ITT Corp
Form 10-Q
October 31, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014
or

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

For the transition period from to
Commission File Number: 1-5672
ITT CORPORATION

State of Indiana	13-5158950
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1133 Westchester Avenue, White Plains, NY 10604
(Principal Executive Office)
Telephone Number: (914) 641-2000

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

As of October 30, 2014, there were outstanding 91.6 million shares of common stock ($1 par value per share) of the registrant.

TABLE OF CONTENTS

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

Where in any forward-looking statement we express an expectation or belief as to future results or events, such expectation or belief is based on current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2013 (particularly under the caption “Risk Factors”), our Quarterly Reports on Form 10-Q (including Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q) and other documents we file from time to time with the SEC.

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

WHERE YOU CAN FIND MORE INFORMATION

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED INCOME STATEMENTS (UNAUDITED)
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Three Months		Nine Months	
For the Periods Ended September 30	2014	2013	2014	2013
Revenue	$657.1	$634.0	$1,994.6	$1,851.4
Costs of revenue	437.2	431.1	1,345.1	1,260.2
Gross profit	219.9	202.9	649.5	591.2
General and administrative expenses	69.1	72.5	216.3	208.2
Sales and marketing expenses	53.5	52.7	165.1	162.0
Research and development expenses	20.1	16.1	56.4	48.9
Asbestos-related (benefit) costs, net	(42.5)	(15.4)	(10.8)	16.5
Operating income	119.7	77.0	222.5	155.6
Interest and non-operating expenses (income), net	0.7	(2.3)	2.3	2.6
Income from continuing operations before income tax expense (benefit)	119.0	79.3	220.2	153.0
Income tax expense (benefit)	38.0	(354.4)	63.4	(325.0)
Income from continuing operations	81.0	433.7	156.8	478.0
(Loss) income from discontinued operations, including tax benefit of $1.8, $1.0, $4.8, and $0.8, respectively	(0.3)	(2.3)	(4.2)	0.5
Net income	80.7	431.4	152.6	478.5
Less: Income attributable to noncontrolling interests	0.4	0.7	1.8	1.2
Net income attributable to ITT Corporation	$80.3	$430.7	$150.8	$477.3
Amounts attributable to ITT Corporation:				
Income from continuing operations, net of tax	$80.6	$433.0	$155.0	$476.8
(Loss) income from discontinued operations, net of tax	(0.3)	(2.3)	(4.2)	0.5
Net income	$80.3	$430.7	$150.8	$477.3
Earnings (loss) per share attributable to ITT Corporation:				
Basic:				
Continuing operations	$0.88	$4.79	$1.69	$5.24
Discontinued operations	—	(0.03)	(0.04)	0.01
Net income	$0.88	$4.76	$1.65	$5.25
Diluted:				
Continuing operations	$0.87	$4.71	$1.67	$5.17
Discontinued operations	(0.01)	(0.02)	(0.05)	—
Net income	$0.86	$4.69	$1.62	$5.17
Weighted average common shares – basic	91.6	90.4	91.5	91.0
Weighted average common shares – diluted	92.9	91.9	92.9	92.3
Cash dividends declared per common share	$0.11	$0.10	$0.33	$0.30

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

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

	Three Months		Nine Months	
For the Periods Ended September 30	2014	2013	2014	2013
Net income	$80.7	$431.4	$152.6	$478.5
Other comprehensive income:				
Net foreign currency translation adjustment	(53.3)	29.4	(54.2)	4.2
Net change in postretirement benefit plans, net of tax impacts of $10.8, $5.7, $11.4, and $5.7, respectively	19.0	2.8	20.3	8.7
Other comprehensive (loss) income	(34.3)	32.2	(33.9)	12.9
Comprehensive income	46.4	463.6	118.7	491.4
Less: Comprehensive income attributable to noncontrolling interests	0.4	0.7	1.8	1.2
Comprehensive income attributable to ITT Corporation	$46.0	$462.9	$116.9	$490.2
Disclosure of reclassification and other adjustments to postretirement benefit plans				
Reclassification adjustments:				
Amortization of prior service (benefit) costs, net of tax (expense) benefit of $(0.6), $0.1, $(1.5), and $0.1, respectively (see Note 13)	$(0.8)	$—	$(2.5)	$0.2
Amortization of net actuarial loss (gain), net of tax benefits of $0.8, $3.7, $2.4, and $3.7, respectively (see Note 13)	1.6	(0.4)	4.6	6.3
Other adjustments:				
Unrealized change in net actuarial loss, net of tax expense of $10.6, $1.9, $10.6, and $1.9, respectively	18.2	3.2	18.2	2.2
Net change in postretirement benefit plans, net of tax	$19.0	$2.8	$20.3	$8.7

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

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

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$522.6	$507.3
Receivables, net	569.2	496.7
Inventories, net	312.8	315.9
Other current assets	305.0	345.6
Total current assets	1,709.6	1,665.5
Plant, property and equipment, net	433.2	426.2
Goodwill	643.0	659.8
Other intangible assets, net	95.5	106.9
Asbestos-related assets	397.2	433.3
Deferred income taxes	282.2	303.6
Other non-current assets	146.0	144.9
Total non-current assets	1,997.1	2,074.7
Total assets	$3,706.7	$3,740.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$330.7	$332.7
Accrued liabilities	484.6	499.9
Total current liabilities	815.3	832.6
Asbestos-related liabilities	1,118.1	1,179.6
Postretirement benefits	205.5	243.3
Other non-current liabilities	266.1	277.8
Total non-current liabilities	1,589.7	1,700.7
Total liabilities	2,405.0	2,533.3
Shareholders' equity:		
Common stock:		
Authorized – 250.0 shares, $1 par value per share (104.2 and 104.0 shares issued, respectively)		
Outstanding – 91.6 shares and 91.0 shares, respectively	91.6	91.0
Retained earnings	1,449.5	1,320.3
Total accumulated other comprehensive loss	(244.2)	(210.3)
Total ITT Corporation shareholders' equity	1,296.9	1,201.0
Noncontrolling interests	4.8	5.9
Total shareholders' equity	1,301.7	1,206.9
Total liabilities and shareholders' equity	$3,706.7	$3,740.2

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

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

For the Nine Months Ended September 30	2014	2013
Operating Activities		
Net income	$152.6	$478.5
Less: (Loss) income from discontinued operations	(4.2)	0.5
Less: Income attributable to noncontrolling interests	1.8	1.2
Income from continuing operations attributable to ITT Corporation	155.0	476.8
Adjustments to income from continuing operations:		
Depreciation and amortization	64.2	66.5
Stock-based compensation	10.8	9.7
Asbestos-related (benefit) costs, net	(10.8)	16.5
Asbestos-related payments, net	(8.9)	(19.2)
Changes in assets and liabilities:		
Change in receivables	(93.5)	(106.5)
Change in inventories	(6.3)	7.4
Change in accounts payable	1.2	4.4
Change in accrued expenses	4.1	(3.5)
Change in accrued and deferred income taxes	5.0	(340.1)
Other, net	11.1	(13.4)
Net Cash – Operating activities	131.9	98.6
Investing Activities		
Capital expenditures	(74.4)	(58.2)
Purchases of investments	(165.1)	(147.2)
Maturities of investments	207.0	84.8
Other, net	—	1.8
Net Cash – Investing activities	(32.5)	(118.8)
Financing Activities		
Short-term debt, net	(38.0)	53.5
Long-term debt, repaid	(1.2)	(6.0)
Repurchase of common stock	(25.5)	(87.9)
Issuance of common stock	14.3	28.0
Dividends paid	(20.4)	(18.3)
Excess tax benefit from equity compensation activity	8.4	5.3
Other, net	(1.5)	1.2
Net Cash – Financing activities	(63.9)	(24.2)
Exchange rate effects on cash and cash equivalents	(15.1)	(1.1)
Net Cash – Operating activities of discontinued operations	(5.1)	(18.4)
Net change in cash and cash equivalents	15.3	(63.9)
Cash and cash equivalents – beginning of year	507.3	544.5
Cash and cash equivalents – end of period	$522.6	$480.6
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest paid	$1.1	$0.9
Income taxes paid, net of (refunds received)	$47.8	$11.9

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

4

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

	Three Months		Nine Months	
For the Periods Ended September 30	2014	2013	2014	2013
Common Stock				
Common stock, beginning balance	$91.6	$90.3	$91.0	$91.9
Activity from stock incentive plans	0.2	0.4	1.1	2.0
Share repurchases	(0.2)	—	(0.5)	(3.2)
Common stock, ending balance	91.6	90.7	91.6	90.7
Retained Earnings				
Retained earnings, beginning balance	1,381.0	872.6	1,320.3	898.8
Net income attributable to ITT Corporation	80.3	430.7	150.8	477.3
Dividends declared	(10.2)	(9.2)	(30.4)	(27.6)
Activity from stock incentive plans	8.7	10.9	32.4	41.2
Share repurchases	(10.3)	—	(25.0)	(84.7)
Purchase of noncontrolling interest	—	—	1.4	—
Retained earnings, ending balance	1,449.5	1,305.0	1,449.5	1,305.0
Accumulated Other Comprehensive Loss				
Postretirement benefit plans, beginning balance	(127.9)	(189.6)	(129.2)	(195.5)
Net change in postretirement benefit plans	19.0	2.8	20.3	8.7
Postretirement benefit plans, ending balance	(108.9)	(186.8)	(108.9)	(186.8)
Cumulative translation adjustment, beginning balance	(81.7)	(116.9)	(80.8)	(91.7)
Net cumulative translation adjustment	(53.3)	29.4	(54.2)	4.2
Cumulative translation adjustment, ending balance	(135.0)	(87.5)	(135.0)	(87.5)
Unrealized loss on investment securities, beginning balance	(0.3)	(0.3)	(0.3)	(0.3)
Unrealized loss on investment securities, ending balance	(0.3)	(0.3)	(0.3)	(0.3)
Total accumulated other comprehensive loss	(244.2)	(274.6)	(244.2)	(274.6)
Noncontrolling interests				
Noncontrolling interests, beginning balance	4.4	4.4	5.9	—
Reclassification of noncontrolling interest	—	—	—	3.9
Income attributable to noncontrolling interests	0.4	0.7	1.8	1.2
Purchase of noncontrolling interest	—	—	(2.9)	—
Other	—	(0.2)	—	(0.2)
Noncontrolling interests, ending balance	4.8	4.9	4.8	4.9
Total Shareholders' Equity				
Total shareholders' equity, beginning balance	1,267.1	660.5	1,206.9	703.2
Net change in common stock	—	0.4	0.6	(1.2)
Net change in retained earnings	68.5	432.4	129.2	406.2
Net change in accumulated other comprehensive loss	(34.3)	32.2	(33.9)	12.9
Net change in noncontrolling interests	0.4	0.5	(1.1)	4.9
Total shareholders' equity, ending balance	$1,301.7	$1,126.0	$1,301.7	$1,126.0

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

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

NOTE 1
DESCRIPTION OF BUSINESS, 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 engineered fluid process equipment; Motion Technologies, consisting of brake pads, shock absorbers, and damping technologies; Interconnect Solutions, consisting of highly specialized connector products; and Control Technologies, consisting of vibration and shock isolation, motion control, and fluid handling products. Financial information for our segments is presented in Note 17, “Segment Information.”

Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in ITT's Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report) in preparing these unaudited financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in our 2013 Annual Report.

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

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

Summary of Significant Accounting Policies

Due to an increase in the number and size of complex long-term industrial pump design and build contracts, an update to the revenue recognition accounting policy disclosed in the 2013 Annual Report is provided below:

Revenue Recognition

We recognize revenue for certain long-term design and build projects using the percentage-of-completion method, based upon the percentage of costs incurred to total projected costs. Revenue and profit recognized under the percentage-of-completion method are based on management’s estimates. Amounts invoiced to customers in excess of revenue recognized are recorded as deferred revenue, until the revenue recognition criteria are satisfied. Revenue that is earned and recognized in excess of amounts invoiced is recorded as a component of receivables, net. During the performance of long-term sales contracts, estimated final contract prices and costs are reviewed periodically and revisions are made as required and recorded in income in the period in which they are determined. Provisions for estimated losses on uncompleted long-term sales contracts are made in the period in which such losses are determined and are recorded as a component of costs of revenue. We continue to apply the completed-contract method of accounting for smaller design and build contracts, including those of short-term

6

duration. Our results of operations and financial position would not vary materially had we used the percentage-of-completion method for these types of contracts.

NOTE 2

RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

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 did not 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 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 did not 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 this guidance on January 1, 2014 did not have a material impact to ITT's financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Adoption of the amendments is required in the first quarter of fiscal 2017. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or with the cumulative effect recognized as of the date of initial application. ITT is currently evaluating the impact of these amendments and the transition alternatives on ITT's financial statements.

In April 2014, the FASB issued guidance that raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and other disposals that do not meet the definition of a discontinued operation. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The new guidance will become effective on January 1, 2015, with early adoption permitted. While we do not expect a material impact on ITT’s financial statements upon adoption, the effects on future periods will depend upon the nature and significance of future disposals.

NOTE 3
RESTRUCTURING ACTIONS

The table below summarizes the restructuring costs presented within general and administrative expenses in our Consolidated Condensed Income Statements for the three and nine months ended September 30, 2014 and 2013.

	Three Months		Nine Months	
For the Periods Ended September 30	2014	2013	2014	2013
Severance costs	$2.2	$1.2	$18.8	$9.9
Asset write-offs	—	0.5	1.3	0.5
Other restructuring costs	0.9	—	2.1	0.2
Total restructuring costs	$3.1	$1.7	$22.2	$10.6
By segment:				
Industrial Process	$1.6	$0.4	$4.5	$1.1
Motion Technologies	0.1	0.6	0.3	3.1
Interconnect Solutions	0.4	0.6	16.4	6.0
Control Technologies	—	—	—	—
Corporate and Other	1.0	0.1	1.0	0.4

The following table displays a rollforward of the restructuring accruals, presented on our Consolidated Condensed Balance Sheet within accrued liabilities, for the nine months ended September 30, 2014 and 2013.

For the Nine Months Ended September 30	2014	2013
Restructuring accruals - beginning balance	$14.7	$7.8
Restructuring costs	22.2	10.6
Cash payments	(13.0)	(13.2)
Asset write-offs	(1.3)	(0.5)
Foreign exchange translation and other	(0.5)	—
Restructuring accrual - ending balance	$22.1	$4.7
By accrual type:		
Severance accrual	$20.0	$4.7
Facility carrying and other costs accrual	2.1	—

Interconnect Solutions Turnaround Activities

In 2013, we initiated a comprehensive restructuring plan to improve the overall cost structure of our Interconnect Solutions (ICS) segment. The costs incurred during the nine months ended September 30, 2014 of $16.4, primarily relate to employee severance for approximately 250 planned headcount reductions, associated with an action to move certain production lines from one location to another existing lower cost manufacturing site. The costs incurred during the nine months ended September 30, 2013 of $6.0 primarily related to employee severance for 75 reductions across our global operating locations. To date, we have incurred $34.5 under the ICS turnaround plan spanning the past 2 years, and related to these previously announced actions, we expect to incur further restructuring costs of approximately $1.0 over the next three months. The following table provides a rollforward of the restructuring accrual associated with the ICS turnaround activities.

For the Nine Months Ended September 30	2014
Restructuring accruals - beginning balance	$8.0
Restructuring costs	16.4
Cash payments	(8.0)
Asset write-offs	(1.3)
Restructuring accruals - ending balance	$15.1

NOTE 4
INCOME TAXES

For the three months ended September 30, 2014, the Company recognized income tax expense of $38.0 representing an effective tax rate of 31.9% compared to an income tax benefit of $354.4, and an effective tax rate of (446.9)%, for the three months ended September 30, 2013. For the nine months ended September 30, 2014 the Company recognized income tax expense of $63.4 representing an effective tax rate of 28.8% compared to an income tax benefit of $325.0, and an effective tax rate of (212.4)%. The 2014 effective tax rate includes tax benefits resulting from a tax basis step-up election in Italy and additional income that is eligible for the tax holiday in Korea. These were partially offset by a change in the foreign valuation allowance assessment.

The significantly lower effective tax rate in 2013 is primarily attributable to the release of the valuation allowance against U.S. deferred tax assets of $374.6. In the third quarter of 2013, the Company moved from a three-year adjusted cumulative domestic pretax loss position to a three-year adjusted cumulative domestic pretax income position. In measuring adjusted cumulative pretax income (loss), the Company adjusted pretax U.S. income (loss) for nonrecurring items and recurring permanent differences. The recurring permanent differences included excess stock option deductions which represented the amount of tax deductions in excess of book deductions, ultimately reducing book income on the tax return, and foreign earnings, the indefinite reinvestment of which was not asserted, and was not expected to be asserted in the foreseeable future, and dividends paid or expected to be paid. Each of these items was recurring in nature and representative of our book taxable income. In addition, we included adjustments for certain non-recurring costs directly attributable to the 2011 spin-off transaction as these were not indicative of future taxable income. The three-year cumulative income position was strong positive evidence in evaluating the realizability of our deferred tax assets as of September 30, 2013. However, the Company considered all available evidence, both positive and negative, in its evaluation to reverse the valuation allowance at that time, including future earnings, industry trends, and certain contingencies, such as asbestos-related costs. Further, we considered future reversals of existing taxable temporary differences as a source of income available to recover a portion of existing deferred tax assets, future taxable income exclusive of reversing taxable temporary differences and carryforwards, and available tax-planning strategies in assessing the realizability of the deferred tax assets. Based on positive evidence, including the three-year cumulative positive income and the absence of any significant negative evidence, management determined that it was more likely than not that the Company's U.S. deferred tax assets would be realized except for certain deferred tax assets attributable to state net operating losses and tax credits.

The Company continues to maintain a valuation allowance against certain deferred tax assets attributable to state net operating losses and tax credits and certain foreign net deferred tax assets primarily in Luxembourg, Germany and China.

The Company operates in various tax jurisdictions and is subject to examination by tax authorities in these jurisdictions. The Company is currently under examination in several jurisdictions including Germany, Italy, Korea, the United Kingdom and the U.S. The Company anticipates that the U.S. federal income tax audit for the years 2009 through 2011 will be completed within the next twelve months. The calculation of our tax liability for unrecognized tax benefits includes dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. Due to the complexity of some uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit. The settlement of an examination could result in changes in amounts attributable to us through the Tax Matters Agreement entered into with Exelis, Inc. and Xylem, Inc. Over the next twelve months, the net amount of the tax liability for unrecognized tax benefits in foreign and domestic jurisdictions could change by approximately $84.1 due to changes in audit status, expiration of statutes of limitations and other events.

NOTE 5
EARNINGS PER SHARE

The following table provides a reconciliation of the data used in the calculation of basic and diluted earnings per share from continuing operations attributable to ITT Corporation for the three and nine months ended September 30, 2014 and 2013.

	Three Months		Nine Months	
For the Periods Ended September 30	2014	2013	2014	2013
Basic weighted average common shares outstanding	91.6	90.4	91.5	91.0
Add: Dilutive impact of outstanding equity awards	1.3	1.5	1.4	1.3
Diluted weighted average common shares outstanding	92.9	91.9	92.9	92.3

The following table provides the number of shares underlying stock options excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2014 and 2013 because they were anti-dilutive.

	Three Months		Nine Months	
For the Periods Ended September 30	2014	2013	2014	2013
Anti-dilutive stock options	0.2	—	0.2	0.3
Average exercise price	$43.51	N/A	$43.51	$26.80
Year of expiration	2024	N/A	2024	2023

In addition, 0.2 of outstanding employee return on invested capital (ROIC) awards were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2014, as the three-year performance metric related to the ROIC awards has not yet been achieved.

NOTE 6
RECEIVABLES, NET

	September 30, 2014	December 31, 2013
Trade accounts receivable	$538.1	$463.9
Notes receivable	4.2	6.3
Other	37.0	39.1
Receivables, gross	579.3	509.3
Less: Allowance for doubtful accounts	(10.1)	(12.6)
Receivables, net	$569.2	$496.7

NOTE 7
INVENTORIES, NET

	September 30, 2014	December 31, 2013
Finished goods	$54.9	$49.9
Work in process	74.1	94.8
Raw materials	162.0	166.7
Inventoried costs related to long-term contracts	68.3	85.4
Total inventory before progress payments	359.3	396.8
Less: Progress payments	(46.5)	(80.9)
Inventories, net	$312.8	$315.9

NOTE 8
OTHER CURRENT AND NON-CURRENT ASSETS

	September 30, 2014	December 31, 2013
Asbestos-related current assets	$100.1	$84.5
Short-term investments	67.6	112.9
Current deferred income taxes	61.9	59.5
Prepaid income taxes	21.7	23.6
Other	53.7	65.1
Other current assets	$305.0	$345.6
Other employee benefit-related assets	$96.3	$95.5
Capitalized software costs	18.2	14.6
Environmental-related assets	7.6	11.7
Equity method investments	4.7	4.7
Other	19.2	18.4
Other non-current assets	$146.0	$144.9

NOTE 9
PLANT, PROPERTY AND EQUIPMENT, NET

	September 30, 2014	December 31, 2013
Land and improvements	$24.9	$26.8
Machinery and equipment	853.6	834.5
Buildings and improvements	226.0	211.6
Furniture, fixtures and office equipment	74.2	74.6
Construction work in progress	46.8	59.8
Other	8.3	8.5
Plant, property and equipment, gross	1,233.8	1,215.8
Less: Accumulated depreciation	(800.6)	(789.6)
Plant, property and equipment, net	$433.2	$426.2

Depreciation expense of $18.5 and $52.2 was recognized in the three and nine months ended September 30, 2014, respectively, and $16.4 and $46.9 was recognized in the three and nine months ended September 30, 2013, respectively.

NOTE 10
GOODWILL AND OTHER INTANGIBLE ASSETS, NET
Goodwill
The following table provides a rollforward of the carrying amount of goodwill for the nine months ended September 30, 2014 by segment.

	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Total
Goodwill - December 31, 2013	$351.0	$49.8	$73.9	$185.1	$659.8
Goodwill acquired	1.2	—	—	—	1.2
Foreign currency	(12.6)	(3.8)	(1.6)	—	(18.0)
Goodwill - September 30, 2014	$339.6	$46.0	$72.3	$185.1	$643.0

11

Other Intangible Assets, Net

	September 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Customer relationships	$84.1	$(36.9)	$47.2	$84.9	$(31.9)	$53.0
Proprietary technology	28.9	(9.4)	19.5	30.3	(7.6)	22.7
Patents and other	15.5	(13.6)	1.9	16.4	(13.0)	3.4
Finite-lived intangible total	128.5	(59.9)	68.6	131.6	(52.5)	79.1
Indefinite-lived intangibles	26.9	—	26.9	27.8	—	27.8
Other Intangible Assets	$155.4	$(59.9)	$95.5	$159.4	$(52.5)	$106.9

Amortization expense related to finite-lived intangible assets was $2.5 and $8.8 for the three and nine months ended September 30, 2014, respectively, and $3.6 and $15.1 for the three and nine months ended September 30, 2013, respectively.

NOTE 11

ACCRUED LIABILITIES AND OTHER NON-CURRENT LIABILITIES

	September 30, 2014	December 31, 2013
Compensation and other employee-related benefits	$171.3	$178.5
Asbestos-related liabilities	106.4	85.1
Customer-related liabilities	57.0	55.6
Accrued income taxes and other tax-related liabilities	37.4	29.8
Environmental liabilities and other legal matters	33.9	38.5
Accrued warranty costs	28.4	28.6
Short-term loans and current maturities of long-term debt	1.6	39.8
Other accrued liabilities	48.6	44.0
Accrued liabilities	$484.6	$499.9
Deferred income taxes and other tax-related accruals	$109.6	$116.2
Environmental liabilities	79.2	85.1
Compensation and other employee-related benefits	40.4	43.8
Other	36.9	32.7
Other non-current liabilities	$266.1	$277.8

NOTE 12

DEBT

	September 30, 2014	December 31, 2013
Commercial Paper	$—	$38.0
Current maturities of long-term debt	1.2	1.3
Current capital leases	0.4	0.5