

ITT CORP  
Form 10-Q  
November 07, 2006

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2006**

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

**For the transition period from            to**

**Commission file number 1-5672**

**ITT CORPORATION**

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

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

**4 West Red Oak Lane, White Plains, NY 10604**  
*(Principal Executive Office)*

**Telephone Number: (914) 641-2000**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 31, 2006, there were outstanding 184,698,612 shares of common stock (\$1 par value per share) of the registrant.



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**Table of Contents****PART I.****FINANCIAL INFORMATION****Item 1.****FINANCIAL STATEMENTS****ITT CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED INCOME STATEMENTS**

(In millions, except per share amounts)

(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Sales and revenues	\$ 2,001.1	\$ 1,734.6	\$ 5,756.6	\$ 5,195.3
Costs of sales and revenues	1,443.2	1,270.0	4,173.2	3,791.3
Selling, general, and administrative expenses	291.5	223.2	830.5	721.9
Research and development expenses	41.7	38.2	119.6	116.4
Restructuring and asset impairment charges, net	9.8	23.2	32.0	43.1
Total costs and expenses	1,786.2	1,554.6	5,155.3	4,672.7
Operating income	214.9	180.0	601.3	522.6
Interest expense	19.4	17.9	60.8	51.9
Interest income	6.3	16.6	14.8	36.3
Miscellaneous expense, net	4.1	2.4	13.6	12.9
Income from continuing operations before income tax expense	197.7	176.3	541.7	494.1
Income tax expense	57.3	22.9	163.9	87.8
Income from continuing operations	140.4	153.4	377.8	406.3
Discontinued operations:				
Income from discontinued operations, including tax (benefit) expense of \$(0.7), \$(38.8), \$9.0 and \$(38.9), respectively	3.1	35.9	62.5	37.2
Net income	\$ 143.5	\$ 189.3	\$ 440.3	\$ 443.5

**Earnings Per Share<sup>(1)</sup>:**

Income from continuing operations:

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Basic	\$	0.76	\$	0.83	\$	2.05	\$	2.20
Diluted	\$	0.75	\$	0.81	\$	2.02	\$	2.15
Discontinued operations:								
Basic	\$	0.02	\$	0.19	\$	0.34	\$	0.20
Diluted	\$	0.02	\$	0.19	\$	0.33	\$	0.20
Net income:								
Basic	\$	0.78	\$	1.02	\$	2.39	\$	2.40
Diluted	\$	0.77	\$	1.00	\$	2.35	\$	2.35
Cash dividends declared per common share	\$	0.11	\$	0.09	\$	0.33	\$	0.27
Average Common Shares	Basic	184.1		184.8		184.3		184.6
Average Common Shares	Diluted	186.7		188.9		187.2		188.7

(1) Restated for two-for-one stock split effective February 21, 2006.

The accompanying notes to consolidated condensed financial statements are an integral part of the above income statements.

**Table of Contents****ITT CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS****(In millions, except share and per share amounts)  
(Unaudited)**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 792.5	\$ 451.0
Receivables, net	1,270.5	1,197.7
Inventories, net	717.2	622.9
Deferred income taxes	69.0	73.7
Other current assets	89.2	66.9
Assets of discontinued operations	205.2	469.7
Total current assets	3,143.6	2,881.9
Plant, property, and equipment, net	775.6	782.0
Deferred income taxes	95.5	72.2
Goodwill, net	2,308.9	2,227.3
Other intangible assets, net	237.9	214.8
Other assets	974.7	893.7
Total non-current assets	4,392.6	4,190.0
<b>Total assets</b>	<b>\$ 7,536.2</b>	<b>\$ 7,071.9</b>
<b>Liabilities and Shareholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 833.7	\$ 751.5
Accrued expenses	853.0	715.5
Accrued taxes	147.4	193.0
Notes payable and current maturities of long-term debt	595.3	750.9
Other current liabilities	47.0	10.0
Liabilities of discontinued operations	99.6	169.6
Total current liabilities	2,576.0	2,590.5
Pension benefits	431.8	420.1
Postretirement benefits other than pensions	305.2	305.5
Long-term debt	511.7	516.0
Other liabilities	560.5	516.4
Total non-current liabilities	1,809.2	1,758.0

<b>Total liabilities</b>	<b>4,385.2</b>	<b>4,348.5</b>
<b>Shareholders' Equity<sup>(1)</sup></b>		
Common stock:		
Authorized 250,000,000 shares, \$1 par value per share outstanding: 184,716,344 shares and 184,637,920 shares, respectively	184.3	184.6
Retained earnings	3,002.4	2,666.0
Accumulated other comprehensive income (loss):		
Unrealized loss on investment securities	(0.5)	(0.5)
Minimum pension liability	(120.4)	(120.4)
Cumulative translation adjustments	85.2	(6.3)
Total accumulated other comprehensive loss	(35.7)	(127.2)
Total shareholders' equity	3,151.0	2,723.4
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,536.2</b>	<b>\$ 7,071.9</b>

<sup>(1)</sup> Restated for two-for-one stock split effective February 21, 2006.

The accompanying notes to consolidated condensed financial statements are an integral part of the above balance sheets.

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

	<b>Nine Months</b>	
	<b>Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Net income	\$ 440.3	\$ 443.5
(Income) from discontinued operations	(62.5)	(37.2)
Income from continuing operations	377.8	406.3
Adjustments to income from continuing operations:		
Depreciation and amortization	127.1	127.8
Amortization of stock compensation	16.7	0.9
Restructuring and asset impairment charges, net	32.0	43.1
Payments for restructuring	(36.2)	(31.4)
Change in receivables	(68.5)	(171.8)
Change in inventories	(76.9)	(18.7)
Change in accounts payable and accrued expenses	176.3	139.9
Change in accrued and deferred taxes	14.0	85.7
Change in other current and non-current assets	(82.9)	(98.1)
Change in non-current liabilities	9.3	(11.3)
Other, net	(1.3)	5.5
Net cash operating activities	487.4	477.9
<b>Investing Activities</b>		
Additions to plant, property, and equipment	(95.2)	(95.3)
Acquisitions, net of cash acquired	(75.2)	(38.4)
Proceeds from sale of assets and businesses	223.7	9.1
Other, net	(6.4)	(0.9)
Net cash investing activities	46.9	(125.5)
<b>Financing Activities</b>		
Short-term debt, net	(157.2)	173.9
Long-term debt repaid	(2.2)	(4.5)
Long-term debt issued		0.4
Repurchase of common stock	(136.4)	(288.5)
Proceeds from issuance of common stock	53.0	133.4
Dividends paid	(57.3)	(48.9)
Other, net	13.6	(0.2)
Net cash financing activities	(286.5)	(34.4)

<b>Exchange Rate Effects on Cash and Cash Equivalents</b>	29.8	(19.7)
<b>Net Cash Discontinued Operations Operating Activities</b>	71.2	(81.3)
<b>Net Cash Discontinued Operations Investing Activities</b>	(7.2)	(8.0)
<b>Net Cash Discontinued Operations Financing Activities</b>	(0.1)	(1.6)
Net change in cash and cash equivalents	341.5	207.4
Cash and cash equivalents beginning of period	451.0	262.9
<b>Cash and cash equivalents end of period</b>	<b>\$ 792.5</b>	<b>\$ 470.3</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ 53.2	\$ 44.7
Income taxes	\$ 149.9	\$ 2.1

The accompanying notes to consolidated condensed financial statements are an integral part of the above cash flow statements.

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**ITT CORPORATION AND SUBSIDIARIES**