the adoption of new environmental laws and regulations, violations by us of such laws and regulations, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our inability to recover costs associated with any such developments, or financial insolvency of other potentially responsible parties could have a material adverse effect on our financial statements.

Failure to comply with the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation, as well as export controls and trade sanctions, could result in fines or criminal penalties.

We operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws. We are subject, however, to the risk that we, our affiliated entities, or the respective officers, directors, employees and agents of ITT may take action determined to be in violation of such anti-corruption laws, including but not limited to, the U.S. Foreign Corrupt Practices Act of 1977 and the U.K. Bribery Act of 2010, as well as trade sanctions administered by the Office of Foreign Assets Control, or OFAC, and the U.S. Department of Commerce. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial position. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management. We are subject to laws, regulations and potential liability relating to claims, complaints and proceedings, including those related to product and other matters.

We are subject to various laws, ordinances, regulations and other requirements of government authorities in the U.S. and in foreign countries. Any violations or failure to comply with securities laws, trade or tax rules or similar regulations could create a substantial liability for us, and also could cause harm to our reputation. Changes in laws, ordinances, regulations or other government policies, the nature, timing, and effect of which are uncertain, may significantly increase our expenses and liabilities.

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 product liability, personal injury claims, employment and employee benefit matters and commercial or contractual disputes, sometimes related to acquisitions or divestitures. Additionally, we may become subject to significant claims of which we are currently unaware or the claims of which we are aware may result in our incurring a significantly greater liability than we anticipate or can estimate.

We may be responsible for U.S. Federal income tax liabilities that relate to the Distribution.

In connection with the Distribution, we received a U.S. Internal Revenue Service (IRS) Ruling stating that ITT and its shareholders will not recognize any taxable income, gain, or loss for U.S. Federal income tax purposes as a result of the Distribution. The IRS Ruling, while generally binding upon the IRS, is based on certain factual statements and representations. If any such factual statements or representations were incomplete or untrue in any material respect, or if the facts on which the IRS Ruling was based are materially different from the facts at the time of the Distribution, the IRS could modify or revoke the IRS Ruling retroactively.

Certain requirements for tax-free treatment that are not covered in the IRS Ruling are addressed in an opinion of counsel delivered in connection with the Distribution. An opinion of counsel is not binding on the IRS. Accordingly, the IRS may reach conclusions with respect to the Distribution that are different from the conclusions reached in the opinion. Like the IRS Ruling, the opinion is based on certain factual statements and representations, which, if incomplete or untrue in any material respect, could alter counsel's conclusions.

If all or a portion of the Distribution does not qualify as a tax-free transaction because any of the factual statements or representations in the IRS Ruling or the legal opinion are incomplete or untrue, or because the facts upon which the IRS Ruling is based are materially different from the facts at the time of the Distribution, ITT would recognize a

substantial gain for U.S. Federal income tax purposes. In such case, under U.S. Treasury regulations, each member of the ITT consolidated group at the time of the Distribution would be severally liable for the resulting entire amount of any U.S. Federal income tax liability.

Even if the Distribution otherwise qualifies as a tax-free transaction for U.S. Federal income tax purposes, the Distribution will be taxable to ITT (but not to ITT shareholders) pursuant to Section 355(e) of the Internal Revenue Code if there are one or more acquisitions (including issuances) of the stock of ITT, Exelis or Xylem, representing 50% or more, measured by vote or value, of the then-outstanding stock of any such corporation, and the acquisition or acquisitions are deemed to be part of a plan or series of related transactions that include the Distribution. Any acquisition of ITT, Exelis or Xylem common stock within two years before or after the Distribution (with exceptions, including public trading by less-than-5% shareholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless that presumption is rebutted. The tax liability resulting from the application of Section 355(e) would be substantial. In addition, under U.S. Treasury regulations, each member of the ITT consolidated group at the time of the Distribution would be severally liable for the resulting U.S. Federal income tax liability.

Each of Exelis and Xylem has agreed not to enter into any transaction that could cause any portion of the Distribution to be taxable to ITT, including under Section 355(e). Pursuant to the Tax Matters Agreement entered into in connection with the Distribution, ITT, Exelis and Xylem have agreed to indemnify each other for any tax liabilities resulting from such transactions and transactions entered into by them. These obligations may discourage, delay or prevent a change of control of our Company.

The Distribution may expose us to potential liabilities.

In connection with the Distribution we may be exposed to potential liabilities. As part of the Distribution Agreement, ITT, Exelis, and Xylem indemnified each other with respect to such parties' assumed or retained liabilities pursuant to the Distribution Agreement and breaches of the Distribution Agreement or related spin agreements. There can be no assurance that the indemnity from Exelis and Xylem will be sufficient to protect us against the full amount of these and other liabilities, or that each of Exelis and Xylem will be able to fully satisfy its indemnification obligations.

Third-parties could also seek to hold us responsible for any of the liabilities that each of Exelis and Xylem has agreed to assume. Even if we ultimately succeed in recovering from Exelis and Xylem any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. In addition, performance on indemnities that we provided Exelis and Xylem may be significant. Each of these risks could negatively affect our business, results of operations and financial position.

Anti-takeover provisions in our organizational documents and Indiana law could delay or prevent a change in control. Certain provisions of our articles of incorporation and by-laws may delay or prevent a merger or acquisition that a shareholder may consider favorable. For example, the articles of incorporation authorize our Board of Directors to issue one or more series of preferred stock. In addition, the articles of incorporation and by-laws, among other things, do not permit action by written consent of the shareholders. These provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Indiana law also imposes some restrictions on mergers and other business combinations between any holder of 10% or more of our outstanding common stock and us as well as certain restrictions on the voting rights of "control shares" of an "issuing public corporation."

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We operate in 33 countries through 158 locations, of which 129 locations are leased. Our properties total 7.2 million square feet, of which 3.7 million square feet are leased. We consider the offices, plants, warehouses, and other properties that we own or lease to be in good condition and generally suitable for their intended purpose. We believe these properties are adequate for the Company's needs and will generally allow for expansion of capacity if needed. The following table details our quantitatively or qualitatively significant locations by segment.

LOCATION	SQ FT (IN '000S)	OWNED / LEASED
Corporate Headquarters White Plains, New York	54	Leased
Industrial Process Seneca Falls, New York	973	Owned
Choongbuk, South Korea	190	Owned
Obernkirchen, Germany	176	Owned
Amory, Mississippi	110	Leased
Lancaster, Pennsylvania	89	Owned
City of Industry, California	74	Owned
Southaven, Mississippi	69	Leased
Salto, Brazil	68	Owned
Shanghai, China	66	Leased
Baroda, India	60	Leased
Tizayuca, Mexico	46	Owned
Cheongwon, South Korea	39	Owned
Wangara, Australia	28	Leased
Dammam, Saudi Arabia	27	Leased
Motion Technologies Oud Beijerland, Netherlands	379	Owned
Barge, Italy	317	Owned
Wuxi, China	303	Leased
Ostrava, Czech Republic	261	Leased
Vauda Canavese, Italy	97	Owned
Termoli, Italy	94	Owned
Hebron, Kentucky	42	Leased
Kelsterbach, Germany	28	Leased
Novi, Michigan	16	Leased
Interconnect Solutions Santa Ana, California	364	Owned
Nogales, Mexico	358	Owned
Shenzhen, China	294	Leased
Weinstadt, Germany	231	Owned
Basingstoke, England	179	Leased
Lainate, Italy	52	Leased
Santa Rosa, CA	35	Leased
Control Technologies Valencia, California	200	Leased
Orchard Park, New York	92	Owned
Westminster, South Carolina	66	Owned
Wuxi, China	39	Leased
Billerica, Massachusetts	24	Owned

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to personal injury claims, environmental exposures, intellectual property matters, commercial or contractual disputes, sometimes related to acquisitions or divestitures, and employment and employee benefit matters. We will continue to defend vigorously against all claims. See information provided below and Note 20, Commitments and Contingencies, to the Consolidated Financial Statements for further information.

Asbestos Proceedings

ITT, including its subsidiary Goulds Pumps, Inc., has been joined as a defendant with numerous other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims allege that certain of our products sold prior to 1985 contained a part manufactured by a third party (e.g., a gasket) which contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. Frequently, the plaintiffs are unable to identify any ITT or Goulds Pump product as a source of asbestos exposure. In addition, a large percentage of claims pending against the Company have been placed on inactive dockets because the plaintiff cannot demonstrate a significant compensable loss. Our experience to date is that a majority of resolved claims have been dismissed without payment by the Company.

We record a liability for pending asbestos claims and asbestos claims estimated to be filed over the next 10 years. While it is probable that we will incur additional costs for future claims to be filed against the Company, a liability for potential future claims beyond the next 10 years is not reasonably estimable due to a number of factors. As of December 31, 2013, we have recorded an undiscounted asbestos-related liability for pending claims and unasserted claims estimated to be filed over the next 10 years of \$1,264.7, including expected legal fees, and an associated asset of \$517.8 which represents estimated recoveries from insurers, resulting in a net asbestos exposure of \$746.9.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of the Company, as of February 1, 2014, are listed below.

NAME	AGE	CURRENT TITLE
Denise L. Ramos	57	Chief Executive Officer and President
Aris C. Chicles	52	Executive Vice President
Mary Beth Gustafsson	54	Senior Vice President and General Counsel
Munish Nanda	49	Senior Vice President and President, Control Technologies
Robert J. Pagano, Jr.	51	Senior Vice President and President, Industrial Process
Luca Savi	47	Senior Vice President and President, Motion Technologies
Thomas M. Scalera	42	Senior Vice President and Chief Financial Officer
Neil W. Yeargin	48	Senior Vice President and President, Interconnect Solutions
Steven C. Giuliano	44	Vice President and Chief Accounting Officer

Denise L. Ramos was appointed Chief Executive Officer, President and a director of the Company in October 2011. She previously served as Senior Vice President and Chief Financial Officer of the Company since 2007. Prior to joining the Company, Ms. Ramos served as Chief Financial Officer for Furniture Brands International from 2005 to 2007. From 2000 to 2005, Ms. Ramos served as Senior Vice President and Corporate Treasurer at Yum! Brands, Inc. and Chief Financial Officer for the U.S. division of KFC Corporation. Ms. Ramos began her career in 1979 at Atlantic Richfield Company (ARCO), where she had more than twenty years of business and financial experience serving in a number of increasingly responsible finance positions, including Corporate General Auditor and Assistant Treasurer. Ms. Ramos is on the Board of Trustees for the Manufacturers Alliance for Productivity and Innovation and was recently included in the Top 100 Women Leaders in Science, Technology, Engineering, and Math publication by STEMconnector. She is also a member of the Business Roundtable and the Business Council.

Aris C. Chicles has served as our Executive Vice President since October 2011, and as our Senior Vice President, Strategy and Corporate Development from August 2007 to October 2011. Prior to joining us, Mr. Chicles served as Vice President, Corporate Business Development at American Standard, a manufacturer of plumbing and other products, from 2000 to 2006 and he had a 17-year career from 1983 to 2000 with Owens Corning Inc., a leading provider of building materials systems and composite solutions, in a series of progressively responsible operational positions.

Mary Beth Gustafsson has served as our Senior Vice President and General Counsel since February 2014. Prior to joining us, Ms. Gustafsson served as Executive Vice President, General Counsel and Corporate Secretary of First Solar Inc., a global provider of comprehensive photovoltaic solar systems, from 2009 to 2013 and from 2008 to 2009 as Vice President, General Counsel. Ms. Gustafsson was previously Senior Vice President, General Counsel and Secretary of Trane (formerly American Standard Companies, Inc.), a global manufacturer of commercial and residential heating, ventilation and air conditioning equipment, from 2005 to 2008.

Munish Nanda has served as our Senior Vice President and President, Control Technologies since April 2011 and as our Vice President and Director, Integrated Supply Chain for ITT's Fluid and Motion Control Group from April 2008 to April 2011. Prior to joining us, Mr. Nanda served in various operating leadership and general management positions with Thermo Fisher Scientific Corp. from July 2001 to April 2008, a provider of laboratory operations management solutions and technologies, and Honeywell Inc. from August 2000 to July 2001, a diversified technology and manufacturing company.

Robert J. Pagano, Jr. has served as our Senior Vice President and President, Industrial Process since October 2011, and as our President, ITT Industrial Products group from 2009 to 2011. Prior to that Mr. Pagano served as Vice President, Finance from 2006 to 2009. Mr. Pagano joined the Company in 1997 following the acquisition by the Company of Goulds Pumps and has served in various leadership roles within the Company. Prior to joining us, Mr. Pagano worked at KPMG Peat Marwick as an auditor.

Luca Savi has served as our Senior Vice President and President, Motion Technologies since November 2011. Prior to joining us, Mr. Savi served as Chief Operating Officer, Comau Body Welding at Comau, a subsidiary of the Fiat Group responsible for producing and serving advanced manufacturing systems, from 2009 to 2011 and prior to that as Chief Executive Officer, Comau North America from 2007 to 2009 and Chief Executive Officer, Comau China from 2004 to 2007. Mr. Savi previously held senior leadership roles at Honeywell International, Royal Dutch Shell and Ferruzzi-Montedison Group.

Thomas M. Scalera has served as our Senior Vice President and Chief Financial Officer since October 2011, and he previously served as Vice President, Corporate Finance from 2010 to 2011 and Director, Investor Relations and Financial Planning and Analysis from 2008 to 2010. Prior to joining us, Mr. Scalera held senior financial roles with R.R. Donnelley, Dover Corp., and PricewaterhouseCoopers, LLP.

Neil W. Yeargin has served as our Senior Vice President and President, Interconnect Solutions since February 2013. Prior to joining us, Mr. Yeargin held several leadership roles at Invensys plc, a global maker of software, systems and controls, most recently serving as Senior Vice President, Global Commercial Business from 2011 to 2013 and prior to that as Vice President and General Manager, Americas/APAC from 2008 to 2011. Mr. Yeargin previously held leadership roles in operations, supply chain and process improvement with Cooper Industries and Honeywell Inc. (formerly Allied Signal).

Steven C. Giuliano has served as our Vice President and Chief Accounting Officer since January 2014. Prior to joining us, Mr. Giuliano served as Vice President and Chief Financial Officer of Arch Chemicals, Inc., a global biocides company, from 2007 to 2011. Mr. Giuliano was Controller of Arch Chemicals from 1999 through 2007, while assuming increasing levels of responsibility.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK – MARKET PRICES AND DIVIDENDS

The table below reflects the range of market prices of our common stock as reported in the consolidated transaction reporting system of the New York Stock Exchange (NYSE), the principal market in which this security is traded (under the trading symbol "ITT").

	2013		2012	
	High	Low	High	Low
Three Months Ended:				
March 31	\$29.38	\$23.83	\$25.59	\$19.52
June 30	30.93	25.94	23.33	16.88
September 30	36.51	29.11	21.85	17.22
December 31	43.66	35.06	23.46	19.79

We declared dividends of \$0.10 and \$0.091 per share of common stock in each of the four quarters of 2013 and 2012, respectively. In the first quarter of 2014, we declared a dividend of \$0.11 per share for shareholders of record on March 14, 2014. The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors and will be based on, and affected by, a number of factors, including our financial position and results of operations, available cash, expected capital spending plans, prevailing business conditions, and other factors the Board deems relevant. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future.

There were approximately 11,355 holders of record of our common stock on February 11, 2014.

EQUITY COMPENSATION PLAN INFORMATION

The equity compensation plan information called for by Item 5(a) is set forth under the caption "Equity Compensation Plan Information" in our Proxy Statement for the 2014 Annual Meeting of Shareholders.

During the fiscal year ended December 31, 2013, no equity securities of the Company were sold by the Company that were not registered under the Securities Act of 1933, as amended.

ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable.

PERFORMANCE GRAPH
CUMULATIVE TOTAL RETURN

Based upon an initial investment on December 31, 2008 of \$100 with dividends reinvested

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
ITT Corporation	\$100.00	\$110.29	\$117.98	\$134.51	\$166.06	\$311.16
S&P 400 Mid-Cap	\$100.00	\$137.38	\$173.98	\$170.97	\$201.54	\$268.97
S&P 400 Industrial Machinery	\$100.00	\$131.62	\$172.45	\$170.45	\$208.00	\$284.79
S&P 400 Capital Goods ^(a)	\$100.00	\$137.05	\$185.78	\$177.31	\$222.29	\$319.52

The S&P 400 Capital Goods index will replace the S&P 400 Industrial Machinery index within our performance (a)graph in future Annual Report on Form 10-K filings. The S&P 400 Capital Goods index is the index utilized by the Company as the performance group for the long-term incentive plan total shareholder return awards.

This graph is not, and is not intended to be, indicative of future performance of our common stock. This graph shall not be deemed “filed” with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and should not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial data derived from the Consolidated Financial Statements for each of the five years presented. The selected financial data should be read in conjunction with, and is qualified in its entirety by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the Notes thereto.

(In Millions, except per share amounts)	2013	2012	2011	2010	2009
Results of Operations					
Revenue	\$2,496.9	\$2,227.8	\$2,085.6	\$1,890.7	\$1,757.3
Gross profit	799.8	680.2	645.0	603.9	560.0
Gross margin	32.0	% 30.5	% 30.9	% 31.9	% 31.9
Asbestos costs ^(a)	32.8	50.9	100.4	384.8	237.5
Transformation costs ^(b)	2.2	13.0	396.1	—	—
Other operating costs ^(c)	581.2	464.8	393.4	399.7	439.9
Operating income (loss)	183.6	151.5	(244.9)	(180.6)	(117.4)
Operating margin	7.4	% 6.8	% (11.7)	% (9.6)	% (6.7)
Income tax (benefit) expense ^(d)	(309.6)	) 39.6	260.6	(142.2)	(95.9)
Income (loss) from continuing operations attributable to ITT Corporation	487.7	109.5	(576.5)	(130.4)	(109.1)
Earnings from discontinued operations, net of tax ^(e)	0.8	15.9	447.0	934.7	737.9
Net income (loss) attributable to ITT Corporation	\$488.5	\$125.4	\$(129.5)	\$804.3	\$628.8
Income (loss) from continuing operations per basic share	\$5.36	\$1.18	\$(6.22)	\$(1.42)	\$(1.20)
Income (loss) from discontinued operations per basic share	\$0.01	\$0.17	\$4.82	\$10.17	\$8.09
Net income (loss) per basic share	\$5.37	\$1.35	\$(1.40)	\$8.75	\$6.89
Income (loss) from continuing operations per diluted share	\$5.28	\$1.16	\$(6.22)	\$(1.42)	\$(1.20)
Income (loss) from discontinued operations per diluted share	\$0.01	\$0.17	\$4.82	\$10.17	\$8.09
Net income (loss) per diluted share	\$5.29	\$1.33	\$(1.40)	\$8.75	\$6.89
Dividends declared	\$0.40	\$0.364	\$1.591	\$2.00	\$1.70
Financial Position					
Cash and cash equivalents ^(f)	\$507.3	\$544.5	\$689.8	\$206.0	\$186.6
Total assets ^(g)	3,740.2	3,386.1	3,671.5	12,616.4	11,195.5
Total debt and capital leases ^(h)	48.9	26.9	6.5	1,359.6	1,493.8

In 2009, we began recognizing asbestos liabilities for claims estimated to be filed over the next 10 years, net of estimated recoveries. It is probable that we will incur additional liabilities for asbestos claims filed beyond the next 10 years and such liabilities may be material. See Note 20, "Commitments and Contingencies," to the Consolidated Financial Statements for further information.

In 2011, \$396.1 of transformation costs were incurred to effectuate the Distribution of Exelis and Xylem (b)(transformation costs), including debt extinguishment costs of \$296.8. See Note 6, "Company Transformation," to the Consolidated Financial Statements for further information.

The increase in other operating costs from 2012 to 2013 primarily relate to an additional eleven months of (c)Bornemann operations during 2013 as well as higher selling, general and administrative costs associated with increased spending on a number of entity-wide initiatives and organic revenue growth.

The 2013 tax benefit of \$309.6 includes the release of a U.S. deferred tax valuation allowance of \$374.6 that was (d)initially established in 2011. The 2011 tax expense of \$260.6 includes a \$340.7 valuation allowance for U.S.

federal and state deferred tax assets as it became more likely than not that these deferred tax assets would not be realized, a \$69.3 tax expense for undistributed foreign earnings that were no longer considered indefinitely reinvested, and a \$30.9 tax benefit from an increase in state deferred tax assets which were re-measured based on enacted tax rates using different state apportionment factors as a result of the Distribution.

(e) Discontinued operations include the results of the Shape Cutting Businesses (disposed of in 2012), Exelis (disposed of in 2011), Xylem (disposed of in 2011) and transformation costs of \$240.1 recorded during 2011. Amounts presented within discontinued operations are costs directly related to the Distribution, primarily advisory fees and information technology costs, which provide no future benefit to the Company.

(f) The decline in cash and cash equivalents from 2011 to 2012 was primarily due to the acquisition of Bornemann for \$193.2 net of cash acquired. The increase in cash and cash equivalents from 2010 to 2011 was primarily due to receipt of a net cash transfer (the Contribution) of \$683.0 and \$988.0 from Exelis and Xylem, respectively, in connection with the Distribution, offset in part by the extinguishment of \$1,251.0 of long-term debt in October 2011. For all periods, cash and cash equivalents excludes cash and cash equivalents held by discontinued operations at the balance sheet date. See Management's Discussion & Analysis, Liquidity section for further information.

(g) The increase in total assets from 2012 to 2013 is primarily due to the release of a U.S. deferred tax valuation allowance of \$374.6. The decline in total assets from 2011 to 2012 is primarily due to a reduction in asbestos-related assets and liabilities resulting from a Settlement Agreement executed during the third quarter of 2012. See Note 20, Commitments and Contingencies, to the Consolidated Financial Statements for further information. The decline in total assets from 2010 to 2011 is primarily attributable to the Distribution of Exelis and Xylem on October 31, 2011, which had total combined assets of \$9,322.6 as of December 31, 2010. The assets of Exelis and Xylem, although presented as discontinued operations, are included in total assets for 2009 and 2010.

(h) Total debt as of December 31, 2011 reflects the extinguishment of \$1,251.0 of long-term debt in October 2011.

ITEM 7. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As we noted earlier on page 3 of this Annual Report on Form 10-K, this Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" (along with other sections of this Annual Report), may contain forward-looking statements. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about the business and future financial results of the industry in which we operate, and other legal, regulatory and economic developments. These forward-looking statements include, but are not limited to, future strategic plans and other statements that describe the company's business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance.

We use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "future," "may," "will," "could," "should," "potential," "continue," "guidance" and other similar expressions to identify such forward-looking statements. Forward-looking statements are uncertain and to some extent unpredictable, and involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

The risk factors discussed in Part I, Item 1A, "Risk Factors," and other risks identified in this Annual Report on Form 10-K could cause our actual results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business.

OVERVIEW

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

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

Our product and service offerings are organized into four segments: Industrial Process, Motion Technologies, Interconnect Solutions, and Control Technologies. These businesses generally operate within niche positions in large, attractive markets where specialized engineered solutions are required to support the needs of large industrial, transportation, and energy customers.

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

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

Interconnect Solutions manufactures a wide range of highly specialized connector products that make it possible to transfer signal and power in various electronic devices that are utilized in the aerospace and defense, industrial and transportation, oil & gas markets, and medical markets.

Control Technologies manufactures specialized equipment, including actuation, valves, switches, vibration isolation, custom-energy absorption, and regulators for the aerospace and defense, and industrial markets.

EXECUTIVE SUMMARY

During 2013, we continued on our strategic growth path emphasizing on our key growth areas; Market Expansion, Differentiated Customer Experience, Operational Excellence, and Effective Capital Deployment. We geared towards margin improvement through various operational initiatives, while leveraging our strengths to further expand our global capabilities and reach. We invested in capacity expansion, technology, and R&D projects to drive organic growth and continued to advance our acquisition pipeline. We implemented a series of strategic objectives, including front-end realignment and on-time delivery initiatives, to grow the top-line in Interconnect Solutions' core markets, while improving the overall cost structure of the segment.

One of our key operational priorities is to execute VBLSS transformations at each of our significant revenue-producing facilities in the next three to five years, with the goal of improving the overall depth and breadth across all elements of process efficiency. VBLSS encompasses lean enterprise as well as continuous process improvement in other critical areas such as customer service and order entry and fulfillment. Our intent is to drive ever increasing levels of quality, speed, and efficiency throughout the organization to help drive margin improvement and customer performance. We are still in the early stages of our five-year lean transformation initiative but we are already seeing significant improvements on numerous key performance indicators. One such indicator, on-time delivery which helps us deliver a premier customer experience, has improved at a majority of our businesses during the year. At ITT, we are extending the lean concept beyond manufacturing to deliver a differentiated value to our customers by improving overall service and responsiveness. We have also engaged in sourcing initiatives that have delivered supply chain savings that exceeded our expectations and reflect the increased leverage our global strategic sourcing council has provided.

Our Industrial Process segment pursued opportunities in the growing global oil & gas markets and looked for opportunities to expand their aftermarket business, while integrating Bornemann to fully leverage its technology and our distribution network. Our Motion Technologies segment continues to expand our share of the automotive market with our advanced braking technologies by further penetrating the Asia-Pacific and North American regions. Control Technologies is focused on expanding their customer base, especially internationally, and to increase our direct customer contact to complement our extensive distributor network.

During 2013, we increased capital spending by \$39.1 to \$122.9 on expanding capacity through the construction of a new South Korea oil & gas production facility that will play a key role in advancing our energy strategy by becoming our Energy Center of Excellence for the Eastern Hemisphere. We have also committed to and began construction on the expansion of our Seneca Falls, New York facility, which is our Energy Center of Excellence for the Western Hemisphere and Global R&D Center of Excellence. Additionally, we completed an expansion of our research and development and testing capabilities and will be adding capacity and reorganizing our existing facility to accommodate larger, more complex industrial pumps and to meet the growing demands of our customers.

We also returned \$124.3 to shareholders in 2013 through a combination of share repurchases and dividends and invested \$28.4 in restructuring initiatives. The restructuring initiatives focused on accelerating the turnaround efforts in certain businesses and we are implementing restructuring actions accordingly. Interconnect Solutions is one of those turnaround businesses, for which we have taken a holistic approach to deliver sustainable performance enhancements to our customers. We have focused on the front end and better coordination of connecting our engineering, marketing and sales directly with our key strategic channel partners and customers. We are also working to better align the manufacturing and overhead cost structure with the future strategy of the business. We are dedicated to reclaiming our leading position with our customers by providing innovative, high quality, reliable, highly engineered harsh environment connectors when the customer needs them. As a result of this focus, our Interconnect Solutions business illustrated preliminary benefits of this strategy, expanding its operating margin by 180 basis points from 2012.

From a results standpoint, 2013 was a strong year as we experienced positive results from each of our four segments. On a consolidated basis, we delivered revenue growth of 12.1% and organic revenue growth of 6.3%. The organic revenue growth was primarily driven by share gains in the automotive brake pad markets in China and Western Europe and by global sales of oil and gas pumps. Offsetting this growth were declines from pump equipment destined for the mining market and baseline pumps for the chemical and industrial markets. In addition, we won numerous positions on key strategic contracts and orders during 2013, which drove a 6.9% increase in organic orders received.

Consolidated operating income was \$183.6 for the year, representing a \$32.1 or 21.2% increase from the prior year, due to improved segment operating performance reflecting higher sales volume and net savings of approximately \$42 from our VBLSS, sourcing, and restructuring initiatives and a year-over-year reduction in asbestos-related costs of \$18.1 primarily related to a settlement agreement in 2013. We also continued our repositioning of the organization following the 2011 spin-offs of Exelis and Xylem, incurring costs of \$23.0 (repositioning costs) during 2013, primarily related to the exit transition service agreements and creating IT infrastructure modifications. Net income from continuing

operations was \$487.7 during 2013, which included a \$374.6 release of a U.S. deferred tax valuation allowance, resulting in earnings of \$5.28 per diluted share, reflecting growth of 355.2% over the prior year.

Adjusted income from continuing operations was \$186.3 for 2013, reflecting an increase of \$28.3, or 17.9%, over the prior year. Our adjusted income from continuing operations translated into \$2.02 per diluted share, a \$0.34 per share, or 20.2%, increase over the prior year. See the “Key Performance Indicators and Non-GAAP Measures,” for reconciliation of non-GAAP measures.

DISCUSSION OF FINANCIAL RESULTS

2013 VERSUS 2012

	2013	2012	Change	
Revenue	\$2,496.9	\$2,227.8	12.1	%
Gross profit	799.8	680.2	17.6	%
Gross margin	32.0	% 30.5	% 150	bp
Operating expenses	616.2	528.7	16.6	%
Operating expense to revenue ratio	24.7	% 23.7	% 100	bp
Operating income	183.6	151.5	21.2	%
Operating margin	7.4	% 6.8	% 60	bp
Interest and non-operating expenses, net	3.1	2.4	29.2	%
Income tax (benefit) expense	(309.6	) 39.6	(881.8)%
Effective tax rate	(171.5	)% 26.6	% (19,810	)bp
Income from continuing operations attributable to ITT Corporation	487.7	109.5	345.4	%
Earnings from discontinued operations, net of tax	0.8	15.9	(95.0)%
Net income attributable to ITT Corporation	\$488.5	\$125.4	289.6	%

REVENUE

Revenue for the year ended December 31, 2013 increased \$269.1, or 12.1%, over the prior year, primarily driven by our fourth quarter 2012 acquisition of Bornemann, which represented \$136.0 of the increase. The Industrial Process segment saw organic revenue gains during the year from global expansion in the oil & gas market. In addition, we experienced growth of \$95.6, or 15.3%, from our Motion Technologies segment primarily due to year-over-year OEM volume growth from expanded global brake pad market share gains and increased aftermarket demand. Our Interconnect Solutions segment also generated sales growth of \$19.8, or 5.3%, with increased sales in all core market categories.

The following table illustrates revenue generated with a specific country or region for the years ended December 31, 2013 and 2012, the corresponding percentage change, and the organic growth. See below for further discussion of year-over-year revenue activity at the segment level. See the section titled "Key Performance Indicators and Non-GAAP Measures" for a definition and reconciliation of organic revenue growth.

	2013	2012	Change	Organic Growth	
United States	\$896.2	\$869.3	3.1	% 0.9	%
Germany	266.7	200.5	33.0	% 19.7	%
France	144.7	118.2	22.4	% 17.2	%
Other developed markets	438.7	401.1	9.4	% 1.7	%
Total developed markets	1,746.3	1,589.1	9.9	% 4.7	%
South and Central America ^(a)	200.2	198.3	1.0	% (8.5)%
Eastern Europe and Russia	124.3	103.1	20.6	% 11.2	%
Middle East and Africa	144.1	114.3	26.1	% 19.8	%
China and Hong Kong	140.5	113.6	23.7	% 17.8	%
Other emerging growth markets	141.5	109.4	29.3	% 24.8	%
Total emerging growth markets	750.6	638.7	17.5	% 10.2	%
Total Revenue	\$2,496.9	\$2,227.8	12.1	% 6.3	%

(a) Includes Mexico

The following table illustrates the year-over-year revenue results from each of our segments for the years ended December 31, 2013 and 2012.

	2013	2012	Change	Organic Growth	
Industrial Process	\$1,107.4	\$955.8	15.9	% 3.7	%
Motion Technologies	721.8	626.2	15.3	% 12.7	%
Interconnect Solutions	395.5	375.7	5.3	% 5.9	%
Control Technologies	278.2	277.1	0.4	% 0.7	%
Eliminations	(6.0	) (7.0	) (14.3)% —	
Total Revenue	\$2,496.9	\$2,227.8	12.1	% 6.3	%

Industrial Process

Industrial Process revenue for the year ended December 31, 2013 increased \$151.6, or 15.9%, year-over-year, primarily related to our fourth quarter 2012 acquisition of Bornemann. This acquisition provided \$136.0 of incremental year-over-year revenue during 2013. Organic revenue increased 3.7% primarily due to gains in the global oil & gas market of approximately 21%, as well as increased shipments of project pumps in the North American chemical market. In addition, organic revenue growth reflected strength in aftermarket sales of approximately 15% as compared to the prior year. The growth in these areas during 2013 was partially offset by year-over-year weakness for North American baseline pumps and valves, delays in large global project shipments, as well as lower activity in the global mining and general industrial markets.

Orders for the year ended December 31, 2013 increased \$207.1, or 21.7%, as compared to the prior year, primarily reflecting Bornemann orders of \$170.6. Organic orders increased \$39.6, or 4.1%, due to an increase in parts orders and increased project business globally, partially offset by lower baseline business and valves orders in North America. The level of order and shipment activity related to engineered pumps can vary from period to period, which may impact year-over-year comparisons.

Backlog as of December 31, 2013 was \$681.7 an increase of \$53.2, or 8.5%, over December 31, 2012, with a significant portion related to complex project business expected to ship in the first half of 2014. This expectation coupled with the potential for lower levels of baseline pump shipments due to the order declines experienced during the fourth quarter of 2013 may have an unfavorable impact on margins during the first half of 2014. For the full year of 2014, we expect revenue to exceed 2013 levels stemming from anticipated growth in the oil & gas market and benefits from our aftermarket-related growth investments.

Motion Technologies

Motion Technologies revenue for the year ended December 31, 2013 increased \$95.6, or 15.3%, compared to the prior year, reflecting significant gains in both OEM and aftermarket within the Friction Technologies business. Foreign currency translation favorably impacted revenue growth by \$16.1, resulting in organic revenue growth of 12.7%, over the prior year.

Our aftermarket revenues, which are predominately generated within Europe and include OES and independent aftermarket channels, grew by approximately 15% during 2013 reflecting the benefits from a number of new business awards and campaigns from automakers. Additionally, during 2013, we began to generate OES volumes from OE platforms in China.

The strong growth in OEM automotive brake pad volume was driven by Europe and China. The growth in Europe resulted from our increasing number of automotive platforms and share gains, despite continued economic challenges. According to the European Automobile Manufacturers' Association (ACEA), car sales in Europe were 11.9 units in 2013, a year-over-year decrease of 1.7%.

The Chinese automotive market saw a significant increase in car sales during 2013, approximately 14% according to China Association of Automobile Manufacturers (CAAM). Our investments and strategic focus to gain market share in the region led to growth of approximately 54% in China.

Motion Technologies 2013 revenue growth was partially offset by a decline in revenue from the KONI business primarily related to the delay of various rail infrastructure projects in China and lower orders of military-related shock absorbers in the U.S.

Orders increased during 2013 by 18.8% year-over-year to \$743.9, including a favorable impact from foreign currency of \$16.1, reflecting significant fourth quarter order growth from Friction Technologies and KONI. We are anticipating revenue growth throughout 2014 primarily fueled by further year-over-year OE production increases in China and Europe.

Interconnect Solutions

Interconnect Solutions revenue for the year ended December 31, 2013 increased by \$19.8, or 5.3%, compared to the prior year, due to growth in each of our served core markets, attributable to improving macro-economic conditions affecting the connector industry and by increased operational execution. Our growth in the aerospace and defense market of 11.9%, was driven by benefits from funded U.S. programs unaffected by the U.S. sequestration and by strong demand from commercial airline manufacturers. Growth in the communications market of 6.0% was driven by a recent position win with a major Smartphone manufacturer and a corresponding production ramp-up during 2013. Growth in the industrial and transportation market of 3.0% reflected increases in North America and Europe as well as growth from sales of medical-related connector equipment. Growth in the oil & gas market of 7.0% primarily reflects increased distribution activity in North and South America.

Orders increased during 2013 by 4.3% to \$400.3, primarily reflecting year-over-year gains from the aerospace and defense and industrial markets.

Control Technologies

Control Technologies revenue for the year ended December 31, 2013 increased by \$1.1, or 0.4% as compared to the prior year reflecting growth in our aerospace commercial OEM products of approximately 20%, offset by a decline in revenue from our defense and industrial market product applications and an aerospace aftermarket program that is nearing its end of life in 2014. Our defense products applications revenue is down approximately 12% for the year, mainly due to programs impacted by the U.S. government sequestration. Revenue from industrial product applications declined approximately 5%, primarily driven by a decline in energy absorption equipment sales due to the completion of two large infrastructure projects during the prior year and lower sales of precision motion control products.

Orders decreased during 2013 by 2.7% to \$276.0, primarily due to large orders received during the fourth quarter of 2012 related to our seat actuation systems. Orders received during 2013 were also impacted by lower defense-related orders and the aerospace aftermarket program that is nearing its end of life. These declines were partially offset by order growth of approximately 30% from commercial OEM product applications driven by improved content levels and higher aircraft production rates.

GROSS PROFIT

Gross profit for the year ended December 31, 2013 was \$799.8, an increase of \$119.6 primarily from net savings related to global sourcing and VBLSS initiatives combined with contributions from our Bornemann acquisition. In addition, increased sales volumes were partially offset by an unfavorable change in price and sales mix across segments. The table below provides gross profit and gross margin by segment for the year ended December 31, 2013 and 2012.

	2013	2012	Change	
Industrial Process	\$361.7	\$294.8	22.7	%
Motion Technologies	193.4	160.4	20.6	%
Interconnect Solutions	129.7	111.8	16.0	%
Control Technologies	113.7	111.8	1.7	%
Corporate and Other	1.3	1.4	(7.1))%
Total gross profit	\$799.8	\$680.2	17.6	%
Gross margin:				
Industrial Process	32.7	% 30.8	% 190	bp
Motion Technologies	26.8	% 25.6	% 120	bp
Interconnect Solutions	32.8	% 29.8	% 300	bp
Control Technologies	40.9	% 40.3	% 60	bp
Consolidated	32.0	% 30.5	% 150	bp

OPERATING EXPENSES

Operating expenses for the year ended December 31, 2013 increased \$87.5 compared to the prior year, primarily driven by increased costs from the Bornemann business and costs to restructure and reposition the Company following the 2011 spin-offs, partially offset by lower asbestos-related costs. The following table provides further information by expense type, as well as a breakdown of operating expense by segment.

	2013	2012	Change	
Sales and marketing expenses	\$216.2	\$180.4	19.8	%
General and administrative expenses	297.7	221.7	34.3	%
Research and development expenses	67.3	62.7	7.3	%
Asbestos-related costs, net	32.8	50.9	(35.6))%
Transformation costs	2.2	13.0	(83.1))%
Total operating expenses	\$616.2	\$528.7	16.6	%
By Segment:				
Industrial Process	\$249.7	\$195.5	27.7	%
Motion Technologies	93.1	77.3	20.4	%
Interconnect Solutions	115.5	104.9	10.1	%
Control Technologies	58.4	53.5	9.2	%
Corporate & Other	99.5	97.5	2.1	%

Sales and marketing expenses for the year ended December 31, 2013 increased \$35.8 primarily due to costs from the Bornemann business.

General and administrative (G&A) expenses for the year ended December 31, 2013 increased \$76.0, including incremental year-over-year 2013 expenses of \$18.6 associated with the Bornemann business. In addition, during 2013 we recorded restructuring charges of \$28.4, an increase of \$14.4, primarily related to the Interconnect Solutions turnaround strategy. We estimate our 2013 restructuring actions will yield approximately \$18 in annual net savings. Additionally, during 2013 we incurred costs to reposition the organization (repositioning costs) of \$23.0 following the 2011 spin-offs of Exelis and Xylem. Repositioning costs primarily consisted of costs to exit transition services agreements, IT infrastructure modifications, and other various actions and resulted in an increase to G&A expenses of \$14.3. The Company expects to incur additional repositioning costs and payments of approximately \$10 during 2014 primarily related to the continued expansion of our human resources capabilities. In addition, 2013 was unfavorably impacted by higher corporate G&A expenses following the 2012 recognition of an insurance-related asset on environmental exposures and higher prior year environmental insurance recoveries.

R&D costs increased 7.3% year-over-year, as we continued to invest in new product developments in targeted growth markets at each segment. As a percentage of revenue, R&D costs declined to 2.7% in 2013 from 2.8% in 2012, primarily as a function of our year-over-year revenue growth. We anticipate our investments in future R&D activities will moderately increase from current spending levels to ensure a continuing flow of innovative, high quality products and maintain our competitive position in the markets we serve.

We recognized transformation costs of \$2.2 and \$13.0, including \$1.3 and \$4.3 that was reflected in results of our business segments, during 2013 and 2012, respectively. Transformation costs reflect expenses incurred in connection with activities taken to complete the separation following the Distribution. As of December 31, 2013, activities related to the Distribution are substantially complete. See Note 6, "Company Transformation" in our Notes to the Consolidated Financial Statements for further information.

Asbestos-Related Costs, Net

During 2013, we recognized net asbestos-related costs of \$32.8, reflecting a decrease of \$18.1 compared to the prior year, primarily related to a \$31.0 benefit recognized in connection with a settlement agreement with an insurer in 2013 compared to a \$5.8 benefit due to a settlement in 2012. Additionally, a distribution received from an insolvent insurer resulted in a separate \$5.8 benefit in 2012. We experienced \$2.4 favorability compared to the prior year in connection with our annual remeasurement. Based on the results of our 2013 remeasurement, performed in the third quarter of each year, we decreased our estimated undiscounted asbestos liability, including legal fees, by \$65.0 which is a result of several developments, including an expectation of lower defense costs relative to indemnities paid over the projection period and favorable experience in the ratio of cases dismissed versus settled. These favorable impacts were

offset in part by an increase in expected average settlement values.

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Also in connection with the 2013 remeasurement the Company reduced its estimated asbestos-related assets by \$65.5, which was primarily the result of the decrease in the estimated liability and changes in our recovery assumptions. In addition to the charges associated with our annual remeasurement, we record a net asbestos charge each quarter to maintain a rolling 10-year forecast period.

See Note 20, "Commitments and Contingencies," in our Notes to the Consolidated Financial Statements for further information on our asbestos-related liabilities and assets.

OPERATING INCOME

Operating income for 2013 was \$183.6, reflecting an increase of 21.2% over the prior year primarily due to segment operating income growth of \$34.2 and lower asbestos-related and transformation costs of \$28.9, partially offset by an increase in other corporate costs. The following table illustrates the 2013 and 2012 operating income and operating margin by segments and at the consolidated level.

	2013	2012	Change	
Industrial Process	\$112.0	\$99.3	12.8	%
Motion Technologies	100.3	83.1	20.7	%
Interconnect Solutions	14.2	6.9	105.8	%
Control Technologies	55.3	58.3	(5.1))%
Segment operating income	281.8	247.6	13.8	%
Asbestos-related costs, net	(32.8	) (50.9	) (35.6)%
Transformation costs ^(a)	(0.9	) (8.7	) (89.7)%
Other corporate costs	(64.5	) (36.5	) 76.7	%
Total corporate and other costs	(98.2	) (96.1	) 2.2	%
Total operating income (loss)	\$183.6	\$151.5	21.2	%
Operating margin:				
Industrial Process	10.1	% 10.4	% (30	)bp
Motion Technologies	13.9	% 13.3	% 60	bp
Interconnect Solutions	3.6	% 1.8	% 180	bp
Control Technologies	19.9	% 21.0	% (110	)bp
Segment operating margin	11.3	% 11.1	% 20	bp
Consolidated operating margin	7.4	% 6.8	% 60	bp

^(a) Reflects only the transformation costs incurred at the corporate level. Transformation costs of \$1.3 and \$4.3 are presented within segment operating income for 2013 and 2012, respectively

Industrial Process operating income for the year ended December 31, 2013 increased \$12.7, or 12.8%, while operating margin declined 30 basis points to 10.1%, as favorability from increased sales volume and VBLSS and sourcing cost reduction initiatives were partially offset by an \$8.1 increase in amortization expense related to intangible assets acquired during the Bornemann acquisition. In addition, operating income and margin was unfavorably impacted by an increase of approximately \$7.0 in strategic investment costs primarily related to facility expansion expenses and an aftermarket expansion initiative and an increase in restructuring expenses of \$4.2 primarily related to the closure of a non-core construction pump business.

Motion Technologies operating income for the year ended December 31, 2013 increased \$17.2 resulting in a 60 basis point improvement in operating margin. The increase in operating income and margin was primarily due to higher sales volumes and net savings from sourcing, VBLSS, and restructuring initiatives. These benefits were partially offset by higher maintenance costs and unfavorable pricing impacts. In addition, our 2013 operating income was unfavorably impacted by an inventory valuation adjustment, an increase in warranty and restructuring costs, and higher bad debt expense.

Interconnect Solutions operating income increased \$7.3 for the year ended December 31, 2013, resulting in operating income of \$14.2 and a 180 basis point increase in operating margin. Operating income was favorably impacted by net savings from restructuring, sourcing, and VBLSS initiatives as well as higher sales volume but had an unfavorable sales mix impact. These benefits were also partially offset by an increase in restructuring costs of \$10.0, as well as an unfavorable impact of \$1.3 from foreign currency fluctuations.

Control Technologies operating income for the year ended December 31, 2013 decreased \$3.0, reflecting a 110 basis point decline in operating margin. The year-over-year decrease was primarily driven by an unfavorable change in sales mix, an increase in strategic investment expenses, an unfavorable impact from foreign currency fluctuations, and a pension curtailment charge. These items were partially offset by net cost reductions from VBLSS, sourcing, and pricing initiatives of approximately \$8.2.

Other corporate costs increased \$28.0 primarily due to higher repositioning costs related to system separation activities, as well as a prior year benefit recorded related to the recognition of an insurance-related asset on environmental exposures. Other corporate costs for 2013 were also impacted by higher compensation and benefit-related costs which include higher annual and long-term incentive plan expenses.

INTEREST AND NON-OPERATING EXPENSES, NET

	2013	2012	Change	
Interest expense	\$6.3	\$0.1	6,200.0	%
Interest income	5.0	2.8	78.6	%
Miscellaneous expense (income), net	1.8	5.1	(64.7))%
Total interest and non-operating expenses, net	\$3.1	\$2.4	29.2	%

Interest expense increased by \$6.2 during 2013, primarily due to a year-over-year unfavorable movement in accrued interest associated with unrecognized tax benefits.

Interest income increased by \$2.2 during 2013, primarily due to interest received during 2013 in connection with a settlement of legacy receivables and payables with a former ITT entity, partially offset by lower year-over-year interest earned on cash deposit balances.

Miscellaneous expenses (income), net decreased \$3.3 during 2013, primarily due to a change in the presentation of income from noncontrolling interests. Income from noncontrolling interests was \$2.3 during 2012.

INCOME TAX EXPENSE

For the year ended December 31, 2013, the Company recognized an income tax benefit of \$309.6 representing an effective tax rate of (171.5)%, compared to income tax expense of \$39.6, and an effective tax rate of 26.6% for 2012. Our effective tax rate in 2013 differs from the statutory tax rate primarily as a result of the release of the valuation allowance that was initially recorded in 2011 as discussed below.

The Company released the valuation allowance against its U.S. deferred tax assets and recorded a tax benefit of \$374.6 during 2013. The valuation allowance was originally recorded in 2011 on U.S. deferred tax assets, in part, due to a cumulative three-year loss position resulting primarily from previous asbestos remeasurement charges. This cumulative loss position was considered a significant source of negative evidence and limited our ability to weigh other subjective evidence such as our projections for future growth. The Company generated U.S. adjusted income in 2012 and 2013 and is now in a cumulative three year income position. Based on positive evidence, including the three year cumulative positive income and the absence of any significant negative evidence, management determined that it is more likely than not that the Company's U.S. deferred tax assets will be realized except for certain deferred tax assets attributable to state net operating losses and tax credits.

As a result of a cumulative loss, the Company established a valuation allowance on foreign net deferred tax assets in Brazil and the U.K. The Company continues to maintain a valuation allowance against certain foreign net deferred tax assets, primarily in Luxembourg, Germany and China. Overall, the increase in the foreign valuation allowance of \$29.0 is primarily attributable to foreign net operating loss carryforwards in Luxembourg.

Our 2013 effective tax rate also reflected a tax charge \$11.0 for the deferred tax liabilities for the undistributed earnings generated in Hong Kong, Japan, and South Korea which are no longer considered to be indefinitely reinvested. We continue to provide deferred taxes on certain undistributed earnings in Luxembourg. We have not provided for deferred taxes on the remaining excess of financial reporting over tax bases of investments in foreign subsidiaries in the amount of \$506.6 because we plan to reinvest such earnings indefinitely outside the U.S. While the amount of U.S. federal income taxes, if such earnings are distributed in the future, cannot be determined, such taxes may be reduced by tax credits and other tax deductions.

EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAX

Income from discontinued operations decreased by \$15.1 during 2013 primarily due to the sale of our former shape cutting product lines which generated a gain on sale of \$9.0. In addition, the 2012 results include a \$5.6 benefit from the settlement of an asbestos-related matter, \$6.9 of after-tax costs related to the spin-off of Exelis and Xylem, and a tax benefit of \$5.9 primarily related to the completion of tax examinations and changes in unrecognized tax benefits. During 2013, income from discontinued operations included a net after-tax loss of \$1.3 related to a settlement of legacy receivables and payables with a former ITT entity.

DISCUSSION OF FINANCIAL RESULTS

2012 VERSUS 2011

	2012	2011	Change	
Revenue	\$2,227.8	\$2,085.6	6.8	%
Gross profit	680.2	645.0	5.5	%
Gross margin	30.5	% 30.9	% (40	)bp
Operating expenses	528.7	889.9	(40.6)%
Operating expense to revenue ratio	23.7	% 42.7	% (1,900	)bp
Operating income (loss)	151.5	(244.9	)	161.9 %
Operating margin	6.8	% (11.7	)%	1,850 bp
Interest and non-operating expenses, net	2.4	71.0	(96.6)%
Income tax expense	39.6	260.6	(84.8)%
Effective tax rate	26.6	% (82.5	)%	10,910 bp
Income (loss) from continuing operations	109.5	(576.5	)	119.0 %
Earnings from discontinued operations, net of tax	15.9	447.0	(96.4)%
Net income (loss)	\$125.4	\$(129.5	)	196.8 %

REVENUE

Revenue for the year ended December 31, 2012 increased \$142.2, or 6.8%, reflecting growth in the global industrial pump market and share gains in global automotive, partially offset by revenue declines at ICS and Control Technologies. The total increase was partially offset by unfavorable foreign currency fluctuations of \$58.9, which primarily related to a weakening of the Euro relative to the U.S. Dollar that affected Motion Technologies.

The following table illustrates revenue generated with a specific country or region for the years ended December 31, 2012 and 2011, the corresponding percentage change, the organic growth. See below for further discussion of year-over-year revenue activity at the segment level.

	2012	2011	Change		Organic Growth	
United States	\$869.3	\$779.6	11.5	%	11.8	%
Germany	200.5	229.8	(12.8	)%	(5.3)%
France	118.2	126.9	(6.9	)%	0.4	%
Other developed markets	401.1	360.9	11.1	%	6.8	%
Total developed markets	1,589.1	1,497.2	6.1	%	7.1	%
South and Central America ^(a)	198.4	178.1	11.4	%	14.6	%
Eastern Europe and Russia	103.1	105.5	(2.3	)%	4.4	%
Middle East and Africa	114.3	98.2	16.4	%	16.5	%
China and Hong Kong	113.6	115.0	(1.2	)%	(2.2)%
Other emerging growth markets	109.3	91.6	19.3	%	18.3	%
Total emerging growth markets	638.7	588.4	8.5	%	10.3	%
Total Revenue	\$2,227.8	\$2,085.6	6.8	%	7.9	%

(a) Includes Mexico

The following table illustrates the year-over-year revenue results from each of our segments for the years ended December 31, 2012 and 2011.

	2012	2011	Change	Organic Growth	
Industrial Process	\$955.8	\$766.7	24.7	% 20.2	%
Motion Technologies	626.2	634.4	(1.3	)% 6.0	%
Interconnect Solutions	375.7	417.8	(10.1	)% (7.9)%
Control Technologies	277.1	285.5	(2.9	)% (2.9)%
Eliminations	(7.0	) (18.8	) (62.8)% —	
Total Revenue	\$2,227.8	\$2,085.6	6.8	% 7.9	%

Industrial Process

The Industrial Process segment reported sales during 2012 with revenue reaching \$955.8, an increase of \$189.1, or 24.7%, from 2011. This growth partially reflected benefits from our acquisitions of Blakers and Bornemann, which combined to provide \$39.4 of additional revenue during 2012. Organic revenue growth of \$155.1 or 20.2% was fueled by gains in the engineered project business and volume growth across most geographic regions and end-markets. Geographically, North America was our strongest region, providing revenue growth of 25.8% with significant strength coming from North American oil & gas and chemical production, as well as improved plant utilization and new product development, primarily our expanded range of single and two-stage pumps. In addition, our past investments in the oil & gas and mining markets continued to drive positive results during 2012, which supported revenue growth of approximately 28.0% during 2012 and helped to drive a second consecutive year of record shipments. Pricing pressure stemming from the increasingly competitive project business environment resulted in a 0.7% year-over-year decline in revenue, which partially offset the growth from additional sales volume.

Orders increased by 4.2% to \$954.9 for 2012, or 1.0% on an organic basis, reflecting strong activity in the first half of the year, which gradually slowed during the second half of the year. The second half slowdown in orders was primarily the result of economic uncertainty, primarily in the U.S., during the latter half of 2012, which led to a declining trend in baseline equipment order activity and slowdowns and delays of project business. These factors impacted our fourth quarter 2012 orders and resulted in a 4.4% decline in organic orders as compared to the fourth quarter of 2011.

Motion Technologies

The Motion Technologies segment had a strong year of sales growth during 2012. Although revenue declined \$8.2 or 1.3% from 2011, this decline was attributable to unfavorable foreign currency impacts of \$46.5 or 7.3% primarily related to a weakening of the Euro relative to the U.S. Dollar. On an organic basis, 2012 revenue increased 6.0% despite the extremely difficult European automotive industry conditions due to the Eurozone financial crisis.

According to the European Automobile Manufacturers' Association (ACEA), car sales in Europe were 12.1 units in 2012, the lowest level since 1995, a year-over-year decline of 8.2%, as banks were reluctant to finance new car purchases for customers. The 2012 growth was primarily the result of a growing market share from our expanding presence in emerging growth markets and platform wins in the U.S.; however, we also maintained positive growth within Europe of 0.7%, excluding the impact of foreign currency translation, due to our increasing number of positions on new and existing auto platforms and the consumer demand for these platform models.

During 2012, aggregate sales to emerging growth markets on a constant currency basis grew by 36.5%, over the prior year, with 78.3% growth from China. To facilitate further growth within the Asia Pacific region, we completed construction of a R&D Center of Excellence and production center in Wuxi, China at the end of 2012 that began production in early 2013.

In 2012, we grew in North America mainly through market share gains at Ford that reflect our robust and innovative technical solutions.

Orders decreased during 2012 by 2.5% year-over-year to \$626.3, including an unfavorable impact from foreign currency of 7.1%, or \$45.3. On an organic basis, orders increased by 4.6%, reflecting growth of 7.1% during the first half of 2012 which leveled out during the second half of 2012 to 1.8%.

Interconnect Solutions

The Interconnect Solutions segment had a challenging year during 2012 as revenue declined by \$42.1 or 10.1% from the prior year. This decline was primarily due to a loss of market share in the communications, aerospace and transportation markets and inventory re-balancing by our primary U.S. distributor due to the significant decline in connector industry demand entering 2012. In addition, our 2012 revenues were negatively impacted by an overall weakness within the harsh environment connector industry. Within the communications market, 2012 revenue declined 22.3% due to a loss of market share by one of our key Smartphone customers. In the aerospace market, 2012 revenue

declined 14.1% primarily due to weaker demand for our products from commercial aerospace subcontractors. Within the transportation market revenue declined 22.9%, primarily due to weak economic conditions, resulting in many rail project delays in Europe and China. However, positive results were experienced in the oil & gas market with project wins in the Middle East and North America resulting in revenue growth of 12.0% over the prior year. We also saw revenue growth in Japan and Korea of 13.0% in the aggregate due, in part, to benefits from Japan's recovery from the 2011 tsunami and floods and increased sales of medical-related connector applications.

Control Technologies

The Control Technologies segment revenue for the year declined \$8.4, or 2.9%, from the prior year results which included \$16.1 of revenue related to a seat program on a Chinese rail infrastructure project that was completed at the end of 2011. Revenue from the remaining Control Technologies businesses grew 2.9% during 2012. Year-over-year growth in our commercial OEM product applications of \$15.6, or 12.3%, was driven by the expansion of our Enivate SkyMotion power seat actuation system onto new aerospace platforms and Boeing 787 production ramp-up, which offset a \$2.5 decline in actuator sales due to an aerospace aftermarket program that was nearing completion. Revenue from defense-related products declined \$7.3, or 14.5%, during 2012 primarily due to the reduction of funding for certain U.S. Department of Defense programs. CT Industrial revenue was relatively flat year-over-year as growth in energy absorption equipment and natural gas valves was offset by declines in Europe.

GROSS PROFIT

Gross profit for 2012 was \$680.2, representing a \$35.2 increase, or 5.5%, from 2011. Benefits from increased sales volume from Industrial Process and Motion Technologies and net savings from productivity, sourcing and VBLSS initiatives were partially offset by lower volume and an unfavorable change in sales mix at Interconnect Solutions. Gross profit was also impacted by unfavorable product pricing attributable to the competitive project business environment and increased levels of project business at Industrial Process during 2012. In addition, foreign currency unfavorably impacted our 2012 gross margin by \$15.1, primarily due to the weakening of the Euro relative to the U.S. Dollar. The year-over-year decline in gross margin of 40 basis points primarily reflects the volume decline at Interconnect Solutions and unfavorable changes in sales mix and pricing. The following table illustrates the gross profit and gross margin results of our segments for 2012 and 2011.

	2012	2011	Change	
Industrial Process	\$294.8	\$244.3	20.7	%
Motion Technologies	160.4	156.9	2.2	%
Interconnect Solutions	111.8	133.6	(16.3))%
Control Technologies	111.8	109.5	2.1	%
Corporate and Other	1.4	0.7	100.0	%
Total gross profit	\$680.2	\$645.0	5.5	%
Gross margin:				
Industrial Process	30.8	% 31.9	% (110)	)bp
Motion Technologies	25.6	% 24.7	% 90	bp
Interconnect Solutions	29.8	% 32.0	% (220)	)bp
Control Technologies	40.3	% 38.4	% 190	bp
Consolidated	30.5	% 30.9	% (40)	)bp

OPERATING EXPENSES

Operating expenses for 2012 decreased \$361.2, or 40.6%, from the prior year, which was primarily driven by lower Corporate & Other expenses of \$417.9. The decline in Corporate & Other expenses primarily relate to lower year-over-year transformation costs and asbestos-related costs, which were partially offset by additional company-wide G&A expenses of \$55.4 for 2012. Further discussion of the changes in operating expenses is provided below. The following table provides further information by expense type, as well as a breakdown of operating expense by segment.

	2012	2011	Change	
Sales and marketing expenses	\$ 180.4	\$ 163.6	10.3	%
General and administrative expenses	221.7	166.3	33.3	%
Research and development expenses	62.7	63.5	(1.3))%
Asbestos-related costs, net	50.9	100.4	(49.3))%
Transformation costs	13.0	396.1	(96.7))%
Total operating expenses	\$528.7	\$889.9	(40.6))%
By Segment:				
Industrial Process	\$ 195.5	\$ 152.8	27.9	%
Motion Technologies	77.3	71.6	8.0	%
Interconnect Solutions	104.9	95.8	9.5	%
Control Technologies	53.5	54.3	(1.5))%
Corporate & Other	97.5	515.4	(81.1))%

Sales and marketing expenses for 2012 increased \$16.8, or 10.3% year-over-year, primarily due to increased compensation and other selling expenses associated with the increase in revenue from Industrial Process, as well as additional costs from our Blakers and Bornemann acquisitions. As a percent of revenue, sales and marketing expenses were 8.1% in 2012 compared to 7.8% in 2011.

G&A expenses for 2012 increased \$55.4, or 33.3% year-over-year, due to various factors including increased restructuring expenses, an unfavorable change in foreign currency, costs incurred to reposition the organization following the Distribution (repositioning costs), lost cost leverage resulting from the Distribution related to higher standalone facility and infrastructure costs, additional costs related to our fourth quarter 2011 acquisition of Blakers, an increase in strategic investments and an increase in acquisition-related costs. The increase in G&A expenses was partially offset by the recognition of an asset for potential recoveries from environmental insurance policies. R&D costs were relatively flat year-over-year, as we continued to invest in new product developments in targeted growth markets at each segment. As a percentage of revenue, R&D costs declined to 2.8% in 2012 from 3.0% in 2011, primarily as a function of our year-over-year revenue growth.

For the full year 2012, asbestos-related costs, net decreased to \$50.9 from \$100.4. This decrease was primarily related to the effect of our annual asbestos remeasurement in the third quarter. In the third quarter of 2012, we recognized net asbestos related costs of \$2.9, reflecting a decrease of \$38.0 as compared to the prior year. The decrease in the cost recognized as part of the annual remeasurement in 2012 is a result of several developments, including an expectation of lower defense costs as a percentage of indemnities paid over the projection period and a reduction in the assumed rate of increase in future average settlement values. These favorable factors were offset, in part, by an increasing number of cases expected to be adjudicated, increased activity in several higher-cost jurisdictions, an increase in average settlement values and an increase in lung cancer activity. The decrease in costs from the annual remeasurement also reflects changes in our asbestos-related assets, primarily as a result of the decrease in the estimated liability and, to a lesser extent, reductions in expected recovery rates from certain insurers, offset in part by benefits from the Settlement Agreement (described in the paragraph below).

The Settlement Agreement, executed in September 2012, accelerated the cost sharing provisions of a previous agreement with the entity (the counterparty) that had previously acquired the disposed business. Under the terms of the Settlement Agreement, the counterparty assumed full responsibility for pending and future asbestos-related claims filed against the disposed business. As part of the Settlement Agreement, ITT also agreed to relinquish certain insurance assets of the disposed business. As a result of the Settlement Agreement, ITT's asbestos-related liabilities were reduced by \$245.2 while the asbestos-related assets were reduced by \$233.8. In addition, under the Settlement

Agreement, ITT received a \$10.0 cash payment from the counterparty for past and future costs that would otherwise have been paid by the surrendered insurance. Income from continuing operations reflects a benefit of \$5.8 from the Settlement Agreement, while income from discontinued operations reflects a benefit of \$5.6 from the Settlement Agreement.

See Note 20, “Commitments and Contingencies” to the Consolidated Financial Statements for further information on our asbestos-related liability and assets.

We recognized transformation costs of \$13.0 during 2012, a decline of \$383.1 from 2011 in connection with activities taken to create the revised organizational structure and to complete the Distribution. Transformation costs incurred during 2012 primarily relate to advisory services performed during the first half of the year and facility-related costs to separate locations previously shared with Xylem businesses. Transformation costs incurred during 2011 included a \$296.8 loss associated with extinguishing substantially all outstanding debt in connection with the Distribution, a \$55.0 impairment charge related to a decision to discontinue development of an information technology consolidation initiative and \$36.8 of employee retention and other compensation costs. Employee retention and other compensation costs incurred during 2011 include \$16.8 of compensation costs recognized in connection with the retirement of Steven R. Loranger, our former Chairman, President and Chief Executive Officer in October 2011.

OPERATING INCOME (LOSS)

Operating income for 2012 was \$151.5, as compared to an operating loss of \$244.9 for 2011. The increase in operating income and operating margin is primarily due to lower asbestos-related costs and transformation costs, offset in part by lower operating income at ICS and higher corporate costs. The following table illustrates the 2012 and 2011 operating income and operating margin by segments and at the consolidated level.

	2012	2011	Change	
Industrial Process	\$99.3	\$91.5	8.5	%
Motion Technologies	83.1	85.3	(2.6))%
Interconnect Solutions	6.9	37.8	(81.7))%
Control Technologies	58.3	55.2	5.6	%
Segment operating income	247.6	269.8	(8.2))%
Asbestos-related costs, net	(50.9)	(100.4)	(49.3))%
Transformation costs	(8.7)	(391.2)	(97.8))%
Other corporate costs	(36.5)	(23.1)	58.0	%
Total corporate and other costs	(96.1)	(514.7)	(81.3))%
Total operating income (loss)	\$151.5	\$(244.9)	161.9	%
Operating margin:				
Industrial Process	10.4	% 11.9	% (150)	)bp
Motion Technologies	13.3	% 13.4	% (10)	)bp
Interconnect Solutions	1.8	% 9.0	% (720)	)bp
Control Technologies	21.0	% 19.3	% 170	bp
Segment operating margin	11.1	% 12.8	% (170)	)bp
Consolidated operating margin	6.8	% (11.7)	)% 1,850	bp

Industrial Process operating income for 2012 increased \$7.8, or 8.5%, compared to the prior year, as the benefit from increased sales volume of \$31.8 and net savings from productivity, sourcing and VBLSS initiatives of approximately \$20.0 was partially offset by weaker project pricing and negative sales mix of \$6.1. In addition, operating income was unfavorably impacted by higher year-over-year corporate expense allocations, lost leverage resulting from the Distribution related to higher standalone facility and infrastructure costs, higher warranty costs, an increase in strategic investment spending, unfavorable foreign currency effects, and acquisition impacts and costs related to Bornemann. Operating margin for 2012 declined 150 basis points to 10.4%, as a result of the drivers mentioned above.

Motion Technologies operating income for 2012 declined \$2.2, or 2.6%, compared to the prior year, resulting in a 10 basis point decline in operating margin. The decline in operating income was primarily due to foreign currency translation effects which reduced operating income by \$8.7, and resulted in a 40 basis point decline in operating margin. Operating income benefited by \$13.4 from higher sales volume; however, this benefit was reduced by competitive pricing actions and an unfavorable change in sales mix, resulting in a net improvement of 30 basis points in operating margin. Operating income was also unfavorably impacted by expenses incurred in connection with the development of a new R&D Center of Excellence and production facility in Wuxi, China. These items were partially offset by net savings from productivity, sourcing and VBLSS initiatives of approximately \$18.0, which provided an

approximate benefit of 290 basis points to operating margin.

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Interconnect Solutions operating income for 2012 declined \$30.9, or 81.7%, resulting in a 720 basis point decline in operating margin. The decline in operating income was due to lower sales volumes which negatively impacted operating income by \$16.5 and operating margin by 360 basis points, an \$11.7 unfavorable change in product mix primarily due to lower sales of our Universal Connector product line that impacted operating margin by 290 basis points and a prior year gain of \$3.6 on the June 2011 sale of a product line that decreased operating margin by 90 basis points. In light of difficult market conditions, during the third and fourth quarters of 2012 restructuring actions were initiated to reduce European costs and improve global efficiency, resulting in a 2012 charge of \$7.3, an increase of \$4.4 over the prior year.

Control Technologies operating income for 2012 increased \$3.1, or 5.6%, resulting in a 170 basis point improvement. The increase was primarily due to productivity, sourcing, VBLSS and pricing initiatives that provided a 270 basis point improvement, which were partially offset by the impact of lower volume and unfavorable mix of \$4.5 and additional recurring costs following the Distribution of \$5.2 resulting in a combined decline in operating margin of 180 basis points.

Other corporate costs increased \$13.4, or 58.0%, during 2012, primarily due to the cancellation of a \$10.0 bond guarantee during 2011 and \$7.8 of repositioning costs incurred during 2012, partially offset by the recognition of a \$10.8 asset related to environmental insurance policies during 2012.

INTEREST AND NON-OPERATING EXPENSES, NET

	2012	2011	Change		
Interest expense	\$0.1	\$76.4	(99.9)%	
Interest income	2.8	4.1	(31.7)%	
Miscellaneous expense (income), net	5.1	(1.3)	(492.3)%
Total interest and non-operating expenses, net	\$2.4	\$71.0	(96.6)%	

Interest expense decreased by \$76.3 during 2012, due to the extinguishment of \$1,251.0 of long-term debt during the fourth quarter of 2011, and a \$3.9 reversal of accrued interest expense associated with unrecognized tax benefits primarily related to the completion of a U.S. federal tax examination.

INCOME TAX EXPENSE

For the year ended December 31, 2012, the Company recognized an income tax expense of \$39.6 representing an effective tax rate of 26.6%. Our effective tax rate in 2012 differs from the statutory tax rate primarily as a result of \$29.3 of tax benefits from tax exempt interest which benefited the effective tax rate by 19.7%, changes in the recognition of previously unrecognized tax benefits of \$19.6 related to the completion of tax examinations which benefited the effective tax rate by 13.2% and an increase in tax expense of \$41.2 related to the recognition of an additional valuation allowance which increased the effective tax rate by 27.7%.

For the year ended December 31, 2011, the Company recorded income tax expense of \$260.6, an effective tax rate of (82.5)%. The primary difference between the effective rate in 2012 and 2011 was the recognition of a valuation allowance against certain deferred tax assets in 2011 which decreased the effective tax rate benefit by 108.1%. Of the valuation allowance, \$340.7 was initially recorded in 2011 as a result of our cumulative three year loss position as of December 31, 2011. This was considered a significant source of negative evidence and limited our ability to consider other subjective evidence such as our projections for future growth. Despite income in 2012, the Company continued to be in a three-year cumulative loss position at the end of 2012, and it was determined that the size and frequency of the losses from continuing operations in recent prior years and the uncertainty associated with projecting future taxable income supported the conclusion that a valuation allowance was required to reduce the deferred tax assets. Accordingly, we continued to record a valuation allowance against our deferred tax assets in the U.S., Luxembourg, Germany and China as of December 31, 2012, which was \$493.9 on that date. The valuation allowance as of December 31, 2012 represented an increase of \$58.7 over the prior year, primarily due to an increase of \$20.1 attributable to U.S. federal and state net operating losses and net temporary differences and an increase of \$35.7 attributable to foreign net operating loss carryforwards primarily in Luxembourg and China and net temporary differences.

Our 2011 effective tax rate also reflected, as a result of the Distribution and its impacts on the Company's expected liquidity, investment opportunities and other factors, a determination that certain earnings generated in Luxembourg, Japan, and South Korea were no longer considered to be indefinitely reinvested. As a result of the change in intent, the

Company recorded \$69.3 of deferred tax liability on those undistributed foreign earnings during 2011 which decreased the effective tax rate benefit by 21.8%. As of December 31, 2012, we continued to provide for taxes on these undistributed foreign earnings and accrued an additional \$2.1 deferred tax liability. The Company also recorded

a \$30.9 tax benefit in 2011 from an increase in state deferred tax assets which resulted in a 9.7% increase in the effective tax rate benefit. As a consequence of the Distribution, certain state deferred tax assets were re-valued based on enacted tax rates using different state apportionment factors, increasing the future state tax benefit. The Company recorded a tax benefit of \$23.0 for various tax credits, resulting in a tax rate benefit of 7.2%.

EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAX

During 2012, the Company completed the sale of its Shape Cutting Businesses. The financial position and results of operations of the Shape Cutting Businesses for 2012 and 2011 are reported as a discontinued operation.

On October 31, 2011, the Company completed the Distribution of Exelis and Xylem. The operating results of Exelis and Xylem through the date of the Distribution have been classified in the consolidated financial statements as discontinued operations for 2011.

The tables included below provide the operating results of discontinued operations through the date of disposal or distribution. Amounts presented in the “Other” column within the tables below relate to various divested ITT businesses accounted for as discontinued operations in the year of divestiture for which legacy liabilities remain, as well as certain transformation costs which were directly related to the Distribution and provided no future benefit to the Company.

Year Ended 2012	Shape Cutting Businesses	Other	Total
Revenue	\$30.2	\$—	\$30.2
Earnings from discontinued operations, before income taxes	0.6	0.4	1.0
Gain on sale, before income taxes	9.0	—	9.0
Income tax benefit	—	(5.9	) (5.9
Earnings from discontinued operations, net of tax	\$9.6	\$6.3	\$15.9

Year Ended 2011	Exelis	Xylem	Shape Cutting Businesses	Other	Total
Revenue	\$4,916.1	\$3,107.5	\$33.5	\$—	\$8,057.1
Transformation costs	31.2	74.8	—	134.1	240.1
Earnings (loss) from discontinued operations, before income taxes	473.0	321.5	(2.5	) (108.9	) 683.1
Income tax expense (benefit)	193.6	70.3	(1.1	) (26.7	) 236.1
Earnings (loss) from discontinued operations, net of tax	\$279.4	\$251.2	\$(1.4	) \$(82.2	) \$447.0

LIQUIDITY AND CAPITAL RESOURCES

Funding and Liquidity Strategy

Our funding needs are monitored and strategies are executed to meet overall liquidity requirements, including the management of our capital structure on both a short- and long-term basis. We expect to fund our ongoing working capital, dividends, capital expenditures and financing requirements through cash flows from operations and cash on hand or by accessing the commercial paper market. If our access to the commercial paper market were adversely affected, we believe that alternative sources of liquidity, including our 2011 Revolving Credit Agreement, described below, would be sufficient to meet our short-term funding requirements.

We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We have identified and continue to look for opportunities to access cash balances in excess of local operating requirements to meet global liquidity needs in a cost-efficient manner. A majority of our cash and cash equivalents is held by our international subsidiaries. We have and plan to transfer cash between certain international subsidiaries and the U.S. and other international subsidiaries when it is cost effective to do so. Our intent is generally to indefinitely reinvest these funds outside of the U.S. consistent with our overall intention to support growth and expand in markets outside the U.S. through the development of products, increase non-U.S. capital spending, and potentially acquire foreign businesses. However, we have determined that certain undistributed foreign earnings generated in Luxembourg,

Japan, Hong Kong, and South Korea should not be considered permanently reinvested outside of the U.S. Net distributions from foreign countries totaled \$43.9 during 2013. The timing and amount of future remittances, if any, remains under evaluation.

The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors and will be based on, and affected by, a number of factors, including our financial position and results of operations, available cash, expected capital spending plans, prevailing business conditions, and other factors the Board deems relevant. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future. Aggregate dividends paid in 2013 were \$36.4, compared to \$34.2 in 2012 and \$193.0 in 2011, reflecting per share amounts of \$0.40, \$0.364, and \$1.591, respectively. In connection with the Distribution, ITT decreased its quarterly dividend from \$0.50 per share to \$0.091 per share. In the first quarter of 2014, we declared a dividend of \$0.11 per share for shareholders of record on March 14, 2014.

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

We access the commercial paper market to supplement the cash flows generated internally to provide additional short-term funding for strategic investments and other funding requirements. We manage our short-term liquidity through the use of our commercial paper program by adjusting the level of commercial paper borrowings as opportunities to deploy additional capital arise and it is cost effective to do so. As of December 31, 2013, we had an outstanding commercial paper balance of \$38.0 and averaged an outstanding balance of \$47.7 during the year.

Credit Facilities

On October 25, 2011 we entered into a four-year revolving \$500 credit agreement (the 2011 Revolving Credit Agreement). The 2011 Revolving Credit Agreement is intended to provide access to additional liquidity and be a source of funding for the commercial paper program, if needed. Our policy is to maintain unused committed bank lines of credit in an amount greater than outstanding commercial paper balances. The interest rate for borrowings under the 2011 Revolving Credit Agreement is generally based on the London Interbank Offered Rate (LIBOR), plus a spread, which reflects our debt rating. The provisions of the 2011 Revolving Credit Agreement require that we maintain an interest coverage ratio, as defined, of at least 3.0 times and a leverage ratio, as defined, of not more than 3.0 times. At December 31, 2013, we had no amounts outstanding under the 2011 Revolving Credit Agreement and our interest coverage ratio and leverage ratio were within the prescribed thresholds.

Our credit ratings as of December 31, 2013 are as follows:

Rating Agency	Short-Term Ratings	Long-Term Ratings
Standard & Poor's	A-3	BBB-
Moody's Investors Service	P-3	N/A
Fitch Ratings	F2	A -

As we no longer have long-term debt securities outstanding or a current Shelf Registration Statement filed with the SEC, Moody's Investors Service does not currently provide a long-term rating for ITT. Please refer to the rating agency websites and press releases for more information.

Sources and Uses of Liquidity

Our principal source of liquidity is our cash flow generated from operating activities, which provides us with the ability to meet the majority of our short-term funding requirements. The following table summarizes net cash derived from operating, investing, and financing activities for the three years ended December 31, 2013, 2012, and 2011.

	2013	2012	2011
Operating activities	\$226.6	\$247.1	\$(322.4)
Investing activities	(188.8)	(274.7)	(106.5)
Financing activities	(58.3)	(108.0)	922.3
Foreign exchange	(0.4)	(4.0)	(9.4)
Total net cash flow (used in) from continuing operations	\$(20.9)	\$(139.6)	\$484.0
Net cash used in discontinued operations	(16.3)	(5.7)	(426.5)
Less: Cash distributed to Exelis and Xylem	—	—	(400.0)
Net change in cash and cash equivalents	\$(37.2)	\$(145.3)	\$(342.5)

Net cash of \$226.6 was provided by operating activities for the year ended December 31, 2013, representing a decrease of \$20.5 from the prior year, primarily attributable to the collection of a significant 2012 income tax refund which stemmed from an overpayment during 2011. Cash activity related to net income tax payments and refunds resulted in a 2013 year-over-year decline to cash flow from operations of \$122.8. This unfavorable impact was offset by an increased source of cash from segment operating income after non-cash adjustments of \$67.8. However, the year-over-year change in work capital balances resulted in a higher cash usage of \$10.2 during 2013, primarily related to changes in the level of trade receivables and payables. In addition, the year-over-year change in net cash from operating activities benefited from lower global postretirement plan contributions of \$59.1 and lower net payments for transformation and repositioning activities of \$22.5. In addition, the year-over-year movement included an unfavorable change in corporate accounts receivable of \$17.6, primarily related to higher 2012 cash receipts from Xylem and Exelis associated with the 2011 spin-off, as well as higher consolidated 2013 restructuring-related cash payments of \$7.4.

Net cash provided by operating activities was \$247.1 for 2012, representing an increase of \$569.5 from 2011. The increase in operating cash flow was primarily attributable to net income tax refunds of \$100.9 during 2012 as compared to net income tax payments of \$140.0 during 2011, resulting in a year-over-year change of \$240.9. The refunds received in 2012 were primarily related to tax benefits associated with transformation costs incurred in 2011. Additional year-over-year cash flow sources and uses include a decline in cash paid for transformation costs of \$307.7 offset by an increase in cash contributions to global postretirement plans of \$40.2 and a lower cash use associated with changes in working capital of \$74.0, primarily related to changes in the level of trade receivables and inventory. Net cash payments for asbestos decreased by \$1.9 compared to 2011.

Net cash used in investing activities decreased by \$85.9 during 2013 compared to 2012 primarily due to the acquisition of Bornemann in the fourth quarter of 2012. Capital expenditures during 2013 of \$122.9 reflect an increase of \$39.1 from the prior year primarily associated with capacity expansion projects in South Korea, Seneca Falls, New York, and Wuxi, China to support growth in global automotive and energy markets. Net cash from investing activities was also impacted by additional purchases of short-term time deposit investments of \$33.8, net of maturities, during 2013 and the sale of the Shape Cutting businesses which generated proceeds of \$39.5 during 2012.

Net cash used in investing activities increased by \$168.2 in 2012 compared to 2011 due to the acquisition of Bornemann in the fourth quarter of 2012 and the purchase of short-term time deposit investments of \$38.2, partially offset by proceeds of \$38.4 from the sale of the Shape Cutting Businesses as well as lower capital expenditures of \$18.5.

Net cash used in financing activities decreased by \$49.7 in 2013 compared to 2012 primarily due to an increase in net short-term debt borrowings of \$50.2 and a \$28.9 decrease in share repurchases as compared to the prior year. This year-over-year cash inflow benefit was partially offset by a \$20.9 decline in proceeds associated with employee stock issuance activity, net of excess tax benefits.

Net cash used in financing activities was \$108.0 during 2012, compared to cash provided by financing activities of \$922.3 during 2011. The year-over-year change primarily reflects the net effects of the Distribution, including the Contribution paid to ITT by Exelis and Xylem and the net effect of the global cash pooling in which Exelis and Xylem

participated prior to the Distribution, offset by the repayment of substantially all outstanding long-term debt, commercial paper and capital leases with the proceeds from the Distribution. Other significant financing cash flows in 2012 include repurchases of common stock of \$116.8 and net repayments on borrowings of \$24.5.

Our average daily outstanding commercial paper balance for the years ended 2013, 2012, and 2011 was \$47.7, \$10.1, and \$127.6, respectively. The maximum outstanding commercial paper during each of those respective years was \$103.5, \$55.0 and \$408.0, respectively. We had outstanding commercial paper of \$38.0 as of December 31, 2013. Net cash used related to discontinued operations for the year ended December 31, 2013 is primarily due to the settlement of legacy receivables and payables with a former ITT entity, resulting in a net cash payment by ITT of \$15.3.

Asbestos

Based on the estimated undiscounted asbestos liability as of December 31, 2013 for claims filed or estimated to be filed over the next 10 years, we have estimated that we will be able to recover approximately 41% of the asbestos indemnity and defense costs from our insurers. Actual insurance reimbursements may vary significantly from period to period and the anticipated recovery rate is expected to decline over time due to gaps in our insurance coverage, reflecting uninsured periods, the insolvency of certain insurers, prior settlements with our insurers, and our expectation that certain insurance policies will exhaust within the next 10 years. In the tenth year of our estimate, our insurance recoveries are currently projected to be 30%. Additionally, future recovery rates may be impacted by other factors, such as future insurance settlements, insolvencies, and judicial determinations relevant to our coverage program, which are difficult to predict and subject to a high degree of uncertainty.

The Company has negotiated with certain of its excess insurers to reimburse the Company for a portion of its settlement and/or defense costs as incurred, frequently referred to as “coverage-in-place” agreements. Under coverage-in-place agreements, an insurer’s policies remain in force and the insurer undertakes to provide coverage for the Company’s present and future asbestos claims on specified terms and conditions that address, among other things, the share of asbestos claims costs to be paid by the insurer, payment terms, claims handling procedures and the expiration of the insurer’s obligations. The Company has entered into policy buyout agreements with certain insurers confirming the aggregate amount of available coverage under the subject policies and setting forth a schedule for future payments to a Qualified Settlement Fund, to be disbursed for future asbestos costs. Collectively, these agreements are designed to facilitate an orderly resolution and collection of ITT’s insurance and to mitigate issues that insurers may raise regarding their responsibility to respond to claims.

As of December 31, 2013, the Company has entered into coverage-in-place agreements and policy buyout agreements representing approximately 59% of our recorded asset. Certain of our primary coverage-in-place agreements are exhausted or will be exhausted in the next several months, which may result in higher net cash outflows until excess carriers begin accepting claims for reimbursement. While there are overall limits on the aggregate amount of insurance available to the Company with respect to asbestos claims, those overall limits were not reached by the estimated liability recorded by the Company at December 31, 2013.

Further, there is uncertainty in estimating when cash payments related to the recorded asbestos liability will be fully expended and such cash payments will continue for a number of years beyond the next 10 years due to the significant proportion of future claims included in the estimated asbestos liability and the delay between the date a claim is filed and when it is resolved. Subject to these inherent uncertainties, it is expected that cash payments related to pending claims and claims to be filed in the next 10 years will extend through approximately 2029.

Although asbestos cash outflows can vary significantly from year to year, our current net cash outflows, net of tax benefits, are projected to average \$10 to \$20 over the next five years, as compared to an average of \$14 over the past three annual periods, and increase to an average of approximately \$35 to \$45 over the remainder of the projection period.

In light of the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures and potential recoveries, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, we do not believe there is a reasonable basis for estimating the number of future claims, the nature of future claims, or the cost to resolve future claims for years beyond the next 10 years at this time.

Accordingly, no liability or related asset has been recorded for any costs that may be incurred for claims asserted subsequent to 2023.

Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims which may be filed beyond the next 10 years, it is not possible to predict the ultimate outcome of the cost of resolving the pending and estimated unasserted asbestos claims. We believe it is possible that the future events affecting the key

factors and other variables within the next 10 years, as well as the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial statements.

Funding of Postretirement Plans

The following table provides a summary of the funded status of our postretirement benefit plans as of December 31, 2013 and 2012.

	2013				2012			
	U.S. Pension	Non-U.S. Pension	Other Benefits	Total	U.S. Pension	Non-U.S. Pension	Other Benefits	Total
Fair value of plan assets	\$266.8	\$2.0	\$9.2	\$278.0	\$247.1	\$2.0	\$7.9	\$257.0
Projected benefit obligation	281.2	84.8	166.6	532.6	303.6	83.4	213.0	600.0
Funded status	\$(14.4)	\$(82.8)	\$(157.4)	\$(254.6)	\$(56.5)	\$(81.4)	\$(205.1)	\$(343.0)

The funded status of our U.S. pension plans improved \$42.1 during 2013 due to better than expected asset returns, an increase in the discount rate, and certain plan design changes. Our non-U.S. pension plans are typically not funded due to local regulations and the funded status as of December 31, 2013 was consistent with that of the prior year. The funded status of our other benefit plans improved \$47.7 during 2013 due to changes in plan design and an increase in the discount rate.

While we make contributions to our postretirement benefit plans when considered necessary or advantageous to do so, the minimum funding requirements established by local government funding or taxing authorities, or established by other agreements, may influence future contributions. Funding requirements under U.S. Internal Revenue Service (IRS) rules are a major consideration in making contributions to our U.S. postretirement benefit plans. During 2013 and 2012, we contributed \$11.9 and \$71.0 to our postretirement benefit plans, respectively, \$0.9 and \$58.3 of which was to U.S. pension plans, \$8.2 and \$9.7 was to other employee-related benefit plans, and \$2.8 and \$3.0 was to non-U.S. pension plans.

While the Company has significant discretion in making voluntary contributions, the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006 and further amended by the Worker, Retiree, and Employer Recovery Act of 2008 and applicable Internal Revenue Code regulations mandate minimum funding thresholds. Failure to satisfy the minimum funding thresholds could result in restrictions on our ability to amend a plan or make benefit payments. In general, certain benefit restrictions apply when the Adjusted Funding Target Attainment Percentage (AFTAP) of a plan is less than 80%. When the AFTAP is between 80% and 60%, there is a restriction on plan amendments and a partial restriction on accelerated benefit payments (i.e., lump sum payments cannot exceed 50% of the value of the participants total benefit). Full benefit restrictions apply if the plan's AFTAP falls below 60%. As of December 31, 2013, the funding percentages of all ITT U.S. Qualified pension plans exceeded 80% as calculated using the AFTAP approach.

Future minimum funding requirements will depend primarily on the return on plan assets and discount rate, both determined using AFTAP guidelines. Depending on these factors, and the resulting funded status of our U.S. pension plans, the level of future minimum contributions could be material. We currently estimate that the 2014 contributions to our global postretirement benefit plans will be approximately \$15.0.

Capital Resources

Long-term debt is raised through the offering of debt securities primarily within the U.S. capital markets. Long-term debt is generally defined as any debt with an original maturity greater than 12 months.

As of December 31, 2013, we have sources of long- and short-term funding including access to the capital markets through an available \$500 commercial paper program and unused credit lines, as well as general market access to longer-term markets. Our commercial paper program is supported by the 2011 Revolving Credit Agreement and our policy is to maintain unused committed bank lines of credit in an amount greater than outstanding commercial paper balances. As of December 31, 2013, we have \$462.0 of bank lines of credit available in excess of our commercial paper balance.

The table below provides long-term debt outstanding and capital lease obligations at December 31, 2013 and 2012.

	2013	2012
Current portion of long-term debt and capital leases	\$1.8	\$4.1
Non-current portion of long-term debt and capital leases	9.1	10.1
Total long-term debt and capital leases	\$10.9	\$14.2

Contractual Obligations

ITT's commitment to make future payments under long-term contractual obligations was as follows, as of December 31, 2013:

Contractual Obligations	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Short and long-term debt, including interest and capital leases	\$12.5	\$2.1	\$3.9	\$2.6	\$3.9
Operating leases	129.7	15.0	26.0	19.3	69.4
Purchase obligations ^(a)	126.1	124.7	1.4	—	—
Other long-term obligations ^(b)	130.3	17.5	32.2	30.7	49.9
Total	\$398.6	\$159.3	\$63.5	\$52.6	\$123.2

In addition to the amounts presented in the table above, we have recorded liabilities for pending asbestos claims and asbestos claims estimated to be filed over the next 10 years and uncertain tax positions of \$1,264.7 and \$111.0, respectively, in our Consolidated Balance Sheet at December 31, 2013. These amounts have been excluded from the contractual obligations table due to an inability to reasonably estimate the timing of payments in individual years. In addition, while we make contributions to our postretirement benefit plans when considered necessary or advantageous to do so, the minimum funding requirements established by local government funding or taxing authorities, or established by other agreements, may influence future contributions. As such, expected contributions to our postretirement benefit plans have been excluded from the table above.

Represents unconditional purchase agreements that are enforceable and legally binding and that specify all significant terms to purchase goods or services, including fixed or minimum quantities to be purchased; fixed, (a) minimum or variable price provisions; and the approximate timing of the transaction. Purchase agreements that are cancellable without penalty have been excluded.

Other long-term obligations include amounts recorded on our December 31, 2013 Consolidated Balance Sheet, including estimated environmental payments and employee compensation agreements. We estimate, based on historical experience that we will spend between \$10 and \$15 per year on environmental (b) investigation and remediation. We are contractually required to spend a portion of these monies based on existing agreements with various governmental agencies and other entities. At December 31, 2013, our recorded environmental liability was \$94.6.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements represent transactions, agreements or other contractual arrangements with unconsolidated entities, where an obligation or contingent interest exists. Our off-balance sheet arrangements, as of December 31, 2013, consist of indemnities related to acquisition and disposition agreements and certain third-party guarantees.

Indemnities

As part of the Distribution, ITT provided certain indemnifications and cross-indemnifications among ITT, Exelis and Xylem, subject to limited exceptions with respect to employee claims. The indemnifications address a variety of subjects, including asserted and unasserted product liability matters (e.g., asbestos claims, product warranties) which relate to products manufactured, repaired and/or sold prior to the Distribution Date. The indemnifications are indefinite. In addition, ITT, Exelis and Xylem agreed to certain cross-indemnifications with respect to other liabilities and obligations. ITT expects Exelis and Xylem to fully perform under the terms of the Distribution Agreement and therefore has not recorded a liability for matters for which we have been indemnified. In addition, both Exelis and Xylem have made asbestos indemnity claims that could give rise to material payments under the indemnity provided by ITT; such claims are included in our estimate of asbestos liabilities.

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 these indemnifications and are not aware of any claims or other information that would give rise to material payments under such indemnities.

Guarantees

We have a number of guarantees, letters of credit and similar arrangements outstanding at December 31, 2013 primarily pertaining to commercial or performance guarantees and insurance matters. We have not recorded any material loss contingencies under these guarantees, letters of credit and similar arrangements as of December 31, 2013 as the likelihood of nonperformance by the underlying obligors is considered remote. From time to time, we may provide certain third-party guarantees that may be affected by various conditions and external factors, some of which could require that payments be made under such guarantees. We do not consider the maximum exposure or current recorded liabilities under our third-party guarantees to be material either individually or in the aggregate. We do not believe such payments would have a material adverse impact on our consolidated financial statements.

KEY PERFORMANCE INDICATORS AND NON-GAAP MEASURES

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

“organic revenue” and “organic orders” are defined as revenue and orders, excluding the impacts of foreign currency fluctuations and acquisitions and divestitures made during the current year. Divestitures include sales of insignificant portions of our business that did not meet the criteria for presentation as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period. A reconciliation of organic revenue from revenue for the years ended December 31, 2013 and 2012 is provided below.

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT	% Change	
2012 Revenue	\$955.8	\$ 626.2	\$ 375.7	\$ 277.1	\$ (7.0)	\$ 2,227.8		
Organic growth	35.0	79.5	22.3	2.0	1.1	139.9	6.3	%
Acquisitions/(divestitures), net	122.7	—	—	—	—	122.7	5.5	%
Foreign currency translation	(6.1)	16.1	(2.5)	(0.9)	(0.1)	6.5	0.3	%
Total change in revenue	151.6	95.6	19.8	1.1	1.0	269.1	12.1	%
2013 Revenue	\$ 1,107.4	\$ 721.8	\$ 395.5	\$ 278.2	\$ (6.0)	\$ 2,496.9		
	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT	% Change	
2011 Revenue	\$766.7	\$ 634.4	\$ 417.8	\$ 285.5	\$ (18.8)	\$ 2,085.6		
Organic growth	155.1	38.3	(32.8)	(8.3)	11.6	163.9	7.9	%
Acquisitions/(divestitures), net	39.4	—	(2.2)	—	—	37.2	1.8	%
Foreign currency translation	(5.4)	(46.5)	(7.1)	(0.1)	0.2	(58.9)	(2.9)	%
Total change in revenue	189.1	(8.2)	(42.1)	(8.4)	11.8	142.2	6.8	%
2012 Revenue	\$955.8	\$ 626.2	\$ 375.7	\$ 277.1	\$ (7.0)	\$ 2,227.8		

“adjusted income from continuing operations” and “adjusted income from continuing operations per diluted share” are defined as income from continuing operations and income from continuing operations per diluted share, adjusted to exclude special items that include, but are not limited to, asbestos-related costs, transformation and repositioning costs, restructuring costs, certain acquisition-related expenses, income tax settlements or adjustments, and other unusual or infrequent non-operating items. Special items represent significant charges or credits, on an after-tax basis, that impact current results, but may not be related to the Company’s ongoing operations and performance. A reconciliation of adjusted income from continuing operations, including adjusted earnings per diluted share, is provided below.

	2013	2012	2011
Income (loss) from continuing operations attributable to ITT Corporation	\$487.7	\$109.5	\$(576.5)
Tax-related special items ^(a)	(363.7)	(5.2)	381.7
Restructuring costs, net of tax benefit of \$6.2, \$3.6, and \$1.7, respectively	22.2	10.4	3.0
Legacy items, net of tax ^(b)	21.3	29.0	54.4
Transformation and repositioning costs, net of tax ^(d)	16.3	14.2	256.6
Bornemann acquisition-related expenses, net of tax ^(e)	5.7	5.4	—
Interest income, net of tax ^(f)	(3.2)	(5.3)	(1.3)
Adjusted income from continuing operations	\$186.3	\$158.0	\$117.9
Income (loss) from continuing operations attributable to ITT Corporation per diluted share	\$5.28	\$1.16	\$(6.22)
Adjusted income from continuing operations per diluted share	\$2.02	\$1.68	\$1.20

(a) The following table details significant components of the tax-related special items. See Note 7, “Income Taxes,” to our Consolidated Financial Statements for further information.

	2013	2012	2011
Change in deferred tax asset valuation allowance	\$(375.3)	\$29.4	\$340.7
Charge on undistributed foreign earnings	11.0	—	69.3
Impacts of tax audit closure	1.4	(8.2)	—
Return to accrual adjustment	(2.8)	(9.3)	—
Change in uncertain tax positions	(0.4)	(13.9)	—
Change in state tax rates	—	—	(30.9)
Other	2.4	(3.2)	2.6
Net tax-related special items	\$(363.7)	\$(5.2)	\$381.7

The following table details significant components of the legacy items, included as a special item. See Note 20, (b) “Commitments and Contingencies,” to our Consolidated Financial Statements for further information regarding net asbestos-related costs and environmental insurance-related asset.

	2013	2012	2011
Net asbestos-related costs	\$32.8	\$50.9	\$100.4
Environmental insurance-related asset ^(c)	—	(6.7)	—
Cancellation of bond guarantee	—	—	(10.0)
Other	—	—	(4.6)
Pre-tax total	32.8	44.2	85.8
Tax benefit	(11.5)	(15.2)	(31.4)
Legacy items, net of tax	\$21.3	\$29.0	\$54.4

(c) The environmental insurance-related asset special item specifically relates to the benefit realized upon the initial establishment of the asset during 2012.

The following table provides a reconciliation of transformation and repositioning costs to transformation and repositioning costs, net of tax, included as a special item. Repositioning costs primarily consisted of costs to exit transition services agreements, IT infrastructure modifications, and other various actions. See Note 6, “Company Transformation” to the Consolidated Financial Statements for further information regarding transformation costs.

	2013	2012	2011
Transformation costs	\$2.2	\$13.0	\$396.1
Repositioning costs	23.0	8.7	—
Pre-tax total	25.2	21.7	396.1
Tax-related transformation costs	—	—	3.5
Tax benefit	(8.9)	(7.5)	(143.0)
Transformation and repositioning costs, net of tax	\$16.3	\$14.2	\$256.6

Bornemann acquisition-related expenses include certain costs to acquire and integrate Bornemann as well as (e) backlog-related intangible asset amortization and product line exit costs and reflect tax benefits of \$2.2 and \$1.5 for 2013 and 2012, respectively.

(f) The interest income special items primarily relate to the reduction of accrued interest due to tax audits and are reflected net of tax expense of \$1.7, \$2.2, and \$0.7, respectively.

“adjusted free cash flow” is defined as net cash provided by operating activities less capital expenditures, cash payments for transformation and repositioning costs, net asbestos cash flows and other significant items that impact current results which management believes are not related to our ongoing operations and performance. Due to other financial obligations and commitments, including asbestos-related payments, the entire adjusted free cash flow may not be available for discretionary purposes. A reconciliation of free cash flow is provided below.

“adjusted free cash flow conversion” is defined as adjusted free cash flow divided by adjusted income from continuing operations.

	2013	2012	2011
Net cash from continuing operations	\$226.6	\$247.1	\$(322.4)
Capital expenditures ^(g)	(118.1)	(78.5)	(84.6)
Transformation and repositioning cash payments	30.6	53.1	355.0
Net asbestos cash flows	25.4	20.1	22.0
Discretionary pension contribution, net of tax	—	29.2	—
Adjusted free cash flow	\$164.5	\$271.0	\$(30.0)
Adjusted income from continuing operations	186.3	158.0	117.9
Adjusted free cash flow conversion	88.3	% 171.5	% (25.4)

Capital expenditures represent capital expenditures as reported in the Consolidated Statement of Cash Flows, less capital expenditures associated with transformation and repositioning activities. Capital expenditures associated (g) with transformation and repositioning activities were \$4.8, \$5.3 and \$17.7 for the years ended December 31, 2013, 2012, and 2011.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in accordance with GAAP requires us to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant accounting policies used in the preparation of the financial statements are discussed in Note 1, “Description of Business, Basis of Presentation and Summary of Significant Accounting Policies,” to the Consolidated Financial Statements. An accounting policy is deemed critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes to the estimate that are reasonably possible could materially affect the financial statements. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of ITT’s Board of Directors.

The accounting estimates and assumptions discussed below are those that we consider most critical to fully understanding our financial statements and evaluating our results as they are inherently uncertain, involve the most subjective or complex judgments, include areas where different estimates reasonably could have been used, and the use of an alternative estimate that is reasonably possible could materially affect the financial statements. We base our estimates on historical experience and other data and assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management believes that the accounting estimates employed and the resulting

balances reported in the Consolidated Financial Statements are reasonable; however, actual results could differ materially from our estimates and assumptions.

Asbestos Matters

ITT, including its subsidiary Goulds Pumps, Inc., 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.

Estimating our exposure to pending asbestos claims and those that may be filed in the future is subject to significant uncertainty and risk as there are multiple variables that can affect the timing, severity, quality, quantity and resolution of claims. The methodology used to project future asbestos costs is based largely on the Company's experience in a reference period, including the last few years, for claims filed, settled and dismissed, and is supplemented by management's expectations of the future. This experience is compared to the results of previously conducted epidemiological studies by estimating the number of individuals likely to develop asbestos-related diseases. Those studies were undertaken in connection with an independent analysis of the population of U.S. workers across eleven different industry and occupation categories believed to have been exposed to asbestos. Using information for the industry and occupation categories relevant to the Company, an estimate is developed of the number of claims estimated to be filed against the Company over the next 10 years, as well as the aggregate settlement costs that would be incurred to resolve both pending and estimated future claims based on the average settlement costs by disease during the reference period. In addition, the estimate is augmented for the costs of defending asbestos claims in the tort system using a forecast based on recent experience, as well as discussions with the Company's external defense counsel. The asbestos liability has not been discounted to present value due to the inability to reliably forecast the timing of future cash flows. The Company retains a consulting firm to assist management in estimating our potential exposure to pending asbestos claims and for claims estimated to be filed over the next 10 years. The methodology to project future asbestos costs is one in which the underlying assumptions are separately assessed for their reasonableness and then each is used as an input to the liability estimate. Our assessment of the underlying assumptions concludes on one value for each assumption.

The liability estimate is most sensitive to assumptions surrounding mesothelioma and lung cancer claims, as together, the estimated costs to resolve pending and estimated future mesothelioma and lung cancer claims represent more than 90% of the estimated asbestos exposure, but only 17% of pending claims. The assumptions related to mesothelioma and lung cancer that are most significant include the number of new claims forecast to be filed against the Company in the future, the projected average settlement costs (including the rate of inflation assumed), the percentage of claims against the Company that are dismissed without a settlement payment, and the cost to defend against filed claims. These assumptions are interdependent, and no one factor predominates in estimating the asbestos liability. While there are other potential inputs to the model used to estimate our asbestos exposures for pending and estimated future claims, our methodology relies on the best input available in the circumstances for each individual assumption and does not create a range of reasonably possible outcomes. Projecting future asbestos costs is subject to numerous variables and uncertainties that are inherently difficult to predict. In addition to the uncertainties surrounding the key assumptions, additional uncertainty related to asbestos claims arises from the long latency period prior to the manifestation of an asbestos-related disease, changes in available medical treatments and changes in medical costs, changes in plaintiff behavior resulting from bankruptcies of other companies that are potential defendants or co-defendants, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential legislative or judicial changes.

The forecast period used to estimate our potential exposure to pending and projected asbestos claims is a judgment based on a number of factors, including the number and type of claims filed, recent experience with pending claims activity and whether that experience is expected to continue into the future, the jurisdictions where claims are filed, the effect of any legislative or judicial developments, and the likelihood of any comprehensive asbestos legislation at the federal level. These factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and, accordingly, our estimate of the asbestos exposure. Developments related to asbestos tend to be

long-cycle, changing over multi-year periods. Accordingly, we monitor these and other factors and periodically assess whether an alternative forecast period is appropriate.

We record a corresponding asbestos-related asset that represents our best estimate of probable recoveries related to the recorded asbestos liability. In developing this estimate, the Company considers coverage-in-place and other settlement agreements with its insurers, as well as a number of additional factors. These additional factors include

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expected levels of future cost recovery, the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, the extent to which settlement and defense costs will be reimbursed by the insurance policies, and interpretation of the various policy and contract terms and limits and their interrelationships. The asbestos-related asset has not been discounted to present value due to the inability to reliably forecast the timing of future cash flows.

The Company retains an insurance consulting firm to assist management in estimating probable recoveries for pending asbestos claims and for claims estimated to be filed over the next 10 years based on the analysis of policy terms, the likelihood of recovery provided by external legal counsel assuming the continued viability of those insurance carriers that are currently solvent, incorporating risk mitigation judgments where policy terms or other factors are not certain, and allocating asbestos settlement and defense costs between our insurers.

Based on the estimated undiscounted asbestos liability as of December 31, 2013 (for claims filed or estimated to be filed over the next 10 years), we have estimated that we will be able to recover approximately 41% of asbestos indemnity and defense costs from our insurers. However, there is uncertainty in estimating when cash payments related to the recorded asbestos liability will be fully expended and such cash payments will continue for a number of years beyond the next 10 years due to the significant proportion of future claims included in the estimated asbestos liability and the lag time between the date a claim is filed and when it is resolved. Actual insurance reimbursements may vary from period to period and the anticipated recovery rate is expected to decline over time due to gaps in our insurance coverage, reflecting uninsured periods, the insolvency of certain insurers, prior settlements with our insurers, and our expectation that certain policies from some of our primary insurers will exhaust within the next 10 years. In the tenth year of our estimate, our insurance recoveries are currently projected to be approximately 30%. Future recovery rates may be impacted by other factors, such as future insurance settlements, unforeseen insolvencies and judicial determinations relevant to our coverage program, which are difficult to predict and subject to a high degree of uncertainty.

Our estimated asbestos liability and related receivables are based on management's best estimate of future events largely based on past experience; however, past experience may not prove a reliable predictor of the future. Future events affecting the key assumptions and other variables for either the asbestos liability or the related receivables could cause actual costs and recoveries to be materially higher or lower than currently estimated. For example, a significant upward or downward trend in the number of claims filed, depending on the nature of the alleged injury, the jurisdiction where filed and the quality of the product identification, or a significant upward or downward trend in the costs of defending claims, could change the estimated liability, as would substantial adverse verdicts at trial that withstand appeal. A legislative solution, structured settlement transaction, or significant change in relevant case law could also change the estimated liability. Further, the bankruptcy of an insurer or settlements with our insurers, whether through coverage-in-place agreements or policy buyouts, could change the estimated amount of recoveries. Furthermore, any predictions with respect to the variables impacting our estimate of the asbestos liability and related asset are subject to even greater uncertainty as the projection period lengthens. In light of the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures and potential recoveries, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, we do not believe there is a reasonable basis for estimating the number of future claims, the nature of future claims, or the cost to resolve future claims for years beyond the next 10 years at this time. Accordingly, no accrual or receivable has been recorded for any costs which may be incurred for claims asserted subsequent to 2023.

Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims which may be filed beyond the next 10 years, it is not possible to predict the ultimate cost of resolving all pending and estimated unasserted asbestos claims. We believe it is possible that the future events affecting the key factors and other variables within the next 10 years, as well as the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial statements.

In the third quarter each year we conduct a detailed asbestos remeasurement with the assistance of outside consultants to review and update, as appropriate, the underlying assumptions used to estimate our asbestos liability and related assets, including a reassessment of the time horizon over which a reasonable estimate of unasserted claims can be projected. In addition, as part of our ongoing review of our estimated asbestos exposure and related receivables, each quarter we assess the most recent data available underlying the key assumptions related to mesothelioma and lung

cancer (e.g., claims filed, claims settled and dismissed and related acceptance rates, average settlement values), comparing the data to the expectations on which the most recent annual liability and asset estimates were based. In addition to evaluating ITT's claims experience, the Company also considers additional quantitative and qualitative factors such as significant appellate rulings and legislative developments, and their respective effects on estimated future filings and settlement values, and trends in the tort system. Our quarterly procedures also involve a review of our assumed recovery rates, considering changes in the financial wherewithal of the insurers and the effect of settlements or other agreements with insurers. Provided the quarterly review does not indicate a more detailed

evaluation of our asbestos exposure is required, each quarter, we record a net asbestos expense to maintain a rolling 10-year time horizon.

Revenue Recognition

Revenue is derived from the sale of products and services to customers. We recognize revenue when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, collectability is reasonably assured and delivery has occurred. For product sales, other than long-term construction and production-type contracts (referred to as design and build arrangements), we recognize revenue at the time title and risks and rewards of ownership pass to the customer, which is generally when products are shipped, and the contractual terms have been fulfilled. Certain contracts with customers require delivery, installation, testing, certification or other acceptance provisions to be satisfied before revenue is recognized. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) we have previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria or (ii) on formal acceptance received from the customer where the product has not been previously demonstrated to meet customer-specified objective criteria.

We recognize revenue on product sales to channel partners, including resellers, distributors or value-added solution providers at the time of sale when the channel partners have economic substance apart from ITT and ITT has completed its obligations related to the sale. Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered or over the service period.

We enter into contracts to sell our products and services, and while the majority of our sales agreements contain standard terms and conditions, certain agreements contain multiple elements or non-standard terms and conditions. Where sales agreements contain multiple elements or non-standard terms and conditions, judgment is required to determine the appropriate accounting, including whether the deliverables specified in these agreements should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the transaction price should be allocated among the elements and when to recognize revenue for each element.

When a sale involves multiple deliverables, the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price of the deliverable to all other deliverables in the contract. Revenue for multiple element arrangements is recognized when the appropriate revenue recognition criteria for the individual deliverable have been satisfied. The allocation of sales price between elements may impact the timing of revenue recognition, but will not change the total revenue recognized on the arrangement. For agreements that contain multiple deliverables, we recognize revenue 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. 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.

We recognize revenue on certain design and build projects using the completed contract method. Provisions for estimated losses, if any, on uncompleted design and build arrangements, are recognized in the period in which such losses are determined. Due to the long-term nature of the contracts, these estimates are subject to uncertainties and require significant judgment and may consider historical performance, the complexity of the work to be performed, the estimated time to complete the project, and other economic factors such as inflation.

Additionally, accruals for estimated expenses related to sales returns and warranties are made at the time products are sold. Reserves for sales returns, rebates and other allowances are established using historical information on the frequency of returns for a particular product and period over which products can be returned. Future market conditions

and product transitions may require us to take actions to increase customer incentive offerings, possibly resulting in a reduction in revenue at the time the incentive is offered.

For distributors and resellers, our typical return period is less than 180 days. Warranty accruals are established using historical information on the nature, frequency and average cost of warranty claims and estimates of future costs. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at

no additional charge for a specified period of time. While we engage in extensive product quality programs and processes, we base our estimated warranty obligation on product warranty terms offered to customers, ongoing product failure rates, materials usage, service delivery costs incurred in correcting a product failure, as well as specific product class failures outside of our baseline experience and associated overhead costs. If actual product failure rates, repair rates or any other post-sales support costs differ from these estimates, revisions to the estimated warranty liability would be required.

Income Taxes

Deferred income tax assets and liabilities are determined based on the estimated future tax effects of differences between the financial reporting and tax bases of assets and liabilities, applying currently enacted tax rates in effect for the year in which we expect the differences will reverse. We periodically assess the likelihood that we will be able to recover our deferred tax assets and reflect any changes to our estimate of the amount we are more likely than not to realize as a valuation allowance, with a corresponding adjustment to earnings or other comprehensive income (loss), as appropriate. The ultimate realization of deferred tax assets depends on the generation of future taxable income (including the reversals of deferred tax liabilities) during the periods in which those deferred tax assets will become deductible.

The Company assesses all available positive and negative evidence regarding the realizability of its deferred tax assets. Significant judgment is required in assessing the need for any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including the future reversal of existing taxable temporary differences, taxable income in carryback periods, prudent and feasible tax planning strategies, estimated future taxable income, and whether we have a recent history of losses. The valuation allowance can be affected by changes to tax regulations, interpretations and rulings, changes to enacted statutory tax rates, and changes to future taxable income estimates.

Our effective tax rate reflects the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the U.S. We plan foreign earnings remittance amounts based on projected cash flow needs, as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Based on these assumptions, we estimate the amount we will distribute to the U.S. and accrue U.S. federal taxes on these planned foreign remittance amounts. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact our effective tax rate. Our provision for income taxes could be adversely impacted by changes in our geographic mix of earnings or changes in the enacted tax rates in the jurisdictions in which we conduct our business.

The calculation of our deferred and other tax balances involves significant management judgment when dealing with uncertainties in the application of complex tax regulations and rulings in a multitude of taxing jurisdictions across our global operations. The Company is routinely audited by U.S. federal, state and foreign tax authorities, the results of which could result in proposed assessments against the Company. We recognize potential liabilities and record tax liabilities for anticipated tax audit issues based on our estimate of whether, and to the extent to which, additional taxes will be due. Furthermore, 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 in consideration of applicable tax statutes and related interpretations and precedents and the expected outcome of the proceedings (or negotiations) with the taxing authorities. Tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized on ultimate settlement.

We adjust our liability for uncertain tax positions in light of changing facts and circumstances; however, the ultimate resolution of a tax examination may differ from the amounts recorded in the financial statements for a number of reasons, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters, and the Company's success in supporting its filing positions with the tax authorities. If our estimate of tax liabilities proves different than the ultimate outcome, such differences will affect the provision for income taxes in the period in which such determination is made.

Postretirement Plans

ITT sponsors numerous defined benefit pension and other postretirement benefit plans for employees around the world (collectively, postretirement benefit plans). Postretirement benefit obligations for domestic plans are generally determined on a flat dollar benefit formula and years of service. Foreign plan benefit obligations are primarily determined based on participant years of service, future compensation, and age at retirement or termination. The determination of projected benefit obligations and the recognition of expenses related to postretirement benefit plans are dependent on various assumptions that are judgmental and developed in consultation with our actuaries and other advisors. The assumptions involved in the measurement of our postretirement benefit plan obligations and net periodic postretirement

costs primarily relate to discount rates, long-term expected rates of return on plan assets, and mortality and termination rates. Actual results that differ from our assumptions are accumulated and are amortized over the estimated future working life, or remaining lifetime, of the plan participants depending on the nature of the retirement plan.

Significant Assumptions

Management develops each assumption using relevant Company experience, in conjunction with market-related data for each individual country in which such plans exist. All assumptions are reviewed with external advisors and adjusted as necessary. The table included below provides the weighted average assumptions used to estimate our defined benefit pension obligations and costs as of and for the years ended 2013 and 2012.

	2013		2012		
	U.S.	Int'l	U.S.	Int'l	
Obligation Assumptions:					
Discount rate	4.8	% 3.2	% 4.1	% 3.1	%
Cost Assumptions:					
Discount rate	4.1	% 3.1	% 4.8	% 4.8	%
Expected return on plan assets	8.0	% 4.7	% 8.0	% 4.7	%

The assumed discount rates reflect our expectation of the present value of expected future cash payments for benefits at the measurement date. A decrease in the discount rate increases the present value of benefit obligations and increases net periodic postretirement cost. We base the discount rate assumption on investment yields of high-quality fixed income securities at the measurement date during the benefit payment period. The discount rates were determined by considering an interest rate yield curve comprised of high quality corporate bonds, with maturities between zero and thirty years. Annual benefit payments are then discounted to present value using this yield curve to develop a single-point discount rate matching the plan's expected payment characteristics. Our weighted average discount rate for all postretirement benefit plan obligations, including foreign affiliate plans, at December 31, 2013 is 4.5%.

We determine our expected return on plan assets by evaluating both historical returns and estimates of future returns. Specifically, we estimate future returns based on independent estimates of asset class returns weighted by the target investment allocation and evaluate historical broad market returns over long-term time frames based on our target asset allocation, which is detailed in Note 17, "Postretirement Benefit Plans," to the Consolidated Financial Statements. Based on this approach, our weighted average expected return on plan assets for all postretirement benefit plans, including foreign affiliate plans, at December 31, 2013 is 8.0%.

Prior to the Distribution of Exelis and Xylem, the Company's U.S. postretirement plans participated in a master trust that invested in asset classes that historically generated asset returns in excess of the expected long-term rate of return on plan assets. With the distribution of certain postretirement benefit plans and their respective plan assets to Exelis and Xylem, we developed a new target asset allocation that is expected to generate a lower level of returns on plan assets than were realized in the past. Accordingly, in 2012, we reduced our long-term expected rate of return on plan assets. For postretirement plans that participate in the current master trust and participated in the master trust distributed to Exelis, the chart below shows actual returns compared to the expected long-term returns for our U.S. postretirement plans that were utilized in the calculation of the net periodic postretirement cost for each respective year.

	2013	2012	2011	
Expected long-term rate of return on plan assets	8.0	% 8.0	% 9.0	%
Actual rate of return on plan assets	14.2	% 11.1	% (3.2))%

For the recognition of net periodic postretirement cost, the calculation of the expected return on plan assets is generally derived using a market-related value of plan assets based on average asset values at the measurement date over the last five years. The use of fair value, rather than a market-related value, of plan assets could materially affect net periodic postretirement cost.

Assumption Sensitivity

We estimate that every twenty-five basis point change in the discount rate impacts net periodic postretirement costs by approximately \$0.7 and the funded status of our postretirement benefit plans by approximately \$15.2. We estimate

that every twenty-five basis point change in the expected rate of return on plan assets impacts net periodic

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postretirement costs by approximately \$0.7. Similarly, every five percentage point change in the fair value of plan assets impacts the funded status by approximately \$13.9.

Goodwill and Other Intangible Assets

We review goodwill and indefinite-lived intangible assets for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We also review the carrying value of our finite-lived intangible assets for potential impairment when impairment indicators arise. We conduct our annual impairment tests as of the first day of the fourth quarter. When reviewing for impairment, we may opt to make an initial qualitative evaluation, which considers present events and circumstances, to determine the likelihood of impairment. If the likelihood of impairment is not considered to be more likely than not, then no further testing is performed. We perform a two-step impairment test for goodwill. In the first step, we compare the estimated fair value of each reporting unit to its carrying value. If the estimated fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds its fair value, then we must perform the second step of the impairment test in order to measure the impairment loss to be recorded, if any. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. In our annual impairment test for indefinite-lived intangible assets, we compare the fair value of those assets to their carrying value. We recognize an impairment loss when the estimated fair value of the indefinite-lived intangible asset is less than its carrying value.

We estimate the fair value of our reporting units using an income approach. Under the income approach, we calculate fair value based on the present value of estimated future cash flows. We estimate the fair value of our indefinite-lived intangible assets using the relief from royalty method. The relief from royalty method estimates the portion of a company's earnings attributable to an intellectual property asset based on an assumed royalty rate that the company would have paid had the asset not been owned.

Determining the fair value of a reporting unit or an indefinite-lived intangible asset is judgmental in nature and involves the use of significant estimates and assumptions, particularly related to future operating results and cash flows. These estimates and assumptions include, but are not limited to, revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, assumed royalty rates, future economic and market conditions and the identification of appropriate market comparable data. In addition, the identification of reporting units and the allocation of assets and liabilities to the reporting units when determining the carrying value of each reporting unit also requires judgment. Goodwill is tested for impairment at the reporting unit level, which, based on the applicable accounting guidance, is either the operating segment or one level below (e.g., the divisions of our Control Technology segment). The fair value of our reporting units and indefinite-lived intangible assets are based on estimates and assumptions that are believed to be reasonable. Significant changes to these estimates and assumptions could adversely impact our conclusions. Actual future results may differ from those estimates. Further, had different reporting units been identified or had different valuation techniques or assumptions been utilized, the results of our impairment tests could have resulted in an impairment loss, which could have been material.

The 2013 annual goodwill impairment test indicated that the fair value of each reporting unit was significantly in excess of its respective carrying value. The reporting unit with the lowest passing margin as of the 2013 goodwill impairment test had \$37.0 of goodwill and had a passing margin of 61%. Accordingly, no reporting unit with significant goodwill was considered to be at risk of failing step one of the goodwill impairment test. In order to evaluate the sensitivity of the fair value estimates on the goodwill impairment test, we applied a hypothetical 100 basis point increase to the discount rates utilized, a ten percent reduction in expected future cash flows, and reduced the assumed future growth rates of each reporting unit by 100 basis points. These hypothetical changes did not result in any reporting unit failing step one of the impairment test.

Further, our 2013 annual indefinite-lived intangible asset impairment test did not result in an impairment charge as the estimated fair value of the assets exceeded their carrying values. For one indefinite-lived intangible asset, we performed a qualitative assessment of the asset's recoverability due to the significant amount by which the asset's fair value has historically exceeded its carrying value. As a result of this assessment, it was determined that it was not more likely than not that the asset was impaired and a quantitative test was not performed.

Environmental Liabilities

We are subject to various federal, state, local and foreign environmental laws and regulations that require environmental assessment or remediation efforts. Accruals for environmental exposures 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. Significant judgment is required to determine both the likelihood of a loss and the estimated amount of loss. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in estimating our

reserve for environmental liabilities. Our environmental reserve of \$94.6 at December 31, 2013, represents management's estimate of undiscounted costs expected to be incurred related to environmental assessment or remediation efforts, as well as related legal fees, without regard to potential recoveries from insurance companies or other third parties. Our estimated liability is reduced to reflect the participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective share of the relevant costs. Our environmental accruals are reviewed and adjusted for progress of investigation and remediation efforts and as additional technical or legal information become available, such as the impact of negotiations with regulators and other potentially responsible parties, settlements, rulings, advice of legal counsel, and other current information.

We closely monitor our environmental responsibilities, together with trends in the environmental laws. Environmental remediation reserves are subject to numerous inherent uncertainties that affect our ability to estimate our share of the costs. Such uncertainties involve incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the nature and extent of contamination at each site, the extent of remediation required under existing regulations, our share of any remediation liability, if any, widely varying cost estimates associated with potential alternative remedial approaches, the length of time required to remediate a particular site, the potential effects of continuing improvements in remediation technology, and changes in environmental standards and regulatory requirements. While environmental laws and regulations are subject to change, the nature of such change is inherently unpredictable and the timing of potential changes is uncertain. The effect of legislative or regulatory changes on environmental standards could be material to the Company's financial statements. Additionally, violations by us of such laws and regulations, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our inability to recover costs associated with any such developments, or financial insolvency of other potentially responsible parties could have a material adverse effect on our financial statements. Although it is not possible to predict with certainty the ultimate costs of environmental remediation, the reasonably possible range of our estimated environmental liability at December 31, 2013 was \$73.3 to \$168.0.

Recent Accounting Pronouncements

See Note 2, "Recent Accounting Pronouncements," in the Notes to the Consolidated Financial Statements for a complete discussion of recent accounting pronouncements. There were no new pronouncements which we expect to have a material impact on our financial statements in future periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a result of our global operating and financing activities, we are exposed to market risks from changes in foreign currency exchange rates, interest rates, and commodity prices, which may adversely affect our operating results and financial position. The impact from changes in market conditions is generally minimized through our normal operating and financing activities. However, we may use derivative instruments, primarily forward contracts, interest rate swaps and futures contracts, to manage some of these exposures. We do not use derivative financial instruments for trading or other speculative purposes. To minimize the risk of counterparty non-performance, derivative instruments are entered into with major financial institutions and there is no significant concentration with any one counterparty. A summary of our accounting policies for derivatives is included in Note 1, "Description of Business, Basis of Presentation and Summary of Significant Accounting Policies," to the Consolidated Financial Statements.

Foreign Currency Exchange Rate Exposures

Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and intercompany transactions denominated in foreign currencies. As of December 31, 2013, we had a total of three derivative contracts in place with an aggregate notional amount of \$13.1 and related net fair value less than \$0.1. These forward contracts are all short-term in duration, generally maturing within three months from contract date. The derivative contracts offset specific risks related to receipts from customers and intercompany transactions. Our principal currency exposures relate to the Euro, Chinese Renminbi, South Korean Won, Hong Kong Dollar, Mexican Peso, British Pound, Czech Koruna, Brazilian Real, Australian Dollar and Canadian Dollar. We estimate that a hypothetical 10% adverse movement in foreign currency rates to which we are exposed would not be material to our financial statements.

Effective January 1, 2010, Venezuela was determined to be a highly inflationary economy and we changed the functional currency of our operations in Venezuela to the U.S. dollar. On February 8, 2013, Venezuela announced a

devaluation of the Bolivar which resulted in our recognition of a \$1.2 remeasurement charge. Given our limited presence in Venezuela, the devaluation, as well as the highly inflationary accounting treatment has not resulted in, nor is it expected to have, a material impact on our financial statements.

Interest Rate Exposures

As of December 31, 2013, we do not have a material exposure to interest rate risk as our outstanding long-term debt is \$8.9 and a significant portion is fixed rate in nature.

As of December 31, 2013, we had four interest rate swaps outstanding with an aggregate notional amount of \$11.9 and a fair value of \$0.6. These interest rate swap agreements modify our exposure to interest rate risk by converting a portion of the floating-rate debt to a fixed rate. Changes in the fair value of the interest rate swaps are recorded in earnings as the interest rate swaps do not qualify for hedge accounting.

We issue commercial paper, which exposes us to changes in interest rates. As of December 31, 2013, we had a \$38.0 outstanding commercial paper balance with an associated weighted average interest rate of 0.44%. We do not account for our long-term debt using the fair value option.

Commodity Price Exposures

Portions of our business are exposed to volatility in the prices of certain commodities, such as steel, gold, copper, nickel, iron, aluminum and tin, as well as specialty alloys, including titanium. Our primary exposure to commodity price volatility resides with the use of these materials in purchased component parts. We generally maintain long-term fixed price contracts on raw materials and component parts; however, we are prone to exposure as these contracts expire. We evaluate hedging opportunities to mitigate or minimize the risk of operating margin erosion resulting from the volatility of commodity prices. We estimate that a hypothetical 10% adverse movement in prices for raw metal commodities would not be material to the financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to the Form 10-K are certifications of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Exchange Act of 1934 (Act), as amended.

(a) Evaluation of Disclosure Controls and Procedures

The Company, with the participation of various levels of management, including the CEO and CFO, conducted an evaluation of effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) of the Act) as of December 31, 2013. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

The Company's Disclosure Committee has the responsibility of considering and evaluating the materiality of information and reviewing disclosure obligations on a timely basis. The Disclosure Committee meets regularly and assists the CEO and the CFO in designing, establishing, reviewing and evaluating the Company's disclosure controls and procedures.

(b) Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, completely, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America; (iii) provide reasonable assurance that Company receipts and expenditures are made only in accordance with the

authorization of management and the directors of the Company, and (iv) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the Consolidated Financial Statements. Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. Management based this assessment on criteria for effective internal control over financial reporting described in the 1992 "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors. Based on this assessment, management determined that, as of December 31, 2013, the Company maintained effective internal control over financial reporting.

The Company's management, including the CEO and the CFO, does not expect that our internal controls over financial reporting, because of inherent limitations, will prevent or detect all errors and all fraud. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment, included herein, should be read in conjunction with the certifications and the report issued by Deloitte & Touche LLP (Deloitte & Touche), an independent registered public accounting firm, as stated in their report, which appears subsequent to Item 9B in this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

Disclosure pursuant to Section 219 of the Iran Threat Reduction & Syria Human Rights Act (ITRA)

This disclosure is made pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 which added a new subsection (r) to section 13 of the Exchange Act (Section 13(r)) requiring a public reporting issuer to disclose in its annual or quarterly reports whether it or any affiliates have knowingly engaged in specified activities or transactions relating to Iran, including activities conducted outside the United States by non-U.S. affiliates in compliance with local law.

In its 2012 Annual Report, ITT described its acquisition of all the shares of Bornemann in November 2012, as well as certain activities of Bornemann in Iran and the wind down of those activities in accordance with a General License issued on December 26, 2012 (the General License) by the OFAC. As permitted by the General License, on or before March 8, 2013, Bornemann completed the wind-down activities and ceased all activities in Iran. As required to be disclosed by Section 13(r), the gross revenues and operating income to Bornemann from its Iranian activities subsequent to its acquisition by ITT were Euros 2.2 million and Euros 1.5 million, respectively. Prior to its acquisition by ITT, Bornemann issued a performance bond to its Iranian customer in the amount of Euros 1.3 million (the Bond). Bornemann requested that the Bond be cancelled prior to March 8, 2013; however, the former customer refused this request and as a result the Bond has remained outstanding. Bornemann did not receive gross revenues or operating income, or pay interest, with respect to the performance bond in 2013, however, Bornemann did pay fees in 2013 of approximately Euros 43 thousand to the German financial institution which is maintaining the performance bond.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
ITT Corporation

White Plains, New York

We have audited the internal control over financial reporting of ITT Corporation and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 21, 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Stamford, Connecticut
February 21, 2014

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item 10 is incorporated by reference from the information provided under the sections entitled “Matters to be Considered at the Annual Meeting-Proposal 1. Election of Directors,” “Corporate Governance and Related Matters-Board and Committee Membership-Audit Committee,” “Other Matters-Section 16(a) Beneficial Ownership Reporting Compliance,” and “Audit Committee Report” in our Proxy Statement for the 2014 Annual Meeting of Shareholders (the “2014 Proxy Statement”).

Information required by this Item 10 with respect to executive officers of the Company is contained under the heading “Executive Officers of the Company” in Part I of this Form 10-K.

ITT has adopted corporate governance principles and charters for each of its standing committees. The principles address director qualification standards, election and selection of an independent presiding director, as well as responsibilities, access to management and independent advisors, compensation, orientation and continuing education, management succession principles and board and committee self-evaluation. The corporate governance principles and charters are available on the Company’s website at www.itt.com/investors/governance/. A copy of the corporate governance principles and charters is also available to any shareholder who requests a copy from the Company’s secretary.

ITT has also adopted a written code of ethics, the “Code of Conduct,” which is applicable to all directors, employees and officers (including the Company’s principal executive officer, principal financial officer, principal accounting officer or controller, or person performing similar functions). The Company’s Code of Conduct is available on our website at www.itt.com. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Conduct by posting such information on our website at www.itt.com. Pursuant to New York Stock Exchange (NYSE) Listing Company Manual Section 303A.12(a), the Company submitted a Section 12(a) CEO Certification to the NYSE in 2013. The Company also filed with the SEC, as exhibits to the Company’s current Annual Report on Form 10-K, the certifications required under Section 302 of the Sarbanes-Oxley Act for its Chief Executive Officer and Chief Financial Officer.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 is incorporated by reference to the discussion under the headings “2013 Non-Management Director Compensation,” “Executive Compensation,” “Compensation Discussion and Analysis,” “Compensation Committee Report” and “Corporate Governance and Related Matters-Compensation Committee Interlocks and Insider Participation” in our 2014 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item 12 is incorporated by reference to the discussion under the caption “Stock Ownership of Directors and Executive Officers,” “Beneficial Ownership of ITT Common Stock” and “Equity Compensation Plan Information” in our 2014 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference to the discussions under the captions “Corporate Governance and Related Matters-Policies for Approving Related Party Transactions” and “Corporate Governance and Related Matters-Director Independence,” in our 2014 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information about the fees for 2013 and 2012 for professional services rendered by our independent registered public accounting firm is incorporated by reference to the discussion under the heading “Proposal 2. Ratification of Appointment of the Independent Registered Public Accounting Firm” of our 2014 Proxy Statement. Our Audit Committee’s policy on pre-approval of audit and permissible non-audit services of our independent registered public accounting firm is also incorporated by reference to the discussion under the heading “Proposal 2. Ratification of Appointment of the Independent Registered Public Accounting Firm” of our 2014 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as a part of this report:

1. See Index to Consolidated Financial Statements appearing on page 64 for a list of the financial statements filed as a part of this report.
2. See Exhibit Index beginning on pages II-3 for a list of the exhibits filed or incorporated herein as a part of this report.

(b) Financial Statement Schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements filed as part of this report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
ITT Corporation
White Plains, New York

We have audited the accompanying consolidated balance sheets of ITT Corporation and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ITT Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Stamford, Connecticut
February 21, 2014

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED DECEMBER 31	2013	2012	2011
Revenue	\$2,496.9	\$2,227.8	\$2,085.6
Costs of revenue	1,697.1	1,547.6	1,440.6
Gross profit	799.8	680.2	645.0
Sales and marketing expenses	216.2	180.4	163.6
General and administrative expenses	297.7	221.7	166.3
Research and development expenses	67.3	62.7	63.5
Asbestos-related costs, net	32.8	50.9	100.4
Transformation costs	2.2	13.0	396.1
Operating income (loss)	183.6	151.5	(244.9)
Interest expense	6.3	0.1	76.4
Interest income	5.0	2.8	4.1
Miscellaneous expense (income), net	1.8	5.1	(1.3)
Income (loss) from continuing operations before income tax	180.5	149.1	(315.9)
Income tax (benefit) expense	(309.6)	39.6	260.6
Income (loss) from continuing operations	490.1	109.5	(576.5)
Income from discontinued operations, net of tax	0.8	15.9	447.0
Net income (loss)	490.9	125.4	(129.5)
Less: Income attributable to noncontrolling interests	2.4	—	—
Net income (loss) attributable to ITT Corporation	\$488.5	\$125.4	\$(129.5)
Amounts attributable to ITT Corporation:			
Income (loss) from continuing operations, net of tax	\$487.7	\$109.5	\$(576.5)
Income from discontinued operations, net of tax	0.8	15.9	447.0
Net income (loss)	\$488.5	\$125.4	\$(129.5)
Earnings (loss) per share attributable to ITT Corporation:			
Basic Earnings Per Share:			
Continuing operations	\$5.36	\$1.18	\$(6.22)
Discontinued operations	0.01	0.17	4.82
Net income (loss)	\$5.37	\$1.35	\$(1.40)
Diluted Earnings Per Share:			
Continuing operations	\$5.28	\$1.16	\$(6.22)
Discontinued operations	0.01	0.17	4.82
Net income (loss)	\$5.29	\$1.33	\$(1.40)
Weighted average common shares – basic	91.0	93.0	92.8
Weighted average common shares – diluted	92.3	94.1	92.8
Cash dividends declared per common share	\$0.40	\$0.364	\$1.591

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

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN MILLIONS)

YEARS ENDED DECEMBER 31	2013	2012	2011
Net income (loss)	\$490.9	\$125.4	\$(129.5)
Other comprehensive income (loss):			
Net foreign currency translation adjustment	10.9	4.7	(38.8)
Net change in postretirement benefit plans, net of tax impacts of \$(38.8), \$0, and \$399.0, respectively	66.3	(42.3)	(508.5)
Net change in unrealized loss on investment securities, net of tax impacts of \$0, \$1.0, and \$7.8, respectively	—	1.0	(12.8)
Other comprehensive income (loss)	77.2	(36.6)	(560.1)
Comprehensive income (loss)	568.1	88.8	(689.6)
Less: Comprehensive income attributable to noncontrolling interests	2.4	—	—
Comprehensive income (loss) attributable to ITT Corporation	\$565.7	\$88.8	\$(689.6)
Disclosure of reclassification adjustments and other adjustments to postretirement benefit plans			
Reclassification adjustments:			
Amortization of prior service costs, net of tax benefit of \$(0.1), \$0, and \$(1.0), respectively (See Note 17)	0.3	0.8	1.6
Amortization of net actuarial loss, net of tax benefit of \$(4.8), \$0, and \$(42.1), respectively (See Note 17)	8.5	10.9	68.7
Other adjustments:			
Prior service credit, net of tax expense of \$(7.1), \$0, and \$(1.0), respectively	\$11.9	\$3.1	\$2.0
Net actuarial gain (loss), net of tax (expense) benefit of \$(26.8), \$0, and \$443.1, respectively	46.1	(56.7)	(580.8)
Unrealized change from foreign currency translation	(0.5)	(0.4)	—
Net change in postretirement benefit plans, net of tax	\$66.3	\$(42.3)	\$(508.5)
Disclosure of reclassification adjustments and other adjustments to unrealized loss on investment securities			
Reclassification adjustments:			
Realized losses (gains) arising during the period, net of tax expense of \$0, \$1.0, and \$6.1, respectively ^(a)	—	1.0	(10.0)
Other adjustments:			
Unrealized holding losses arising during period, net of tax benefit of \$0, \$0, and \$1.7, respectively	\$—	\$—	\$(2.8)
Net change in unrealized loss on investment securities, net of tax	\$—	\$1.0	\$(12.8)

(a) The reclassification adjustment related to the realized gains from investment securities during 2011 was presented within general and administrative expenses.

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

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

DECEMBER 31	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$507.3	\$544.5
Receivables, net	496.7	440.3
Inventories, net	315.9	304.2
Other current assets	345.6	251.4
Total current assets	1,665.5	1,540.4
Plant, property and equipment, net	426.2	373.1
Goodwill	659.8	651.4
Other intangible assets, net	106.9	123.3
Asbestos-related assets	433.3	525.3
Deferred income taxes	303.6	21.4
Other non-current assets	144.9	151.2
Total non-current assets	2,074.7	1,845.7
Total assets	\$3,740.2	\$3,386.1
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$332.7	\$347.0
Accrued liabilities	499.9	458.3
Total current liabilities	832.6	805.3
Asbestos-related liabilities	1,179.6	1,255.0
Postretirement benefits	243.3	330.3
Other non-current liabilities	277.8	292.3
Total non-current liabilities	1,700.7	1,877.6
Total liabilities	2,533.3	2,682.9
Shareholders' Equity:		
Common stock:		
Authorized – 250 shares, \$1 par value per share (104.0 shares issued ^(a))		
Outstanding – 91.0 shares and 92.1, respectively(a)	91.0	91.9
Retained earnings	1,320.3	898.8
Accumulated other comprehensive loss:		
Postretirement benefit plans	(129.2	) (195.5
Cumulative translation adjustments	(80.8	) (91.7
Unrealized loss on investment securities	(0.3	) (0.3
Total ITT Corporation shareholders' equity	1,201.0	703.2
Noncontrolling interests	5.9	—
Total shareholders' equity	1,206.9	703.2
Total liabilities and shareholders' equity	\$3,740.2	\$3,386.1

(a) Shares issued and outstanding include unvested restricted common stock of 0.2 at December 31, 2012. No unvested restricted common stock was outstanding as of December 31, 2013.

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

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

YEARS ENDED DECEMBER 31

	2013	2012	2011
Operating Activities			
Net income (loss)	\$490.9	\$125.4	\$(129.5)
Less: income from discontinued operations	0.8	15.9	447.0
Less: income attributable to noncontrolling interests	2.4	—	—
Income (loss) from continuing operations attributable to ITT Corporation	487.7	109.5	(576.5)
Adjustments to income (loss) from continuing operations			
Depreciation and amortization	86.9	71.1	71.3
Stock-based compensation	13.1	12.4	11.5
Asbestos-related costs, net	32.8	50.9	100.4
Transformation costs	2.2	13.0	396.1
Deferred income taxes	(364.0)	) 34.1	302.4
Asbestos-related payments, net	(25.4)	) (20.1)	) (22.0)
Transformation-related payments	(7.1)	) (47.3)	) (355.0)
Contributions to postretirement plans	(11.9)	) (71.0)	) (30.8)
Changes in assets and liabilities (net of acquisitions):			
Change in receivables	(60.7)	) (17.7)	) (71.0)
Change in inventories	(10.7)	) (8.7)	) (37.0)
Change in accounts payable	4.5	(4.3)	) 3.3
Change in accrued expenses	40.5	(10.1)	) 34.8
Change in accrued income taxes	28.6	84.1	(97.5)
Other, net	10.1	51.2	(52.4)
Net Cash – Operating activities	226.6	247.1	(322.4)
Investing Activities			
Capital expenditures	(122.9)	) (83.8)	) (102.3)
Purchases of investments	(240.2)	) (38.2)) —
Maturities of investments	168.2	—	—
Acquisitions, net of cash acquired	0.7	(193.2)	) (15.6)
Proceeds from sale of discontinued operations and other assets	2.3	39.5	10.4
Other, net	3.1	1.0	1.0
Net Cash – Investing activities	(188.8)	) (274.7)	) (106.5)
Financing Activities			
Short-term debt, net	25.4	(24.8)	) 3.5
Long-term debt repaid	(6.4)	) (1.0)	) (1,318.7)
Long-term debt issued	—	1.3	—
Proceeds from issuance of common stock	34.8	58.0	60.0
Repurchase of common stock	(87.9)	) (116.8)	) (6.6)
Excess tax benefit from equity compensation activity	8.7	6.4	7.2
Dividends paid	(36.4)	) (34.2)	) (193.0)
Contributions from Exelis and Xylem, net	—	—	1,671.0
Distributions of Exelis and Xylem, net	—	—	699.9
Other, net	3.5	3.1	(1.0)
Net Cash – Financing activities	(58.3)	) (108.0)	) 922.3
Exchange rate effects on cash and cash equivalents	(0.4)) (4.0)) (9.4)
Discontinued operations:			
Operating activities	(16.3)) (3.2)) 561.2

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Investing activities	—	(0.1) (467.3)
Financing activities	—	(2.4) (527.1)
Exchange rate effects on cash and cash equivalents	—	—	6.7	
Net Cash – Discontinued operations	(16.3	) (5.7	) (426.5)
Net change in cash and cash equivalents	(37.2	) (145.3	) 57.5	
Cash and cash equivalents – beginning of year	544.5	689.8	1,032.3	
Cash and cash equivalents – end of year	507.3	544.5	1,089.8	
Less: Cash and cash equivalents distributed to Exelis and Xylem	—	—	(400.0)
Cash and Cash Equivalents of Continuing Operations – End of Period	507.3	544.5	689.8	
Supplemental Cash Flow Disclosures				
Cash paid (received) during the year for:				
Interest	0.9	2.3	80.2	
Income taxes, net of refunds received	\$21.9	\$(100.9	) \$140.0	

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

ITT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN MILLIONS) YEARS ENDED DECEMBER 31	SHARES			DOLLARS		
	2013	2012	2011	2013	2012	2011
Common Stock						
Common stock, beginning balance	91.9	93.1	91.5	\$91.9	\$93.1	\$91.5
Activity from stock incentive plans	2.3	4.0	1.7	2.3	4.0	1.7
Share repurchases	(3.2)	(5.2)	(0.1)	(3.2)	(5.2)	(0.1)
Common stock, ending balance	91.0	91.9	93.1	\$91.0	\$91.9	\$93.1
Retained Earnings						
Retained earnings, beginning balance				\$898.8	\$852.6	\$5,441.9
Net income (loss)				488.5	125.4	(129.5)
Cash dividends declared on common stock				(36.7)	(34.2)	(147.2)
Activity from stock incentive plans				54.4	74.1	103.4
Share repurchases				(84.7)	(111.6)	(6.5)
Distribution of Exelis and Xylem				—	(7.3)	(4,409.5)
Purchase of noncontrolling interest				—	(0.2)	—
Retained earnings, ending balance				\$1,320.3	\$898.8	\$852.6
Accumulated Other Comprehensive Loss						
Postretirement benefit plans, beginning balance				\$(195.5)	\$(153.2)	\$(1,359.5)
Net change in postretirement benefit plans				66.3	(42.3)	(508.5)
Distribution of Exelis and Xylem				—	—	1,714.8
Postretirement benefit plans, ending balance				\$(129.2)	\$(195.5)	\$(153.2)
Cumulative translation adjustment, beginning balance				\$(91.7)	\$(96.4)	\$275.8
Net cumulative translation adjustment				10.9	4.7	(38.8)
Distribution of Exelis and Xylem				—	—	(333.4)
Cumulative translation adjustments, ending balance				\$(80.8)	\$(91.7)	\$(96.4)
Unrealized (loss) gain on investment securities, beginning balance				\$(0.3)	\$(1.3)	\$11.5
Net change in unrealized gain (loss) on investment securities				—	1.0	(12.8)
Unrealized (loss) gain on investment securities, ending balance				\$(0.3)	\$(0.3)	\$(1.3)
Total accumulated other comprehensive loss				\$(210.3)	\$(287.5)	\$(250.9)
Noncontrolling Interests						
Noncontrolling interests, beginning balance				\$—	\$—	\$—
Reclassification of noncontrolling interests				3.9	—	—
Income attributable to noncontrolling interests				2.4	—	—
Other				(0.4)	—	—
Noncontrolling interests, ending balance				\$5.9	\$—	\$—
Total Shareholders' Equity						
Total shareholders' equity, beginning balance				\$703.2	\$694.8	\$4,461.2
Net change in common stock				(0.9)	(1.2)	1.6
Net change in retained earnings				421.5	46.2	(4,589.3)
Net change in accumulated other comprehensive loss				77.2	(36.6)	821.3
Net change in noncontrolling interests				5.9	—	—
Total shareholders' equity, ending balance				\$1,206.9	\$703.2	\$694.8

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

ITT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1

DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation, and industrial markets. Unless the context otherwise indicates, references herein to “ITT,” “the Company,” and such words as “we,” “us,” and “our” include ITT Corporation and its subsidiaries. ITT operates through four segments: Industrial Process consisting of industrial pumping and complementary equipment; Motion Technologies consisting of friction and shock & vibration equipment; Interconnect Solutions (ICS) consisting of electronic connectors; and Control Technologies consisting of fluid handling, motion control and vibration and shock isolation products. Financial information for our segments is presented in Note 22, “Segment Information.”

Basis of Presentation

The Consolidated Financial Statements and Notes thereto were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are revised as additional information becomes available. Estimates and assumptions are used for, but not limited to, asbestos-related liabilities and recoveries from insurers, revenue recognition, unrecognized tax benefits, deferred tax valuation allowances, projected benefit obligations for postretirement plans, accounting for business combinations, goodwill and other intangible asset impairment testing, environmental liabilities and recoveries from insurers, allowance for doubtful accounts and inventory valuation. Actual results could differ from these estimates. Certain prior year amounts have been reclassified to conform to the current year presentation, as described within these Notes to the Consolidated Financial Statements.

Significant Accounting Policies

Principles of Consolidation

Our consolidated financial statements include the accounts of all majority-owned subsidiaries. ITT consolidates companies in which it has a controlling financial interest or when ITT is considered the primary beneficiary of a variable interest entity. We account for investments in companies over which we have the ability to exercise significant influence, but do not hold a controlling interest under the equity method, and we record our proportionate share of income or losses in the Consolidated Statements of Operations. The results of companies acquired or disposed of during the fiscal year are included in the Consolidated Financial Statements from the effective date of acquisition or up to the date of disposal or distribution. All intercompany transactions have been eliminated.

Revenue Recognition

Revenue is derived from the sale of products and services to customers. The following revenue recognition policies describe the manner in which we account for different classes of revenue transactions.

Revenue is recognized when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, collectability is reasonably assured and delivery has occurred or services have been rendered. For product sales, other than long-term construction and production-type contracts (referred to as design and build arrangements), we recognize revenue at the time title and risks and rewards of ownership pass to the customer, which is generally when products are shipped, and the contractual terms have been fulfilled. Certain contracts with customers require delivery, installation, testing, certification or other acceptance provisions to be satisfied before revenue is recognized. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) we have previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria or (ii) on formal acceptance received from the customer where the product has not been previously demonstrated to meet customer-specified objective criteria.

We recognize revenue on product sales to channel partners, including resellers, distributors or value-added solution providers at the time of sale when the channel partners have economic substance apart from ITT and ITT has completed its obligations related to the sale. Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered or over the service period.

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For multiple deliverable arrangements, we recognize revenue 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. 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 for multiple element arrangements is recognized when the appropriate revenue recognition criteria for the individual deliverable have been satisfied.

We recognize revenue on certain design and build projects using the completed contract method. Amounts invoiced to customers in excess of revenue recognized are recorded as a reduction of inventory to the extent project costs have accumulated within inventory or as deferred revenue, within accrued liabilities, until the revenue recognition criteria are satisfied.

During the performance of design and build arrangements, estimated final contract prices and costs are reviewed quarterly. Provisions for estimated losses on uncompleted design and build arrangements are recognized in the period in which such losses are determined. Provisions for estimated losses are recorded as a component of costs of revenue. We record a reduction in revenue at the time of sale for estimated product returns, rebates and other allowances, based on historical experience and known trends.

Revenue is reported net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Shipping and Handling Costs

Shipping and handling costs are recorded as a component of costs of revenue.

Product Warranties

Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. Accruals for estimated expenses related to product warranties are made at the time revenue is recognized and are recorded as a component of costs of revenue. We estimate the liability for warranty claims based on our standard warranties, the historical frequency of claims and the cost to replace or repair our products under warranty. Factors that influence our warranty liability include the number of units sold, the length of warranty term, historical and anticipated rates of warranty claims and the cost per claim.

Asbestos-Related Liabilities and Assets

ITT has been named as a defendant in numerous product liability lawsuits alleging personal injury due to asbestos exposure. We accrue the estimated value of pending claims and unasserted claims estimated to be filed over the next 10 years, including legal fees, on an undiscounted basis. Assumptions utilized in estimating the liability for both pending and unasserted claims include: disease type, average settlement costs, percentage of claims settled or dismissed, the number of claims estimated to be filed against the Company in the future and the costs to defend such claims.

The Company has also recorded an asbestos-related asset, composed of insurance receivables. The asbestos-related asset represents our best estimate of probable recoveries from third parties for pending claims, as well as unasserted claims estimated to be filed over the next 10 years. In developing this estimate, the Company considers coverage-in-place and other settlement agreements with its insurers, as well as a review of expected levels of future cost recovery, the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, and interpretation of the various policy and

contract terms and limits and their interrelationships.

In the third quarter each year we conduct an asbestos remeasurement with the assistance of outside consultants to review and update, as appropriate, the underlying assumptions used to estimate our asbestos liability and related assets, including a reassessment of the time horizon over which a reasonable estimate of unasserted claims can be projected. In addition, 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. Provided the quarterly review does not indicate a more detailed

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evaluation of our asbestos exposure is required, each quarter we record a net asbestos expense to maintain a rolling 10-year time horizon.

Postretirement Benefit Plans

ITT sponsors pension and other employee-related defined benefit plans (collectively, postretirement benefit plans) for employees around the world. Postretirement benefit obligations are generally determined, where applicable, based on participant years of service, future compensation, and age at retirement or termination. The determination of projected benefit obligations and the recognition of expenses related to postretirement benefit plans are dependent on various assumptions that are judgmental. The assumptions involved in the measurement of our postretirement benefit plan obligations and net periodic postretirement costs primarily relate to discount rates, long-term expected rates of return on plan assets, mortality and termination rates, and other factors. Management develops each assumption using relevant Company experience in conjunction with market-related data for each individual country in which such plans exist. Actual results that differ from our assumptions are accumulated and are amortized over the estimated future working life, or remaining lifetime, of the plan participants depending on the nature of the retirement plan. For the recognition of net periodic postretirement cost, the calculation of the long-term expected return on plan assets is generally derived using a market-related value of plan assets based on yearly average asset values at the measurement date over the last 5 years.

The fair value of plan assets is estimated based on market prices or estimated fair value at the measurement date. The funded status of each plan is recorded on our balance sheet. Actuarial gains and losses and prior service costs or credits that have not yet been recognized through net income are recorded in accumulated other comprehensive income within shareholders' equity, net of taxes, until they are amortized as a component of net periodic postretirement cost.

Research & Development

Research and development (R&D) activities are charged to expense as incurred and are reported as a component of operating income within the R&D expense line.

Stock-Based Compensation

Stock-based awards issued to employees and non-employee directors include non-qualified stock options, restricted stock awards, restricted stock units, performance units, and certain liability-based awards. Performance units include a total shareholder return (TSR) component and a return on invested capital (ROIC) component which are accounted for as two distinct awards. Compensation costs resulting from share-based payment transactions are recognized primarily within general and administrative expenses, at fair value over the requisite service period (typically three years) on a straight-line basis. The amount of compensation recognized includes an adjustment based on an estimate of awards ultimately expected to vest. The fair value of a non-qualified stock option is determined on the date of grant using a binomial lattice pricing model incorporating multiple and variable assumptions over time, including assumptions such as employee exercise patterns, stock price volatility and changes in dividends. The fair value of restricted stock awards and restricted stock units is determined using the closing price of the Company's common stock on date of grant. The fair value of TSR equity awards is measured at grant date using a Monte Carlo simulation, measuring potential total shareholder return for ITT relative to the other companies in the S&P 400 Capital Goods Index. The fair value of the ROIC awards was based on the closing price of ITT common stock on the date of grant less the present value of expected dividend payments during the vesting period. The fair value of our liability-based awards, including cash awards under our TSR award plan, granted prior to 2013, is measured using a Monte Carlo simulation and is remeasured at the end of each reporting period.

Restructuring

We periodically initiate management approved restructuring activities to achieve cost savings through reduced operational redundancies and to strategically position ourselves in the market in response to prevailing economic conditions and associated customer demand. Costs associated with restructuring actions can include severance, infrastructure charges to vacate facilities or consolidate operations, contract termination costs and other related charges. For involuntary separation plans, a liability is recognized when it is probable and reasonably estimable. For voluntary separation plans, a liability is recognized when the employee irrevocably accepts the voluntary termination.

For one-time termination benefits, such as additional severance pay or benefit payouts, and other exit costs, such as lease termination costs, the liability is measured and recognized initially at fair value in the period in which the liability is incurred, with subsequent changes to the liability recognized as adjustments in the period of change. Restructuring costs are presented within general and administrative expenses.

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Income Taxes

We determine the provision for income taxes using the asset and liability approach. Under this approach, deferred income tax assets and liabilities are determined based on the estimated future tax effects of differences between the financial reporting and tax bases of assets and liabilities, applying currently enacted tax rates in effect for the year in which we expect the differences will reverse. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income (including the reversals of deferred tax liabilities) during the periods in which those deferred tax assets will become deductible.

We record a valuation allowance against our deferred tax assets when it is more likely than not that all or a portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, the Company considers all available positive and negative evidence regarding the realizability of its deferred tax assets, including the future reversal of existing taxable temporary differences, taxable income in carryback periods, prudent and feasible tax planning strategies, estimated future taxable income, and whether we have a recent history of losses. The valuation allowance can be affected by changes to tax regulations, interpretations and rulings, changes to enacted statutory tax rates, and changes to future taxable income estimates.

We have not provided deferred tax liabilities for the impact of U.S. income taxes on undistributed foreign earnings which we plan to reinvest indefinitely outside the U.S. We plan foreign earnings remittance amounts based on projected cash flow needs, as well as the working capital and long-term investment requirements of foreign subsidiaries and our domestic operations.

Furthermore, 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 in consideration of applicable tax statutes and related interpretations and precedents and the expected outcome of the proceedings (or negotiations) with the taxing authorities. Tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized on ultimate settlement.

Earnings Per Share

Basic earnings per common share considers the weighted average number of common shares outstanding, as well as outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends. Diluted earnings per share considers the outstanding shares utilized in the basic earnings per share calculation as well as the dilutive effect of outstanding stock options and restricted stock that do not contain rights to nonforfeitable dividends. Diluted shares outstanding include the dilutive effect of in-the-money options, unvested restricted stock units and unvested performance stock units. The dilutive effect of such equity awards is calculated based on the average share price for each reporting period using the treasury stock method. Common stock equivalents are excluded from the computation of earnings per share if they have an anti-dilutive effect.

Cash and Cash Equivalents

ITT considers all highly liquid investments purchased with an original maturity or remaining maturity at time of purchase of three months or less to be cash equivalents. Cash equivalents primarily include fixed-maturity time deposits and money market investments. We record the fixed maturity time deposits at amortized cost and accrue interest during the maturity period.

Concentrations of Credit Risk

Financial instruments that potentially subject ITT to significant concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable from trade customers, investments and derivatives. We maintain cash and cash equivalents with various financial institutions located in different geographical regions, and our policy is designed to limit exposure to any individual counterparty. As part of our risk management processes, we perform periodic evaluations of the relative credit standing of the financial institutions. We have not sustained any material credit losses during the previous three years from financial instruments held at financial institutions.

Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising ITT's customer base and their dispersion across many different industries and geographic regions. However, our largest customer represents approximately 10% of the December 31, 2013 outstanding trade accounts receivable

balance. ITT performs ongoing credit evaluations of the financial condition of its third-party distributors, resellers and other customers and requires collateral, such as letters of credit and bank guarantees, in certain circumstances.

Allowance for Doubtful Accounts

We determine our allowance for doubtful accounts using a combination of factors to reduce our trade receivables balances to their estimated net realizable amount. We maintain an allowance for doubtful accounts based on a variety of factors; including the length of time receivables are past due, macroeconomic trends and conditions, significant one-time events, historical experience and the financial condition of our customers. We record a specific reserve for

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individual accounts when we become aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. The past due or delinquency status of a receivable is based on the contractual payment terms of the receivable. If circumstances related to the specific customer change, we adjust estimates of the recoverability of receivables as appropriate.

Inventories

Inventories, which include the costs of material, labor and overhead, are stated at the lower of cost or market, with cost generally computed on a first-in, first-out (FIFO) basis. Estimated losses from obsolete and slow-moving inventories are recorded to reduce inventory values to their estimated net realizable value and are charged to cost of sales. At the point of loss recognition, a new cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in a recovery in carrying value. Inventories valued under the last-in, first-out (LIFO) method represent 15.3% and 16.3% of total 2013 and 2012 inventories, respectively. We have a LIFO reserve of \$9.2 and \$8.1 recorded as of December 31, 2013 and 2012, respectively.

Cost of sales is generally reported using standard cost techniques with full overhead absorption that approximates actual cost.

Plant, Property and Equipment

Plant, property and equipment, including capitalized interest applicable to major project expenditures, are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements – five to 40 years, machinery and equipment – two to 10 years, furniture and office equipment – three to seven years, and other – five to 40 years. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter. Fully depreciated assets are retained in property and accumulated depreciation accounts until disposal. Repairs and maintenance costs are expensed as incurred.

The Company enters into operating and capital leases for the use of premises and equipment. Rent expense related to operating lease agreements are recorded on a straight line basis, considering lease incentives and escalating rental payments.

Capitalized Internal Use Software

Costs incurred in the preliminary project stage of developing or acquiring internal use software are expensed as incurred. After the preliminary project stage is completed, management has approved the project and it is probable that the project will be completed and the software will be used for its intended purpose, ITT capitalizes certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software. ITT amortizes capitalized internal use software costs using the straight-line method over the estimated useful life of the software, generally from three to seven years.

Investments

As of December 31, 2013 and 2012, we held investments in time deposits with a cost of \$112.9 and \$38.2, respectively, having an original maturity exceeding three months at the time of purchase. These investments mature within four months of the balance sheet date and have been presented in other current assets as short-term investments on the Consolidated Balance Sheet. These investments have been classified as held-to-maturity and are recorded at amortized cost, which approximates fair value at December 31, 2013 and 2012. We did not realize any gains or losses from the maturity of our investments during 2013 or 2012. Interest income recognized from these investments during 2013 or 2012 was not material to our results of operations.

Investments in corporate-owned life insurance (COLI) policies are recorded at their cash surrender values as of the balance sheet date. The Company's investments in COLI policies are included in other non-current assets in the consolidated balance sheets and were \$93.6 and \$87.7 at December 31, 2013 and 2012, respectively. Changes in the cash surrender value during the period are recorded as a gain or loss within operating expenses and were not material in the years ended December 31, 2013, 2012 and 2011. These investments were made with the intention of utilizing them as a long-term funding source for deferred compensation obligations, which as of December 31, 2013 and 2012 were approximately \$17.5 and \$17.0, respectively, however, the COLI policies do not represent a committed funding source for these obligations and as such they are subject to claims from creditors, and we can designate them for

another purpose at any time.

Long-Lived Asset Impairment

Long-lived assets, including intangible assets with finite lives and capitalized internal use software, are tested for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable. We assess the recoverability of long-lived assets based on the undiscounted future cash flow the assets are expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value

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of the asset. When an impairment is identified, we reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

Goodwill and Intangible Assets

Goodwill represents purchase consideration paid in a business combination that exceeds the values assigned to the net assets of the acquired business. Intangible assets include customer relationships, proprietary technology, trademarks, patents and other intangible assets. Intangible assets with a finite life are generally amortized on a straight-line basis over an estimated economic useful life, which generally range from 10-20 years, and are tested for impairment if indicators of impairment are identified. Certain of our intangible assets have an indefinite life, namely certain brands and trademarks.

Goodwill and indefinite-lived intangible assets are not amortized, but rather are tested for impairment annually (or more frequently if impairment indicators arise, such as changes to the reporting unit structure, significant adverse changes in the business climate or an adverse action or assessment by a regulator). We conduct our annual impairment testing on the first day of the fourth fiscal quarter. When reviewing for impairment, we may opt to make an initial qualitative evaluation which considers present events and circumstances, to determine the likelihood of impairment. If the likelihood of impairment is not considered to be more likely than not, then no further testing is performed. For goodwill, if it is considered to be more likely than not that the asset is impaired, then a two-step quantitative impairment test is performed. In the first step, the estimated fair value of each reporting unit is compared to the carrying value of the net assets assigned to that reporting unit. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and the second step of the impairment test is not performed. If the carrying value of the reporting unit exceeds its estimated fair value, then the second step of the impairment test is performed in order to measure the impairment loss to be recorded, if any. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. For indefinite-lived intangibles, if it is considered to be more likely than not that the asset is impaired, we compare the fair value of those assets to their carrying value. We recognize an impairment loss when the estimated fair value of the indefinite-lived intangible asset is less than its carrying value.

We estimate the fair value of our reporting units using an income approach. Under the income approach, we estimate fair value based on the present value of estimated future cash flows. We estimate the fair value of our indefinite-lived intangible assets using the relief from royalty method. The relief from royalty method estimates the portion of a company's earnings attributable to an intellectual property asset based on an assumed royalty rate that the company would have paid had the asset not been owned.

Business Combinations

ITT allocates the purchase price of its acquisitions to the tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquiree based on their estimated fair value at the acquisition date. Changes to acquisition date fair values prior to the expiration of the measurement period, a period not to exceed 12 months from date of acquisition, are recorded as an adjustment to the associated goodwill. Changes to acquisition date fair values after expiration of the measurement period are recorded in earnings. The excess of the acquisition price over those estimated fair values is recorded as goodwill. Acquisition-related expenses are expensed as incurred and the costs associated with restructuring actions initiated after the acquisition are recognized separately from the business combination.

Commitments and Contingencies

We record accruals for commitments and loss contingencies for those which are both probable and the amount can be reasonably estimated. In addition, legal fees are accrued for cases where a loss is probable and the related fees can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount of loss. We review these accruals quarterly and adjust the accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other current information.

Environmental-Related Liabilities and Assets

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.

Our estimated liability is reduced to reflect the participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of the relevant costs. Accruals for environmental liabilities are primarily included in other non-current liabilities at undiscounted amounts and exclude claims for recoveries from insurance companies or other third parties.

During 2012, the Company established an insurance asset related to its environmental exposures. The environmental-related asset represents our best estimate of probable recoveries from third parties for costs incurred in past periods, as well as costs estimated to be incurred in future periods. In developing this estimate, the Company

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reviews the expected levels of future cost recovery, the financial viability of the insurance companies, the sites and claims covered by those policies, and our interpretation of the various policy and contract terms and limits. Environmental costs and related recoveries are recorded within general and administrative expenses in the Consolidated Statements of Operations.

Foreign Currency Translation

The national currencies of our foreign subsidiaries are generally the functional currencies. Balance sheet accounts are translated at the exchange rate in effect at the end of each period, except for equity which is translated at historical rates; income statement accounts are translated at the average rates of exchange prevailing during the period. Gains and losses resulting from foreign currency translation are reflected in the cumulative translation adjustments component of shareholders' equity.

For foreign subsidiaries that do not use the local currency as their functional currency, foreign currency assets and liabilities are remeasured to the foreign subsidiary's functional currency using end of period exchange rates, except for nonmonetary balance sheet accounts, which are remeasured at historical exchange rates.

For transactions denominated in other than the functional currency, revenue and expenses are remeasured at average exchange rates in effect during the reporting period in which the transactions occurred, except for expenses related to nonmonetary assets and liabilities. Transaction gains or losses from foreign currency remeasurement are reported in general and administrative expenses.

Fair Value Measurements

We determine fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We prioritize the inputs to valuation techniques used to measure fair value into three broad levels based on the observability of the lowest level input that is significant to the fair value measure. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), then to quoted market prices for similar assets or liabilities in active markets or quoted market prices of identical assets in less active markets (Level 2) and gives the lowest priority to unobservable inputs (Level 3).

Derivative Financial Instruments

ITT may use derivative financial instruments, primarily foreign currency forward contracts, to mitigate exposure from foreign currency exchange rate fluctuations as it pertains to receipts from customers, payments to suppliers and intercompany transactions. In connection with the Bornemann acquisition, we assumed certain foreign currency contracts related to forecasted transactions with third-parties. We record derivatives at their fair value as either an asset or liability and include adjustments to reflect changes in the fair value of our derivatives in earnings as the contracts are not designated as hedges. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense. As of December 31, 2013 and 2012, the notional amount of our foreign currency derivatives was \$13.1 and \$48.0, respectively, and our interest rate swaps was \$11.9 and \$7.9, respectively. The amount of gains and losses recorded related to our foreign currency contracts and interest rate swaps, and the net fair value of our outstanding derivative contracts was not material as of and for the years ended December 31, 2013, 2012 and 2011.

Derivative contracts involve the risk of non-performance by the counterparty. The fair value of our foreign currency contracts has been determined using the net position of the contracts and the applicable spot rates and forward rates as of the reporting date.

NOTE 2

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Not Yet Adopted

In July 2013, the Financial Accounting Standards Board (FASB) issued guidance eliminating diversity in practice surrounding the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance requires entities to net an unrecognized tax benefit with a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if the carryforward would be used to settle additional tax due upon disallowance of a tax position. The adoption of this amendment on

January 1, 2014 is not expected to have a material effect on ITT's financial statements.

In March 2013, the FASB clarified that, when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. The cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the

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foreign entity in which the subsidiary or group of assets had resided. The FASB also clarified that if a business combination is achieved in stages related to a previously held equity method investment (step-acquisition) that is a foreign entity, the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss as of the acquisition date shall include any foreign currency translation adjustment related to that previously held investment. The adoption of these amendments on January 1, 2014 is not expected to have a material impact to ITT's financial statements.

In February 2013, the FASB issued guidance requiring an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the amount the entity agreed to pay for the arrangement between them and the other entities that are also obligated to the liability and any additional amount the entity expects to pay on behalf of the other entities. The adoption of these amendments on January 1, 2014 is not expected to have a material impact to ITT's financial statements.

NOTE 3

ACQUISITIONS

On November 28, 2012, we acquired all issued and outstanding stock of the privately held Joh. Heinr. Bornemann GmbH (Bornemann) for a final purchase price of \$192.5, net of cash acquired. Bornemann, a supplier and servicer of multiphase pumping systems serving the global oil & gas, industrial, food and pharmaceutical markets, has more than 550 employees globally and is reported within the Industrial Process segment. The acquisition was funded with cash on hand. The final allocation of the purchase price, presented below, is based on the fair value of assets acquired, liabilities assumed and noncontrolling interests in Bornemann as of November 28, 2012.

Cash	\$ 11.9	
Receivables	29.9	
Inventory	44.7	
Deferred tax assets	14.6	
Plant, property and equipment	29.8	
Goodwill	147.3	
Other intangibles	58.7	
Other assets	9.2	
Accounts payable	(9.6)
Accrued liabilities	(30.1)
Deferred revenue	(10.2)
Deferred tax liabilities	(23.1)
Short and long-term debt and capital leases	(44.4)
Postretirement obligations	(15.0)
Other liabilities	(9.3)
Net assets acquired	\$204.4	

The goodwill arising from the acquisition is primarily related to the planned geographic expansion of Bornemann operations and is not expected to be deductible for income tax purposes. All of the goodwill has been assigned to the Industrial Process segment. Other intangibles acquired include customer relationships, proprietary technology and trademarks.

During 2011, we spent \$15.6, net of cash acquired, on acquisitions that were not material individually or in the aggregate to our results of operations or financial position. The most significant of these acquisitions was Blakers Pump Engineers Unit Trust (Blakers) on October 27, 2011. Blakers, reported within the Industrial Process segment, is a supplier of process and industrial pumping equipment serving customers in the oil & gas, mining, power, and general markets.

Our financial statements include the results of operations and cash flows from each of our acquisitions prospectively from their respective acquisition date. Pro forma results of operations have not been presented because neither acquisition was deemed material at the acquisition date.

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NOTE 4

DISCONTINUED OPERATIONS

Results from discontinued operations reflect income of \$0.8 for the year ended December 31, 2013 primarily related to a reversal of warranty reserves and legal-related contingencies associated with previously disposed businesses, partially offset by a settlement of legacy receivables and payables with a former ITT entity, resulting in a net loss of \$1.3.

During 2012, the Company completed the sale of its shape cutting product lines, including the Kaliburn and Burny brands as well as the web tension control products and custom engineered systems sold under the Cleveland Motion Controls brand (collectively referred to herein as the Shape Cutting Businesses). The sale was completed on November 13, 2012, resulting in net proceeds from the sale of \$38.4 which is included in investing activities on our Consolidated Statement of Cash Flows. Subsequent to this divestiture, we do not have any significant continuing involvement in the operations of these businesses, nor do we expect significant continuing cash flows. Accordingly, the financial position and results of operations of the Shape Cutting Businesses are reported as a discontinued operation for 2012 and 2011.

Summarized operating results from the Shape Cutting Businesses presented within earnings from discontinued operations are provided in the tables below. Interest expense was not allocated to the divested businesses for any of the periods presented. Amounts presented in the "Other" column within the tables below relate to various divested ITT businesses accounted for as discontinued operations in the year of divestiture for which legacy liabilities remain, as well as certain transformation costs which were directly related to the Distribution and provided no future benefit to the Company. See Note 6, "Company Transformation" for further information.

Year Ended 2012	Shape Cutting Businesses	Other	Total
Revenue	\$30.2	\$—	\$30.2
Earnings from discontinued operations before income taxes	0.6	0.4	1.0
Gain on sale before tax	9.0	—	9.0
Income tax expense (benefit)	—	(5.9	) (5.9
Earnings from discontinued operations, net of tax	\$9.6	\$6.3	\$15.9

On October 31, 2011, the Company completed the Distribution of Exelis (previously referred to as ITT's Defense & Information Solutions segment) and Xylem (previously referred to as the water-related businesses), from the Company into two independent, publicly traded companies via a tax-free Distribution to shareholders (the Distribution). ITT was designated as the accounting and legal spinor with respect to the Distribution. The Distribution was made pursuant to a Distribution Agreement, dated October 25, 2011, among ITT, Exelis and Xylem (the Distribution Agreement). With the completion of these separations, the Company disposed of its water-related businesses and Defense segment in their entirety and ceased to consolidate their financial position and results of operations in its consolidated financial statements. Accordingly, the Company has presented the results of operations of its former water-related businesses and Defense segment as discontinued operations in the consolidated financial statements for 2011.

In connection with the Distribution, ITT received a net cash transfer (the Contribution) of \$683.0 and \$988.0 from Exelis and Xylem, respectively, which is included in financing activities on our Consolidated Statement of Cash Flows. No gain or loss was recognized in connection with the Distribution. While we are a party to a Distribution Agreement and several other agreements, including a Tax Matters Agreement, Benefits and Compensation Matters Agreement and Master Transition Services Agreement, we have determined we do not have significant continuing involvement in the operations of Exelis or Xylem, nor do we expect significant continuing cash flows from Exelis or Xylem. Summarized operating results from Exelis, Xylem, and the Shape Cutting Businesses presented within earnings from discontinued operations are provided in the tables below.

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Year Ended 2011	Exelis	Xylem	Shape Cutting Businesses	Other	Total
Revenue	\$4,916.1	\$3,107.5	\$33.5	\$—	\$8,057.1
Transformation costs	31.2	74.8	—	134.1	240.1
Earnings (loss) from discontinued operations before income taxes	473.0	321.5	(2.5)	(108.9)	683.1
Income tax expense (benefit)	193.6	70.3	(1.1)	(26.7)	236.1
Earnings (loss) from discontinued operations, net of tax	\$279.4	\$251.2	\$(1.4)	\$(82.2)	\$447.0

In order to effect the Distribution and govern ITT's relationship with Exelis and Xylem after the Distribution, ITT entered into a Distribution Agreement and several other agreements, including a Tax Matters Agreement, Employee Benefits and Compensation Matters Agreement and Master Transition Services Agreement. Information on the agreements utilized to effectuate the Distribution is provided below.

Distribution Agreement

The Distribution Agreement between ITT and Exelis and Xylem contains the key provisions relating to the separation of the businesses of Exelis and Xylem from ITT and the distribution of the shares of Exelis and Xylem common stock to our shareholders. The Distribution Agreement provides the framework for the allocation, transfer and assumption of assets and liabilities among ITT, Exelis and Xylem as well as the settlement or extinguishment of certain liabilities and other obligations between and among ITT, Exelis and Xylem. Under the Distribution Agreement, we agreed to indemnify Exelis and Xylem and their respective subsidiaries and affiliates, subject to limited exceptions with respect to certain employee claims, against claims and liabilities related to the past operation of ITT's business (other than the liabilities of the divested businesses) and Exelis and Xylem agreed to indemnify us against claims and liabilities related to their respective businesses. The Distribution Agreement establishes that certain liabilities will be shared 21% to ITT, 39% to Exelis, and 40% to Xylem.

In connection with the Distribution, ITT retained certain material contingent legacy liabilities involving asbestos and environmental matters. See Note 20, "Commitments and Contingencies," for information regarding asbestos and environmental related contingencies.

Tax Matters Agreement

On October 25, 2011, we entered into a Tax Matters Agreement with Exelis and Xylem that governs the respective rights, responsibilities and obligations of the companies after the Distribution with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. Federal, state, local and foreign income taxes, other tax matters and related tax returns. Exelis and Xylem have liability with ITT to the U.S. Internal Revenue Service (IRS) for the consolidated U.S. Federal income taxes of the ITT consolidated group relating to the taxable periods in which Exelis and Xylem were part of that group. However, the Tax Matters Agreement specifies the portion, if any, of this tax liability for which ITT, Exelis and Xylem will bear responsibility, and ITT, Exelis and Xylem agreed to indemnify each other against any amounts for which they are not responsible. The Tax Matters Agreement also provides special rules for allocating tax liabilities in the event that the Distribution is determined to not be tax-free. The Tax Matters Agreement provides for certain covenants that may restrict our ability to pursue strategic or other transactions that otherwise could maximize the value of our business and may discourage or delay a change of control that may be considered favorable. Though valid as between the parties, the Tax Matters Agreement is not binding on the IRS.

Pursuant to the Tax Matters Agreement, as the shared income tax liabilities are settled, ITT will make payments up to certain specified thresholds, with payments in excess of those specified thresholds shared among ITT, Exelis, and Xylem. If payments to the taxing authorities are less than certain specified thresholds, ITT will make payments up to the remaining specified thresholds to Exelis and Xylem. Settlement is expected to occur as the audit process by applicable taxing authorities is completed for the impacted years and cash payments are made. Given the nature of the shared tax liabilities, the maximum amount of potential future payments is not determinable. Any such cash payments,

when they occur, will reduce the liability for uncertain tax positions as such payments represent an equivalent reduction of risk. At December 31, 2013, ITT's accrual for uncertain tax positions includes amounts related to certain shared tax liabilities; however, no receivables from Exelis or Xylem have been recorded as our estimate of their portion of the shared tax liabilities is not more than the amounts currently accrued for the uncertain tax position. If our estimate of exposures to the shared tax liabilities increases above the specified threshold, a receivable would be recorded. At December 31, 2013 and 2012, the financial statements include a net tax-related liability of \$0.7 and \$0.8, respectively, due to Exelis and Xylem in the aggregate.

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Adjustments in the future for the impact of filing final income tax returns in certain jurisdictions where those returns include a combination of ITT, Exelis and Xylem legal entities and for certain amended income tax returns for the periods prior to the Distribution may be recorded to either shareholders' equity or the statement of income depending on the specific item giving rise to the adjustment. During 2012, \$7.0 was recorded directly to shareholders' equity as part of the Distribution of Exelis and Xylem.

Benefits and Compensation Matters Agreement

On October 25, 2011, we entered into a Benefits and Compensation Matters Agreement with Exelis and Xylem that governs the respective rights, responsibilities and obligations of Exelis, Xylem and ITT after the Distribution with respect to transferred employees, defined benefit pension plans, defined contribution pension plans, nonqualified pension plans, employee health and welfare benefit plans, incentive plans, corporate-owned life insurance, stock equity awards, foreign benefit plans, director plans and collective bargaining agreements. The Benefits and Compensation Matters Agreement provides for the allocation and treatment of assets and liabilities arising out of incentive plans, pension plans and employee welfare benefit programs in which Exelis and Xylem employees participated prior to the Distribution. Generally, Exelis and Xylem assumed or retained sponsorship of, and liabilities relating to, employee compensation and benefit programs relating to Exelis and Xylem current employees.

The Benefits and Compensation Matters Agreement also provided that outstanding ITT equity awards would be equitably adjusted in connection with the Distribution. All outstanding ITT equity awards held by employees of Exelis as of the Distribution Date were substituted for Exelis equity awards and all outstanding ITT equity awards held by employees of Xylem as of the Distribution Date were substituted for Xylem equity awards. As described in Note 18, "Long-Term Incentive Employee Compensation," the substitution preserved the economic value of the cancelled ITT equity awards for employees of Exelis and Xylem as of the Distribution Date. Subject to the applicable transition period with respect to certain benefit plans or programs, after the Distribution, employees of Exelis and Xylem no longer participate in ITT's plans or programs, and Exelis and Xylem have established or maintained plans or programs for their employees.

Master Transition Services Agreement

On October 25, 2011, we entered into a Master Transition Services Agreement with Exelis and Xylem, under which each of Exelis and Xylem or their respective affiliates provide us with certain services (including information technology, financial, procurement and human resource services, benefits support services and other specified services), and we or certain of our affiliates provide each of Exelis and Xylem certain services (including information technology, human resources services and other specified services). These services will initially be provided at cost with scheduled, escalating increases to up to cost plus 10% and generally extended for a period of 3 to 24 months from the Distribution Date and are intended to help ensure an orderly transition for each of Exelis, Xylem and ITT following the Distribution.

During 2013 and 2012, we billed Exelis and Xylem a total of \$6.7 and \$10.7, respectively, associated with activities performed under the Master Transition Services Agreement. During 2011, we billed Exelis and Xylem a total of approximately \$22.0, primarily relating to active employee health benefits which continued to be administered by ITT. On January 1, 2012, the administration of the employee health benefit plans was transferred to Exelis and Xylem. Total billings by Exelis and Xylem to ITT during 2013 and 2012 amounted to \$0.8 and \$1.3, respectively. As of December 31, 2013 and 2012, we have an aggregate receivable and payable, associated with transactions related to the Master Transition Services Agreement, of less than \$0.1 each.

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NOTE 5

RESTRUCTURING ACTIONS

We have initiated various restructuring activities throughout the business during the past three years, of which only the Interconnect Solutions turnaround activities is considered to be individually significant. See further discussion on this plan below. Other less significant restructuring actions during 2013 include reduction in force initiatives, geographic sales presence realignment, and the exit of a non-core construction pump business. We also undertook various restructuring actions during 2012 primarily focused on reducing operating costs through reduction in force initiatives. The components of all restructuring costs incurred during each of the previous three years ended are presented in the table below.

	2013	2012	2011
By component:			
Severance costs	\$22.3	\$10.9	\$3.5
Asset write-offs	3.9	0.2	—
Other restructuring costs	2.2	2.9	1.2
Total restructuring costs	\$28.4	\$14.0	\$4.7
By segment:			
Industrial Process	\$4.5	\$0.3	\$0.4
Motion Technologies	5.1	2.2	—
Interconnect Solutions	17.2	7.2	2.9
Control Technologies	0.4	0.8	1.4
Corporate and Other	1.2	3.5	—

The following table displays a rollforward of the restructuring accruals, presented on our Consolidated Balance Sheet within accrued liabilities, for each of the previous two years ended.

	2013	2012
Restructuring accruals - 1/1	\$7.8	\$4.0
Restructuring costs	28.4	14.0
Cash payments	(17.1)	(9.7)
Asset write-offs	(3.9)	(0.2)
Foreign exchange translation and other	(0.5)	(0.3)
Restructuring accrual - 12/31	\$14.7	\$7.8
By accrual type:		
Severance accrual	\$13.0	\$7.8
Facility carrying and other costs accrual	1.7	—

The following is a rollforward of employee position eliminations associated with restructuring activities through 2013:

	2013	2012
Planned reductions - 1/1	10	29
Additional planned reductions	275	149
Actual reductions	(178)	(168)
Planned reductions - 12/31	107	10

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Interconnect Solutions Turnaround Activities

During 2013, we initiated a comprehensive restructuring action to improve the overall cost structure of our Interconnect Solutions. The charges incurred during 2013 under this action primarily related to employee severance for 180 planned headcount reductions, and to a lesser extent, asset write-offs. We expect to incur further restructuring costs of approximately \$20.0 under this plan, primarily during 2014, related to geographic footprint consolidation. The following table provides a rollforward of the restructuring accrual associated with the Interconnect Solutions turnaround activities.

	2013	
Restructuring accruals - 1/1	\$—	
Restructuring costs	18.1	
Cash payments	(6.1)
Asset Write-Offs	(3.9)
Foreign exchange translation and other	(0.1)
Restructuring accruals - 12/31	\$8.0	

NOTE 6

COMPANY TRANSFORMATION

On October 31, 2011, the Company completed the Distribution of Exelis and Xylem. In connection with activities taken to create the revised organizational structure and to complete the Distribution (referred to herein as transformation costs) we recognized pre-tax expenses of \$2.2, \$20.8 and \$636.2, respectively, during 2013, 2012 and 2011. We have presented \$2.2, \$13.0, and \$396.1, respectively, of the pre-tax transformation costs within income from continuing operations and the remainder within income from discontinued operations. Transformation costs incurred during 2011 primarily relate to losses on the extinguishment of debt, asset impairments, and employee retention and severance. Amounts presented within discontinued operations are costs directly related to the Distribution, primarily advisory fees and information technology costs, which provide no future benefit to the Company. Transformation-related activities were substantially complete as of December 31, 2013. See Note 4, "Discontinued Operations," for additional information.

NOTE 7

INCOME TAXES

For each of the years ended December 31, 2013, 2012, and 2011 the tax data related to continuing operations is as follows:

	2013	2012	2011	
Income (loss) components:				
United States	\$28.5	\$33.0	\$(464.4)
International	152.0	116.1	148.5	
Income (loss) from continuing operations before income tax	180.5	149.1	(315.9)
Income tax expense (benefit) components:				
Current income tax expense (benefit):				
United States – federal	10.6	(32.6	)	(78.9
United States – state and local	4.2	(8.7	)	(12.1
International	39.6	46.8	49.2	
Total current income tax expense (benefit)	54.4	5.5	(41.8)
Deferred income tax expense (benefit) components:				
United States – federal	(331.2	)	40.1	318.2
United States – state and local	(36.7	)	9.9	(14.6
International	3.9	(15.9	)	(1.2
Total deferred income tax expense (benefit)	(364.0	)	34.1	302.4
Income tax expense (benefit)	\$(309.6)	\$39.6	\$260.6
Effective income tax rate	(171.5)%	26.6	%
	(82.5)%)%

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A reconciliation of the income tax expense (benefit) for continuing operations from the U.S. statutory income tax rate to the effective income tax rate is as follows for each of the years ended December 31, 2013, 2012, and 2011:

	2013		2012		2011	
Tax provision at U.S. statutory rate	35.0	%	35.0	%	35.0	%
Valuation allowance on deferred tax assets	(191.1	)	27.7		(108.1)
Tax exempt interest	(17.5	)	(19.7	)	4.1	
Tax on undistributed foreign earnings	6.1		1.3		(21.8)
Foreign tax rate differential	(5.8	)	(3.0	)	1.2	
Audit settlements & unrecognized tax benefits	3.8		(13.2)	—	
U.S. permanent items	(1.3	)	0.5		—	
U.S. tax on foreign earnings	(0.7	)	0.5		0.4	
Other adjustments	(0.6	)	(2.8	)	(3.9)
State and local income tax	0.6		1.4		0.5	
Medicare Part D subsidy	—		(1.1	)	0.4	
Change in state tax rate	—		—		9.7	
Effective income tax rate	(171.5	)%	26.6	%	(82.5)%

Our effective tax rate in 2013 was affected by changes in unrecognized tax benefits of approximately \$5.9 and includes the completion of tax examinations and lapses in the statute of limitations.

As a result of investment opportunities and other factors, and their impact on the Company's expected liquidity, a determination was made that certain earnings generated in Hong Kong, Luxembourg, Japan, and South Korea are not indefinitely reinvested. In 2013, the Company recorded an additional \$11.0 of deferred tax liability on the undistributed foreign earnings. We have not provided for deferred taxes on the remaining excess of financial reporting over tax bases of investments in foreign subsidiaries in the amount of \$506.6 because we plan to reinvest such earnings indefinitely outside the U.S. While the amount of U.S. federal income taxes, if such earnings are distributed in the future, cannot be determined, such taxes may be reduced by tax credits and other tax deductions.

We operate under tax holidays in China and Korea, which are effective through December 31, 2014 and 2015, respectively. The tax holidays are conditional upon our meeting certain research, employment and/or investment thresholds. The impact of these holidays decreased foreign taxes by \$1.8 or \$0.02 per diluted share in 2013.

Deferred tax assets and liabilities include the following:

	2013		2012	
Deferred Tax Assets:				
Accruals	\$64.5		\$65.2	
Asbestos	272.7		296.7	
Employee benefits	106.6		137.2	
Credit carryforwards	47.2		46.1	
Loss carryforwards	125.2		119.3	
Other	34.4		40.1	
Subtotal	650.6		704.6	
Valuation allowance	\$(135.3	)	\$(536.7)
Net deferred tax assets	515.3		167.9	
Deferred Tax Liabilities:				
Undistributed earnings	(82.3	)	(71.4)
Intangibles	(58.8	)	(59.2)
Accelerated depreciation	(25.8	)	(25.0)
Investment	(0.4	)	(0.7)
Total deferred tax liabilities	\$(167.3)	\$(156.3)
Net deferred tax assets	\$348.0		\$11.6	

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Deferred taxes are presented in the Consolidated Balance Sheets as follows:

	2013	2012
Current assets	\$59.5	\$19.9
Non-current assets	303.6	21.4
Current liabilities	—	(3.5)
Other non-current liabilities	(15.1)	(26.2)
Net deferred tax assets	\$348.0	\$11.6

The Company released the valuation allowance against its U.S. deferred tax assets and recorded a tax benefit of \$374.6 during 2013. The valuation allowance was originally recorded in 2011 on U.S. deferred tax assets, in part, due to a cumulative three-year loss position resulting primarily from previous asbestos remeasurement charges. This cumulative loss position was considered a significant source of negative evidence and limited our ability to weigh other subjective evidence such as our projections for future growth. The Company generated U.S. adjusted income in 2012 and 2013 and is now in a cumulative three year income position. Based on positive evidence, including the three year cumulative positive income and the absence of any significant negative evidence, management determined that it is more likely than not that the Company's U.S. deferred tax assets will be realized except for certain deferred tax assets attributable to state net operating losses and tax credits.

As a result of a cumulative loss, the Company established a valuation allowance on foreign net deferred tax assets in Brazil and the U.K. The Company continues to maintain a valuation allowance against certain foreign net deferred tax assets, primarily in Luxembourg, Germany and China. Overall, the increase in the foreign valuation allowance of \$29.0 is primarily attributable to foreign net operating loss carryforwards in Luxembourg.

We have the following tax attributes available for utilization at December 31, 2013:

Attribute	Amount	First Year of Expiration
U.S. federal net operating losses	\$2.1	12/31/2023
U.S. state net operating losses	1,348.4	12/31/2014
U.S. federal tax credits	39.0	12/31/2020
U.S. state tax credits	8.2	12/31/2014
Foreign net operating losses	281.4	12/31/2014

We have approximately \$166.4 of net operating loss carryforwards in Luxembourg as of December 31, 2013 that do not expire.

Shareholders' equity at December 31, 2013 and 2012 includes excess income tax benefits related to stock-based compensation in 2013 and 2012 of approximately \$8.7 and \$6.4, respectively.

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Uncertain Tax Positions

We recognize income tax benefits from uncertain tax positions only if, based on the technical merits of the position, it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The tax benefits recognized in the Consolidated Financial Statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for each of the years ended December 31, 2013, 2012, and 2011 is as follows:

	2013	2012	2011
Unrecognized tax benefits – January 1	\$208.8	\$198.7	\$203.4
Additions for:			
Prior year tax positions	1.6	48.4	1.5
Current year tax positions	8.0	0.8	15.1
Assumed in Acquisition	—	3.8	—
Reductions for:			
Prior year tax positions	(55.4	) (4.8	) (21.2
Settlements	(1.0	) (33.6) —
Expiration of Statute of Limitations	(0.8	) (4.5	) (0.1
Unrecognized tax benefits – December 31	\$161.2	\$208.8	\$198.7

As of December 31, 2013, \$53.4 and \$57.6 of the unrecognized tax benefits would affect the effective tax rate for continuing operations and discontinued operations respectively, if realized. Over the next twelve months, the net amount of the tax liability for unrecognized tax benefits in foreign and domestic jurisdictions could change by \$87.9 due to changes in audit status, expiration of statutes of limitations and other events.

See Note 4, “Discontinued Operations” for discussion of the Tax Matters Agreement.

In many cases, uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. The Company is currently under examination in the Czech Republic, Germany, Italy, Korea, the U.K. and the U.S. The settlement of an examination could result in changes in amounts attributable to us through the Tax Matters Agreement entered into with Exelis and Xylem. Currently, we cannot reasonably estimate the amount of such changes.

The following table summarizes the earliest open tax years by major jurisdiction as of December 31, 2013:

Jurisdiction	Earliest Open Year
Czech Republic	2008
Germany	2006
Italy	2007
Japan	2010
Korea	2008
United States	2009

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 Consolidated Statements of Operations. During 2013 and 2012, we recognized \$2.0 and \$(3.9) in net interest expense (income) from continuing operations related to tax matters, respectively. We had \$17.5 and \$13.6 of interest accrued from continuing and discontinued operations related to tax matters as of December 31, 2013 and 2012, respectively.

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NOTE 8

EARNINGS PER SHARE

The following table provides a reconciliation of the data used in the calculation of basic and diluted common shares outstanding for the three years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
Weighted average common shares outstanding	90.9	92.7	92.2
Add: Weighted average restricted stock awards outstanding ^(a)	0.1	0.3	0.6
Basic weighted average common shares outstanding	91.0	93.0	92.8
Add: Dilutive impact of stock options and restricted stock units	1.3	1.1	—
Diluted weighted average common shares outstanding	92.3	94.1	92.8

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

The following table provides the number of shares underlying stock options excluded from the computation of diluted earnings per share for the three years ended December 31, 2013, 2012 and 2011 because they were anti-dilutive.

	2013	2012	2011
Anti-dilutive stock options	0.2	2.0	2.1
Average exercise price	\$26.83	\$21.47	\$16.70
Year(s) of expiration	2023	2014-2022	2013-2022

In addition, 0.1 of outstanding employee return on invested capital (ROIC) awards were excluded from the computation of diluted earnings per share for the year ended December 31, 2013, as the performance period related to ROIC awards has not been achieved.

NOTE 9

RECEIVABLES, NET

	2013	2012
Trade accounts receivable	\$463.9	\$403.3
Notes receivable	6.3	5.6
Other	39.1	44.3
Receivables, gross	509.3	453.2
Less: allowance for doubtful accounts	12.6	12.9
Receivables, net	\$496.7	\$440.3

Receivables related to progress billings of \$6.4 have been reclassified as of December 31, 2012 from the "Other" caption to the "Trade Accounts Receivable" caption to conform to the current period presentation.

The following table displays a rollforward of the allowance for doubtful accounts for the years ended December 31, 2013, 2012, and 2011.

	2013	2012	2011
Allowance for doubtful accounts – January 1	\$12.9	\$12.9	\$12.6
Charges to income	1.8	1.6	2.8
Write-offs	(1.7)	(1.6)	(2.2)
Foreign currency and other	(0.4)	—	(0.3)
Allowance for doubtful accounts – December 31	\$12.6	\$12.9	\$12.9

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NOTE 10

INVENTORIES, NET

	2013	2012
Finished goods	\$49.9	\$64.1
Work in process	94.8	60.5
Raw materials	166.7	136.6
Inventoried costs related to long-term contracts	85.4	91.7
Total inventory before progress payments	396.8	352.9
Less – progress payments	(80.9	) (48.7
Inventories, net	315.9	304.2

NOTE 11

OTHER CURRENT AND NON-CURRENT ASSETS

	2013	2012
Short-term investments	\$112.9	\$38.2
Asbestos-related current assets	84.5	82.6
Prepaid income tax	23.6	66.7
Current deferred income taxes	59.5	19.9
Other	65.1	44.0
Other current assets	\$345.6	\$251.4
Other employee benefit-related assets	\$95.5	\$87.7
Capitalized software costs	14.6	13.4
Environmental related assets	11.7	12.3
Equity method investments	4.7	8.6
Other	18.4	29.2
Other non-current assets	\$144.9	\$151.2

NOTE 12

PLANT, PROPERTY AND EQUIPMENT, NET

	2013	2012
Land and improvements	\$26.8	\$18.0
Machinery and equipment	834.5	785.4
Buildings and improvements	211.6	184.6
Furniture, fixtures and office equipment	74.6	69.9
Construction work in progress	59.8	43.7
Other	8.5	9.0
Plant, property and equipment, gross	1,215.8	1,110.6
Less: accumulated depreciation	(789.6	) (737.5
Plant, property and equipment, net	\$426.2	\$373.1

Depreciation expense of \$63.4, \$54.6 and \$56.4 was recognized in 2013, 2012 and 2011, respectively.

ITT CORPORATION AND SUBSIDIARIES

NOTE 13

GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2012 by segment are as follows:

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Total
Goodwill - December 31, 2011	\$193.2	\$46.9	\$72.3	\$185.1	\$497.5
Goodwill acquired	146.5	—	—	—	146.5
Adjustments to purchase price allocations	2.6	—	—	—	2.6
Foreign currency	3.2	0.9	0.7	—	4.8
Goodwill - December 31, 2012	345.5	47.8	73.0	185.1	651.4
Adjustments to purchase price allocations	0.8	—	—	—	0.8
Foreign currency	4.7	2.0	0.9	—	7.6
Goodwill - December 31, 2013	\$351.0	\$49.8	\$73.9	\$185.1	\$659.8

Goodwill of \$12.9 was disposed of during 2012 in connection with the sale of the Shape Cutting businesses on November 13, 2012. See Note 4, "Discontinued Operations" for further information.

Goodwill acquired during 2012 relates to the Bornemann acquisition. The purchase price allocation adjustment of \$0.8 during 2013 is due to a fair value adjustment to certain environmental and royalty-related liabilities that existed at the acquisition date, partially offset by the receipt of \$0.7 from the finalization of the Bornemann purchase price. As these amounts are not considered material, the adjustments were not retrospectively applied as if the accounting for the business combination had been completed at the acquisition date.

Based on the results of our 2013 annual impairment test, we determined that no impairment of goodwill existed as of the measurement date in 2013. Based on the results of our 2012 annual impairment test and subsequent test performed following the sale of the Shape Cutting Businesses, we determined that no impairment of goodwill existed as of either measurement date in 2012. However, future goodwill impairment tests could result in a charge to earnings. We will continue to evaluate goodwill on an annual basis as of the beginning of our fourth fiscal quarter and whenever events and changes in circumstances indicate there may be a potential impairment.

Other Intangible Assets

Information regarding our other intangible assets is as follows:

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Customer relationships	\$84.9	\$(31.9)	\$53.0	\$84.7	\$(25.1)	\$59.6
Proprietary technology	30.3	(7.6)	22.7	29.5	(4.9)	24.6
Patents and other	16.4	(13.0)	3.4	18.0	(6.3)	11.7
Finite-lived intangible total	131.6	(52.5)	79.1	132.2	(36.3)	95.9
Indefinite-lived intangibles	27.8	—	27.8	27.4	—	27.4
Other Intangible Assets	\$159.4	\$(52.5)	\$106.9	\$159.6	\$(36.3)	\$123.3

Intangible assets related to the acquisition of Bornemann included \$11.4 of trademarks, \$17.6 of customer relationships, and \$17.1 of proprietary technology. The trademarks have been assigned an indefinite life. The customer relationships are expected to be amortized over a weighted average period of 9.6 years and the proprietary technology is expected to be amortized over a weighted average period of 12.2 years.

Indefinite-lived intangibles consist of brands and trademarks. Based on the results of its annual impairment tests, we determined that no impairment of the indefinite-lived intangibles existed as of the measurement date in 2013 or 2012. However, future impairment tests could result in a charge to earnings. We will continue to evaluate the indefinite-lived intangible assets on an annual basis as of the beginning of our fourth fiscal quarter and whenever

events and changes in circumstances indicate there may be a potential impairment.

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Customer relationships, proprietary technology and patents and other are amortized over weighted average lives of approximately 13.6 years, 12.3 years and 11.4 years, respectively.

Amortization expense related to intangible assets for 2013, 2012 and 2011 was \$17.6, \$10.2 and \$8.7, respectively. Estimated amortization expense for each of the five succeeding years is as follows:

Year	Estimated Amortization Expense
2014	\$ 11.8
2015	10.0
2016	9.5
2017	8.7
2018	7.3

NOTE 14

ACCRUED LIABILITIES AND OTHER NON-CURRENT LIABILITIES

	2013	2012
Compensation and other employee-related benefits	\$178.5	\$147.7
Asbestos-related liability	85.1	92.4
Short-term loans and current maturities of long-term debt	39.8	16.8
Accrued income taxes and other tax-related liabilities	29.8	32.4
Customer-related liabilities	55.6	54.6
Environmental and other legal matters	38.5	38.6
Accrued warranty costs	28.6	28.6
Other accrued liabilities	44.0	47.2
Accrued and other current liabilities	\$499.9	\$458.3
Deferred income taxes and other tax-related accruals	\$116.2	\$135.1
Environmental liabilities	85.1	84.9
Compensation and other employee-related benefits	43.8	41.3
Other	32.7	31.0
Other non-current liabilities	\$277.8	\$292.3

NOTE 15

LEASES AND RENTALS

ITT leases certain offices, manufacturing buildings, land, machinery, automobiles, computers and other equipment. The majority of leases expire at various dates through 2027 and may include renewal and payment escalation clauses. ITT often pays maintenance, insurance and tax expense related to leased assets. Rental expenses under operating leases were \$14.7, \$14.3 and \$15.3 for 2013, 2012 and 2011, respectively. Future minimum operating lease payments under non-cancellable operating leases with an initial term in excess of one year as of December 31, 2013 are shown below.

2014	\$ 15.0
2015	13.7
2016	12.3
2017	9.9
2018	9.4
2019 and thereafter	69.4
Total minimum lease payments	\$ 129.7

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NOTE 16
DEBT

	2013	2012
Commercial Paper	\$38.0	\$—
Short-term loans	—	12.7
Current maturities of long-term debt	1.3	3.6
Current capital leases	0.5	0.5
Short-term loans and current maturities of long-term debt	39.8	16.8
Non-current maturities of long-term debt	7.6	8.5
Non-current capital leases	1.5	1.6
Long-term debt and capital leases	9.1	10.1
Total debt and capital leases	\$48.9	\$26.9

Our outstanding commercial paper as of December 31, 2013 had a weighted average interest rate of 0.44% and maturity terms less than one month from the date of issuance.

The fair value of long-term debt as of December 31, 2013 approximates the carrying value and carries an interest rate ranging from 4.20% to 5.40%. At December 31, 2013, assets of \$10.3 were pledged as collateral.

At December 31, 2013, we had four interest rate swaps outstanding, with an aggregate notional amount of \$11.9 and fair value of \$0.6. The interest rate swaps convert floating-rate debt to a fixed rate. Changes in the fair value of the interest rate swaps are recorded in earnings as the interest rate swaps do not qualify for hedge accounting.

Principal payments over the next five years and thereafter are as follows:

2014	\$39.8
2015	1.8
2016	1.5
2017	1.3
2018	0.9
Thereafter	3.6

Revolving Credit Facility

On October 25, 2011, we entered into a competitive advance and revolving credit facility agreement (2011 Revolving Credit Agreement) with a consortium of third party lenders including JP Morgan Chase Bank, N.A., as administrative agent, and Citibank, N.A. as syndication agent. Upon its effectiveness at the Distribution, this agreement replaced our existing \$1,500 three-year revolving credit facility due August 2013. The 2011 Revolving Credit Agreement provides for a four-year maturity with a one-year extension option upon satisfaction of certain conditions, and comprises an aggregate principal amount of up to \$500 of (i) revolving extensions of credit (the revolving loans) outstanding at any time, (ii) competitive advance borrowing option which will be provided on an uncommitted competitive advance basis through an auction mechanism (the competitive advances), and (iii) letters of credit in a face amount up to \$100 at any time outstanding. Subject to certain conditions, we are permitted to terminate permanently the total commitments and reduce commitments in minimum amounts of \$10. We are also permitted, subject to certain conditions, to request that lenders increase the commitments under the facility by up to \$200 for a maximum aggregate principal amount of \$700. Voluntary prepayments are permitted in minimum amounts of \$50.

At our election, the interest rate per annum applicable to the competitive advances will be based on either (i) a Eurodollar rate determined by reference to LIBOR, plus an applicable margin offered by the lender making such loans and accepted by us or (ii) a fixed percentage rate per annum specified by the lender making such loans. At our election, interest rate per annum applicable to the revolving loans will be based on either (i) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin or (ii) a fluctuating rate of interest determined by reference to the greatest of (a) the prime rate of JPMorgan Chase Bank, N.A., (b) the federal funds effective rate plus one-half of 1% or (c) the 1-month LIBOR rate, adjusted for statutory reserve requirements, plus 1%, in each case, plus an applicable margin. We had no amounts outstanding under the revolving credit facility as of December 31, 2013.

ITT CORPORATION AND SUBSIDIARIES

Our obligations under the credit facility are unconditionally guaranteed by each of our significant direct or indirect domestic subsidiaries.

The credit facility contains customary affirmative and negative covenants that, among other things, will limit or restrict our ability to: incur additional debt or issue guarantees; create liens; enter into certain sale and lease-back transactions; merge or consolidate with another person; sell, transfer, lease or otherwise dispose of assets; liquidate or dissolve; and enter into restrictive covenants. Additionally, the 2011 Revolving Credit Agreement requires us not to permit the ratio of consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) (leverage ratio) to exceed 3.00 to 1.00 at any time, or the ratio of consolidated EBITDA to consolidated interest expense (interest coverage ratio) to be less than 3.00 to 1.00. At December 31, 2013, our interest coverage ratio and leverage ratio were within the prescribed thresholds.

2011 Debt Extinguishment

During 2011, ITT extinguished long-term debt of \$1,251.0, resulting in a loss of \$324.9, plus incidental fees, which was recorded as a transformation cost. In connection with the extinguishment, we recognized a previously deferred gain of \$42.9 on a terminated interest rate swap and expensed \$6.1 of previously deferred debt issuance costs and unamortized debt discounts. Also during 2011, we terminated a capital lease by purchasing the leased properties which resulted in a charge of \$4.6 recorded as a transformation cost. The leased properties include five manufacturing and office facilities, four of which were distributed to either Exelis or Xylem on the Distribution Date.

NOTE 17

POSTRETIREMENT BENEFIT PLANS

Defined Contribution Plans

Substantially all of ITT's U.S. and certain international employees are eligible to participate in a defined contribution plan. ITT sponsors numerous defined contribution savings plans, which allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. Several of the plans require us to match a percentage of the employee contributions up to certain limits. Company contributions charged to income amounted to \$15.3, \$13.5, and \$8.2 for 2013, 2012 and 2011, respectively.

At the Distribution Date, the ITT Corporation Retirement Savings Plan for Salaried Employees was created, which increased Company contributions from a maximum of 3.5% of base pay to 6% or 7%, depending on age and years of service, of total eligible pay which includes base pay, overtime and qualified bonuses. Additionally, for five years subsequent to the Distribution Date, the Company will provide transition credits to certain employees up to 5% of eligible pay.

The ITT Stock Fund, an investment option under the ITT Corporation Retirement Savings Plan for Salaried Employees and the ITT Hourly Savings Plan, is considered an employee stock ownership plan and, as a result, participants in the ITT Stock Fund may receive dividends in cash or may reinvest such dividends into the ITT Stock Fund. The ITT Stock Fund held approximately 0.3 shares of ITT common stock at December 31, 2013.

Defined Benefit Plans

ITT sponsors several defined benefit pension plans which have approximately 2,400 active participants; however, most of these plans have been closed to new participants for several years. As of December 31, 2013, of our total projected benefit obligation, the ITT Pension Plan for Bargaining Unit Employees Seneca Falls represented 35%, the ITT Consolidated Hourly Pension Plan represented 38%, other U.S. plans represented 4% and international pension plans represented 23%. The U.S. plans are generally for hourly employees with a flat dollar benefit formula based on years of service. International plan benefits are primarily determined based on participant years of service, future compensation, and age at retirement or termination.

ITT also provides health care and life insurance benefits for eligible U.S. employees upon retirement. In some cases, the plan is still open to new employees, but for the majority of our businesses these plans are closed to new participants. The majority of the liability pertains to retirees with postretirement medical insurance.

During 2013, management approved changes to certain of our defined benefit pension and postretirement plans, including the merging of plans and the elimination of future benefit accruals for plan participants as of December 31, 2013. These changes resulted in a decrease to ITT's net postretirement liability of \$23.3 and a curtailment loss of \$1.2.

Future defined contribution plan changes were also approved increasing Company contributions for most U.S. hourly employees to a maximum of 6.0% of total eligible pay.

ITT CORPORATION AND SUBSIDIARIES

Balance Sheet Information

Amounts recognized as assets or liabilities in the Consolidated Balance Sheets for postretirement benefit plans reflect the funded status. The following table provides a summary of the funded status of our postretirement benefit plans and the presentation of the funded status within our Consolidated Balance Sheet as of December 31, 2013 and 2012.

	2013			2012		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Fair value of plan assets	\$268.8	\$9.2	\$278.0	\$249.1	\$7.9	\$257.0
Projected benefit obligation	366.0	166.6	532.6	387.0	213.0	600.0
Funded status	\$(97.2)	\$(157.4)	\$(254.6)	\$(137.9)	\$(205.1)	\$(343.0)
Amounts reported within:						
Non-current assets	\$1.9	\$—	\$1.9	\$—	\$—	\$—
Accrued liabilities	(4.8)	(8.4)	(13.2)	(4.2)	(8.5)	(12.7)
Non-current liabilities	(94.3)	(149.0)	(243.3)	(133.7)	(196.6)	(330.3)

A portion of our projected benefit obligation includes amounts that have not yet been recognized as expense in our results of operations. Such amounts are recorded within accumulated other comprehensive loss until they are amortized as a component of net periodic postretirement cost. The following table provides a summary of amounts recorded within accumulated other comprehensive loss at December 31, 2013 and 2012.

	2013			2012		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
Net actuarial loss	\$126.9	\$39.4	\$166.3	\$175.7	\$75.0	\$250.7
Prior service cost (benefit)	2.8	(22.2)	(19.4)	4.8	(3.7)	1.1
Total	\$129.7	\$17.2	\$146.9	\$180.5	\$71.3	\$251.8

The following table provides a rollforward of the projected benefit obligations for our U.S. and international pension plans for the years ended December 31, 2013 and 2012.

	2013		2012	
	U.S.	Int'l	U.S.	Int'l