ITT CORP
Form 10-K
February 28, 2008

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

Form 10-K
ANNUAL REPORT

(Mark One)

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

For the fiscal year ended December 31, 2007

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 No. 1-5672

ITT CORPORATION

Incorporated in the State of Indiana	**13-5158950**
	(I.R.S. Employer Identification No.)

4 West Red Oak Lane, 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 þ No o

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

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. 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 accelereated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Chech one):

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

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

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on June 30, 2007 was approximately $12.4 billion.

As of January 31, 2008, there were outstanding 181,568,943 shares of Common Stock, $1 par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement filed or to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors at the annual meeting of the shareholders of the registrant scheduled to be held on May 13, 2008, are incorporated by reference in Part III of this Form 10-K.

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

PART I

ITEM 1.

BUSINESS

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

GENERAL

ITT Corporation, with 2007 sales and revenues of approximately $9.00 billion, is a global multi-industry company engaged directly and through its subsidiaries in the design and manufacture of a wide range of engineered products and related services.

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 Industries, Inc. was incorporated on September 5, 1995 in Indiana. On July 1, 2006, ITT Industries, Inc. changed its name to ITT Corporation. Reference is made to COMPANY HISTORY AND CERTAIN RELATIONSHIPS.

Our World Headquarters is located at 4 West Red Oak Lane, White Plains, NY 10604. We have approximately 39,700 employees based in 55 countries. Our telephone number is (914) 641-2000.

Our three principal business segments are referred to as Fluid Technology, Defense Electronics & Services and Motion & Flow Control. The principal products and services of each business segment are as follows:

Fluid Technology pumps, water and wastewater treatment systems, mixers, heat exchangers, boiler controls and related products

Defense Electronics & Services high-technology electronic systems and components, communications systems and engineering and applied research

Motion & Flow Control interconnect solutions, friction technologies, flow control, energy absorption, aerospace controls, and other controls products

The table below shows, in percentage terms, consolidated sales and revenues and operating income attributable to each of our business segments for the last three years.

	Year Ended December 31		
	2007	2006	2005
Sales and Revenues			
Defense Electronics & Services	**46%**	47%	46%
Fluid Technology	**39**	39	40
Motion & Flow Control	**15**	14	14
	100%	100%	100%

Operating Income			
Defense Electronics & Services	**52%**	50%	50%
Fluid Technology	**44**	46	44
Motion & Flow Control	**19**	19	18
Corporate and Other	**(15)**	(15)	(12)
	100%	100%	100%

See Note 23, Business Segment Information in the Notes to Consolidated Financial Statements for further financial information about our business segments.

DESCRIPTION OF BUSINESS BY SEGMENT

Fluid Technology

Fluid Technology is a leading global provider of fluid systems and solutions, including the design, development, production, sale, and after-sale support of a broad range of pumps, mixers, controls and treatment systems for residential, municipal, commercial industrial, and agricultural and turf, applications.

Fluid Technology companies have approximately 11,900 employees, and have 337 locations in 53 countries.

Major production and assembly facilities are located in Argentina, Australia, Austria, Brazil, Canada, China, England, Germany, India, Italy, Malaysia, Mexico, the Philippines, Poland, South Korea, Sweden, and the United States.

Principal customers are in North America, Europe, the Middle East, Africa, Latin and South America, and the Asia/Pacific region. Sales are made directly to customers or through independent distributors and representatives.

Brand names include ABJ®, A-C Pump®, Bell & Gossett®, F.B. Leopold Company®, Flygt®, Flowtronex®, Goulds Pumps®, Grindex®, Hoffman Specialty™, ITT Standard®, Lowara®, Marlow Pumps®, McDonnell & Miller®, Pure-Flo®, Red Jacket Water Products®, Sanitaire®, Vogel®, and WEDECO®.

During the second quarter of 2007, we realigned our Fluid Technology organization, by combining its businesses serving the Advanced Water Treatment market primarily with Flygt, our principal business providing products with municipal applications. The integration is designed to leverage existing sales and distribution networks, and to combine market-facing businesses to take advantage of scale, process and market leadership. Within the realigned structure, the Fluid Technology business segment provides goods and services to the following markets: Water & Wastewater, Residential & Commercial Water, and Industrial Process.

Water & Wastewater

The principal products and services for this market include pumps, mixers and treatment equipment (biological/ozone/UV systems) with municipal, industrial and dewatering applications.

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ITT s Flygt brand is the originator and largest manufacturer of submersible pumps and mixers, which form the heart of many of the world s sewage and wastewater treatment facilities. Additionally, Flygt is recognized as the market leader for municipal submersible wastewater pumps. Combining Flygt s submersible pumps and mixers with Sanitaire and ABJ products (discussed below) provides a solution to customers needs for complete wastewater transport and treatment systems. Dry mount pumps branded A-C Pump provide an alternative technical solution to submersible pumps. ITT s strong position in the dewatering, drainage and service markets is generated by Flygt, Robot and Grindex.

Through the Sanitaire and ABJ brands, ITT is a leader in biological treatment systems for municipal and industrial wastewater treatment. The broad range of products includes ceramic and membrane fine bubble diffusers and stainless steel coarse bubble diffusers. ITT also provides advanced membrane filtration engineered systems, reverse osmosis systems and portable filtration technology. Flygt s submersible mixers and Sanitaire s diffused aeration systems play a crucial role in the biological treatment phase ensuring that incoming flows reach optimal levels of biochemical oxygen demand removal and nitrification, while preventing sedimentation in the aeration tank. ABJ offers a unique Sequence Batch Reactor concept allowing a continuous inflow. WEDECO is a leading provider of ultraviolet disinfection and ozone oxidation systems with both municipal and industrial applications.

In 2006, we acquired the F.B. Leopold Company, a leading provider of water and wastewater treatment products with municipal and industrial applications, including clarification and gravity filtration technologies.

Residential & Commercial Water

The principal products and services for this market include pumps, valves, heat exchangers and accessories with residential, commercial, light industrial, and agriculture and turf irrigation applications.

ITT s broad range of pumps, systems, controls and accessories for residential, municipal and commercial applications, which are branded Goulds Pumps, Bell & Gossett, Lowara, Red Jacket Water Products, Marlow Pumps, and Vogel, includes water transport, wells, pressure boosters, and agriculture packages and systems.

Flowtronex provides packaged systems and solutions for turf irrigation and water booster systems for municipalities, golf courses and irrigation systems.

Leading product brands, such as Bell & Gossett, McDonnell & Miller, and Hoffman Specialty, provide a broad variety of products for environmental control in buildings and for building service and utility applications, including liquid-based heating and air conditioning systems, liquid level control, and steam trap products for boiler and steam systems. ITT services the European and Middle East building trade markets with pressure boosting pumps under the Lowara and Vogel names. A-C Fire Pump is a global UL/FM fire pump package provider.

Industrial Process

The principal products and services for this market include pumps, valves, vessels, and treatment systems with applications in general industry, mining, chemical and pulp and paper industries.

ITT, under the Goulds Pumps brand name, offers standard as well as engineered application specific pumps for the industrial marketplace. Typical market segment applications include chemical, pulp and paper, oil refining and gas processing, power, mining and general industrial. Fabri-Valve knife gate valves are designed to handle a variety of demanding applications, including flue gas desulphurization in power plants, pulp recovery and bleaching in pulp and paper plants, and a variety of mining, oil sands and industrial applications.

ITT offers a wide array of valve and turnkey systems that are at the heart of extremely demanding manufacturing processes. Our products are used in ultra hygiene processes similar to those found in production of biological and pharmaceutical compounds.

Sales and revenues were $3.51 billion, $3.07 billion, and $2.80 billion for 2007, 2006 and 2005, respectively. Order backlog for Fluid Technology was $887.1 at the end of 2007, compared with $702.2 in 2006, and $551.2 in 2005.

The following table illustrates the percentage of sales and revenues by market segment for the periods specified:

	Year Ended December 31		
	2007	2006	2005
Water & Wastewater	**47%**	46%	44%
Residential & Commercial Water	**33**	35	36
Industrial Process	**20**	19	20
	100%	100%	100%

As one of the world s leading producers of fluid handling equipment and related products for treating and recycling wastewater, ITT actively promotes more efficient use and re-use of water and endeavors to raise the level of awareness of the need to preserve and protect the earth s water resources. ITT strives to provide its global customer base with the systems and solutions they need to meet ever increasing demands on life cycle cost control and operating efficiencies.

Management believes that Fluid Technology has a solid technology base and proven expertise in designing its products and services to meet customer needs. Management also believes that the continuing development of new

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products will enable Fluid Technology to maintain and build market leadership positions in the markets served.

Our strategy to expand across the value chain to provide better service for our customers is moving us from a product supplier to a solution provider. Through ITT s overarching strategic Value Based Product Development program, we now have in place a company-wide system for rapid development of new offerings and technologies to augment our current offering of systems and solutions. This strategy has guided us in our acquisitions and business development efforts. For example, today ITT can extend its core offering of submersible pumps and mixers with systems to control plant operation, technologies that analyze the waste stream, and products and systems to treat water through biological, treatment, filtration, oxidation and disinfection processes.

In the industrial markets, our pump systems are now equipped with intelligent control systems. Customers engaging in our total systems approach generally experience dramatically lower energy consumption, and reduced maintenance and operating costs.

Fluid Technology has a global network of authorized service centers for aftermarket customer care. Our aftermarket service capabilities include the repair and service of all brands of pumps and rotating equipment, engineering upgrades, as well as preventative and routine maintenance and service.

The level of activity in Fluid Technology is dependent upon economic conditions in the markets served, weather conditions and, in the case of municipal markets, the ability of municipalities to fund projects for our products and services, and other factors. See COMPETITION.

Defense Electronics & Services

Defense Electronics & Services develops, manufactures, and supports high technology electronic systems and components for worldwide defense and commercial markets, and provides communications systems and engineering and applied research.

Operations are in North America, Europe, and the Middle East. Defense Electronics & Services companies have approximately 20,500 employees and are present in 271 locations in 26 countries.

Defense Electronics & Services consists of two major areas (i) Systems and Services and (ii) Defense Electronics. Systems and Services consists of our Systems and Advanced Engineering & Sciences Divisions. Defense Electronics consists of our Aerospace/Communications Division, Space Systems, Night Vision and Electronic Systems Divisions.

Systems and Services

The Systems Division provides systems integration, communications, engineering and technical support solutions ranging from strategic command and control and tactical warning and attack assessment, to testing, training and range evaluation. The Systems Division also provides total systems support solutions for combat equipment, tactical information systems and facilities management.

The Advanced Engineering & Sciences Division provides a wide range of research, technologies and engineering support services to government, industrial and commercial customers. In addition, the division provides products and services for information collection, information processing and control, information security, homeland defense, and telecommunications systems. The division will also lead the air traffic control modernization program for the U.S. Federal Aviation Administration.

Defense Electronics

The Aerospace/Communications Division (A/CD) develops wireless networking systems for tactical communications. A/CD is the creator of the core technology used in the world s two largest tactical digitization programs: the U.S. Tactical Internet and the U.K. Bowman program. This technology has created a family of interconnected products including the Single Channel Ground and Airborne Radio System (SINCGARS). A/CD is at the leading edge of networking with its routers and algorithms. These devices permit self-organizing and self-healing connections all across the battle space. A/CD is also developing the newest ground-to-air radios for the Federal Aviation Administration.

The Space Systems Division (SSD) provides innovative solutions to customers in the defense, intelligence, space science, and commercial aerospace communities to help them visualize and understand critical events anywhere on earth, in the air, or in space. SSD s offerings include intelligence, surveillance and reconnaissance systems, image information solutions, sophisticated meteorological imagers and sounders, GPS navigation payload systems and components, commercial remote sensing and space science systems.

The Night Vision Division supplies the most advanced night vision equipment available to U.S. and allied military forces. The equipment includes night vision goggles for fixed and rotary-wing aviators; night vision goggles, monoculars and weapon sights for ground forces, and image intensifier tubes required for all of these systems. Night Vision is developing advanced technology for the digital battlefield that will allow improved mobility and situational awareness. The division is also supplying high-performance night vision devices to federal, state and

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local law enforcement officers in support of homeland security.

The Electronic Systems Division (ES) produces information and electronic warfare technologies for a broad range of military aircraft. These technologies help protect aircraft from radar-guided weapons. ES is developing the next-generation of fully integrated airborne electronic warfare systems for rotary-wing aircraft called the Suite of Integrated Radio Frequency Countermeasures (SIRFC) for the United States Army and Special Operations Forces. In addition, ES has developed a SIRFC based system for fixed-wing aircraft such as the F-16, and is also the supplier for the United States Integrated Defensive Countermeasures (IDECM) system for fixed-wing aircraft such as the F/A-18 E/F fighter fleet. ES is a co-developer and producer of the integrated communications, navigation and identification system for the U.S. Air Force F-22 Raptor. ES also produces military and civilian air traffic control systems and air defense radars marketed under the name Gilfillan. ES s latest generation of air traffic control radar systems includes fixed and mobile terminal airport surveillance radars and precision approach radars for landing assistance in extreme physical environments, and produces and installs air surveillance and weapons control radars for both ship and land-based applications.

Acquisition of EDO Corporation

On December 20, 2007, we completed the acquisition of EDO Corporation (EDO), a global aerospace and defense company. EDO designs and manufactures a diverse range of products for the aerospace, defense, intelligence and commercial markets. Major product groups include: defense electronics, communications, aircraft armament systems, undersea warfare, integrated composite structures, and professional and engineering services.

Sales and revenues for the Defense Electronics & Services business segment were $4.18 billion, $3.66 billion, and $3.22 billion for 2007, 2006 and 2005, respectively. Funded order backlog was $5.23 billion at the end of 2007, compared with $3.88 billion in 2006, and $3.48 billion in 2005, with the 2007 increase over the prior years reflecting the impact of the EDO acquisition.

The following table illustrates the percentage of sales and revenues for the listed categories for the periods specified:

	Year Ended December 31		
	2007	2006	2005
Systems and Services			
Systems	**32%**	32%	33%
Advanced Engineering & Sciences	**12**	9	9
Defense Electronics			
Aerospace/Communications	**19**	21	17
Space Systems	**14**	17	20
Night Vision	**12**	11	10
Electronic Systems	**10**	10	11
Other(1)	**1**		
	100%	100%	100%

(1) Includes sales and revenues from EDO for the period December 20, 2007 through December 31, 2007.

Defense Electronics & Services sells its products to a wide variety of governmental and non-governmental entities located throughout the world. Approximately 98% of 2007 sales and revenues of Defense Electronics & Services were to governmental and international entities; approximately 94% of 2007 total sales and revenues were to the United States Government (principally in defense programs).

A substantial portion of the work of Defense Electronics & Services is performed in the United States under prime contracts and subcontracts, some of which by statute are subject to profit limitations and all of which are subject to termination by the United States government. Apart from the United States Government, international and commercial customers accounted for approximately 4% and 2%, respectively, of 2007 sales and revenues for Defense Electronics & Services.

Sales and revenues to non-governmental entities as a percentage of total sales and revenues for Defense Electronics & Services were 2% in 2007, 4% in 2006 and 6% in 2005. Certain products sold by Defense Electronics & Services have particular commercial application, including night vision devices. In addition, Defense Electronics & Services, in partnership with California Commercial Spaceport, Inc. in a venture known as Spaceport Systems International, provides full service payload processing and launch capability for small-to-medium satellite systems in low-polar earth orbits.

The level of activity in Defense Electronics & Services is affected by overall defense budgets, the portion of those budgets devoted to products and services of the type provided by Defense Electronics & Services, our ability to win new contract awards, demand and budget availability for such products and services in areas other than defense, our ability to obtain appropriate export licenses for international sales and business, and other factors. See COMPETITION.

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Motion & Flow Control

Motion & Flow Control comprises a group of businesses providing products and services for the areas of communications, industrial, transportation, military/aerospace, commercial aircraft, computer, consumer and RV/marine. The Motion & Flow Control businesses primarily serve the high-end of their markets, with highly engineered products, high brand recognition, and a focus on new product development and operational excellence. Revenue opportunities are balanced between original equipment manufacturing (OEM) and after-market customers.

Motion & Flow Control has approximately 6,600 employees in 51 locations in 16 countries throughout North America, Europe and Asia.

During the third quarter of 2007, we completed the acquisition of International Motion Control, Inc. (IMC), a global developer of motion control products, and a market leader in the manufacture of specialty energy absorption, industrial and aviation control and automation technology.

Subsequent to the IMC acquisition we realigned our Motion & Flow Control business segment. The Motion & Flow Control business segment now consists of the Interconnect Solutions, Friction Technologies, Flow Control, Energy Absorption, Aerospace Controls and Controls businesses.

Interconnect Solutions

Interconnect Solutions designs and manufactures connectors, interconnects, cable assemblies, multi-function grips, input/output card kits and smart card systems. Markets served include the areas of communications, industrial, transportation, military/aerospace, commercial aircraft, computer and consumer uses. Connector products are marketed primarily under the Cannon® brand name.

Friction Technologies

Friction Technologies designs and manufactures friction pads and backplates for braking applications for the world s largest manufacturers of cars, trucks and light commercial vehicles. From facilities in Italy and the United States, Friction Technologies services most European OEM auto makers and also operates a substantial facility for research and testing of new materials. Approximately 48% of Friction Technologies 2007 business is in aftermarket activity.

Flow Control

Flow Control is the world s leading producer of pumps and related products for the marine and leisure market. Products sold worldwide under the brand names Jabsco®, Rule®, Flojet®, and Danforth® also serve the recreational vehicle market. Flojet is also a leading producer of pumps and components for beverage applications. Both Jabsco and Flojet also produce pumps for other specialty industrial fluid dispensing applications. The HydroAir business designs and manufactures jets, pumps and other components for manufacturers of whirlpool baths and hot tub spas.

With the addition of Midland-ACS and Alcon businesses of IMC, the business now also provides valve actuation control systems for harsh environments, including oil and gas pipelines, as well as solenoid valves for everything from petrochemical plants to drag cars.

Energy Absorption

Energy Absorption designs and manufactures shock absorbers, rate controls, struts and suspension systems for transportation, aerospace and industrial applications under the KONI® and Enidine® brand names. This business also provides compact pneumatic automation components for a variety of markets, including electronics and plastics.

Aerospace Controls

Aerospace Controls is a worldwide supplier of valves, actuators, pumps and switches for the commercial, military, regional, business and general aviation markets. Products are principally sold to OEMs and the aftermarket in North and South America, Europe and Asia. Aerospace Controls also sells switches and regulators into the oil and gas, fluid power, power generation, and chemical markets.

Conoflow markets pressure regulators and diaphragm seals for industrial applications and natural gas vehicles.

Controls

This is a new business within the segment resulting from the acquisition of IMC. Product lines in this business include electro-mechanical actuators, servo motors, Computer Numerical Control (CNC) systems, motion controller and other components for medical imaging, semi-conductor, machine tool, industrial automation, metal fabrication and aircraft seating applications.

Sales and revenues were $1.33 billion, $1.09 billion, and $1.03 billion for 2007, 2006 and 2005, respectively. Order backlog for Motion & Flow Control was $440.4 at the end of 2007, compared with $409.3 in 2006, and $337.2 in 2005.

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The following table illustrates the percentage of sales and revenues for the listed categories for the periods specified:

	Year Ended December 31		
	2007	2006	2005
Interconnect Solutions	**32%**	35%	35%
Friction Technologies	**29**	29	28
Flow Control	**19**	20	21
Energy Absorption	**11**	8	9
Aerospace Controls	**8**	8	7
Controls	**1**		
	100%	100%	100%

The level of activity for Motion & Flow Control is affected by overall economic conditions in the markets served, the competitive position with respect to price, quality, technical expertise, and customer service, as well as weather conditions and natural disasters. See COMPETITION.

See Management s Discussion and Analysis of Financial Condition and Results of Operations and see Note 23, Business Segment Information, in the Notes to Consolidated Financial Statements for further details with respect to business segments.

Acquisitions, Divestitures, and Restructuring

We have been involved in an ongoing program of acquiring businesses that provide a rational fit with businesses we presently conduct and divesting businesses that do not enhance that fit.

Acquisitions

On December 20, 2007, ITT acquired all of the outstanding shares of EDO, a global aerospace and defense company, for $56 per outstanding share of EDO plus the assumption of debt, which values the transaction at approximately $1.8 billion. EDO designs and manufactures a diverse range of products for defense, intelligence and commercial markets, and provides related engineering and professional services. Management believes that the addition of EDO will allow our Defense Electronics & Services business segment to provide a broader set of solutions to a wider band of customers. Furthermore, we expect to be better positioned to play an important role on some of the U.S. military s vital transformational initiatives, such as the Joint Strike Fighter, the Navy s Littoral Combat Ship, Counter Improvised Explosive Device Programs, and the Coast Guard Deepwater programs.

During 2007, we spent an additional $410.5, net of cash acquired, and including direct acquisition costs, on additional acquisitions that we do not believe are material individually or in the aggregate to our results of operations or financial position. The most significant of these acquisitions was IMC which was completed on September 10, 2007, for $390.5, net of cash acquired and including direct acquisition costs. IMC is a global developer of motion control products, and is a market leader in the manufacture of specialty energy absorption, industrial and aviation control and automation technology. Management believes that IMC, which had 2006 revenues of approximately $200, will add a complementary mix of highly engineered, mission-critical products to our Motion & Flow Control business segment.

On March 31, 2006, we acquired a privately held company which is a leading provider of semiconductor design services, intellectual property and product, for the Defense Electronics & Services business segment. Management believes the technology will help lead the way in providing a new generation of radios for the modern soldier. On June 14, 2006, we acquired the F. B. Leopold Company, a manufacturer of clarification and gravity filtration technology, for the Fluid Technology business segment. On October 6, 2006, we acquired Sota Corporation, a manufacturer of fuel boost and override pumps and potable water pumps for aerospace applications, for the Motion & Flow Control business segment.

During 2005, we acquired Ellis K. Phelps and Co. (Phelps), the largest U.S. distributor of products sold under ITT s Flygt brand, within the Fluid Technology business segment, for the wastewater pumping and treatment market.

Divestitures

On July 26, 2007, we completed the sale of substantially all of the Switches businesses to a private equity firm for net proceeds of $223.2. The remaining portion of the Switches businesses is expected to be sold during the first quarter of 2008. The business, which was previously reported as part of the former Electronic Components business segment, manufactures and sells a variety of switches and customized keypads, dome arrays and interface control products to the transportation, consumer, telecommunications, medical, and instrument market segments.

On January 20, 2006, we completed the sale of our industrial non-metallic lined pumps and valves business (Richter) to a private equity investor, for net proceeds of $24.8. The business, which was a component of our Fluid Technology business segment, is a leading manufacturer of pumps and valves for selected segments in the chemical, fine chemical, and pharmaceutical industries.

On February 7, 2006, we completed the sale of our automotive brake & fuel tubing and components business (Fluid Handling System or FHS) to Cooper-Standard Automotive, a privately held company, for net proceeds of $187.7, including certain post-closing adjustments.

See Note 5, Discontinued Operations, in the Notes to Consolidated Financial Statements for information

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regarding the resolution of certain disputes relating to the sales of automotive businesses during 1998 and further information regarding discontinued operations.

Restructuring

See Note 4, Restructuring and Asset Impairment Charges, in the Notes to Consolidated Financial Statements regarding restructuring matters. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Restructuring and Asset Impairment Charges.

Geographic Markets

In 2007, approximately 45% of the sales and revenues of Fluid Technology was derived from North America, approximately 35% was derived from Europe, and the Asia/Pacific/other region accounted for approximately 20%. The geographic sales mix differs among products and the businesses of Fluid Technology. Our management anticipates growth opportunities in Eastern Europe, Central Asia, Africa/Middle East, Latin America, and the Asia/Pacific region. Fluid Technology has added manufacturing facilities in China, as well as engineering and distribution facilities in both China and India. We also have joint venture sales and manufacturing and other operations in Eastern Europe, Latin America, Africa/Middle East, and other locations in the Asia/Pacific region.

The geographic sales base of Defense Electronics & Services is predominantly the United States, which accounted for approximately 96% of 2007 sales and revenues. Management of Defense Electronics & Services has been in the process of increasing its international defense business and anticipates growth opportunities in the Asia/Pacific region, Europe, and the Middle East.

The geographic sales base of Motion & Flow Control is predominantly in North America and Europe. In 2007, approximately 36% of sales and revenues of Motion & Flow Control were to customers in North America, approximately 53% of sales were to customers in Europe and 11% were in Asia/Pacific/other.

See Note 23, Business Segment Information, in the Notes to Consolidated Financial Statements for further geographical information concerning sales and revenues and long-lived assets.

Competition

Substantially all of our operations are in highly competitive businesses. The nature of the competition varies across all business segments. A number of large companies engaged in the manufacture and sale of similar lines of products and the provision of similar services are included in the competition, as are many small enterprises with only a few products or services. Technological innovation, price, quality, reliability, and service are primary factors in the markets served by the various segments of our businesses. Our many products and services go to market collectively linked by the ITT brand, the engineered blocks symbol, and the tagline Engineered for life. The brand has been enhanced and strengthened over the years through a coordinated effort that includes advertising, public relations activities, trade exhibits, and point-of-sale material.

The Fluid Technology business segment is affected by strong competition, changing economic conditions, periodic industry overcapacity that leads to intense pricing pressures, and public bidding in some markets. Management of Fluid Technology responds to competitive pressures by utilizing strong distribution networks, strong brand names, broad product lines focused on market niches, a global customer base, a continuous stream of new products developed from a strong technology base, a focus on quality and customer service, and through continuous cost improvement programs and life cycle cost initiatives.

In Defense Electronics & Services, government defense budgets, particularly in the United States, have increased in recent years following periods of significant declines. Business consolidations continue to change the competitive environment. We have adjusted to these changes by focusing on the defense electronics and services markets, by making process improvements, and through capacity rationalization. In most of the markets served by Defense Electronics & Services, competition is based primarily upon price, quality, technological expertise, cycle time, and service.

In Motion & Flow Control, competition is a significant factor, which has resulted in increased pressure to reduce prices and, therefore, costs. Product capability, quality, engineering support, and experience are also important competitive factors. Management of Motion & Flow Control is focused on differentiated new product development and maintenance of strong customer relationships, with emphasis on continuous improvement, striving to maintain our competitive advantage.

Exposure to Currency Fluctuations

Our companies conduct operations worldwide. We, therefore, are exposed to the effects of fluctuations in relative currency values. Although our companies engage in various hedging strategies with respect to their foreign currency exposure where appropriate, it is not possible to hedge all such exposure. Accordingly, our operating results may be impacted by fluctuations in relative currency values.

See Quantitative and Qualitative Disclosure about Market Risk and Note 17, Derivative Instruments and Hedging Activities, in the Notes to Consolidated Financial Statements.

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Cyclicality

Many of the markets in which our businesses operate are cyclical and can be affected by general economic conditions in those markets. Since we manufacture and sell products used in historically cyclical industries, such as construction, defense, mining and minerals, transportation, automotive, and aerospace, we could be adversely affected by negative cycles affecting those and other industries.

Governmental Regulation and Related Matters

A number of our businesses are subject to governmental regulation by law or through contractual arrangements. Our Defense Electronics & Services businesses perform work under contracts with the United States Department of Defense or other agencies of the United States government and similar agencies in certain other countries. These contracts are subject to security and facility clearances under applicable governmental regulations, including the requirement of background investigations for high-level security clearances for our executive officers. Most of such contracts are subject to termination by the respective governmental parties on various grounds, although such terminations generally are rare.

A portion of our business is classified by the government and cannot be specifically described. The operating results of these classified programs are included in our consolidated financial statements. The business risks associated with classified programs, as a general matter, do not differ materially from those of our other government programs and products.

Environmental Matters

We are subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal. In the United States such environmental laws and regulations include 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 all operations. Management believes that our companies closely monitor all of their respective environmental responsibilities, together with trends in environmental laws. We have established an internal program to assess compliance with applicable environmental requirements for all of our facilities. The program is designed to identify problems in a timely manner, correct deficiencies and prevent future noncompliance. Over the past several years we have conducted regular, thorough audits of our major operating facilities. As a result, management believes that our companies are in substantial compliance with current environmental regulations. Management does not believe, based on current circumstances, that we will incur compliance costs pursuant to such regulations that will have a material adverse effect on our financial position, results of operations or cash flows. In addition, we have purchased insurance protection against certain unknown risks.

See Legal Proceedings and Management s Discussion and Analysis of Financial Condition and Results of Operations Contingent Liabilities.

Raw Materials

All of our businesses require various raw materials, the availability and prices of which may fluctuate. Although some cost increases may be recovered through increased prices to customers, our operating results are exposed to such fluctuations. We attempt to control such costs through long-term purchasing and various other programs. In recent years, our businesses have not experienced significant difficulties in obtaining an adequate supply of raw materials necessary for our manufacturing processes.

Research and Development

Our businesses require substantial commitment of resources for research and development activities to maintain significant positions in the markets we serve. Such activities are conducted in laboratory and engineering facilities at several of our major manufacturing locations. Research, and development, activities are important in all of our business segments. During 2007, 2006 and 2005, we spent $182.3, $160.9 and $156.8, respectively, on research and development. We also spent $708.9, $499.3 and $472.0, respectively, on research and development pursuant to customer contracts.

Intellectual Property

While we own and control a 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 business, as a whole, is not materially dependent upon any one intellectual property or related group of such properties. We are licensed to use certain patents, technology, and other intellectual property rights owned and controlled by others, and, similarly, other companies are licensed to use certain patents, technology, and other intellectual property rights owned and controlled by us.

Patents, patent applications, and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. Such expiration or termination of patents, patent applications, and license agreements is not expected by our management to have a material adverse effect on our financial position, results of operations or cash flows.

At the time of the Distribution (see Company History and Certain Relationships), we obtained from ITT Destinations certain exclusive rights and licenses to use the ITT name, mark, and logo. In 1999, we acquired all rights, title, and interest in and to the ITT name, mark, and logo and an assignment of certain agreements granting The Hartford and ITT Educational Services, Inc. (ESI) limited rights to use the ITT name, mark, and logo in their businesses. These agreements are perpetual, and the licenses are subject to maintenance of certain quality standards by both The Hartford and ESI.

Employees

As of December 31, 2007, ITT employed approximately 39,700 people. Approximately 19,405 are employed in the United States, of whom approximately 21% are represented by labor unions. Generally, labor relations have been maintained in a normal and satisfactory manner.

Company History and Certain Relationships

ITT Corporation is an Indiana corporation incorporated on September 5, 1995 as ITT Indiana, Inc. It is the successor pursuant to a statutory merger of ITT Corporation, a Delaware corporation (ITT Delaware), into ITT Indiana, Inc. effective December 20, 1995, whereupon its name became ITT Industries, Inc. ITT Delaware, originally incorporated in Maryland in 1920 as International Telephone and Telegraph Corporation, was reincorporated in Delaware in 1968. It changed its name to ITT Corporation in 1983. On December 19, 1995, ITT Delaware made a distribution (the Distribution) to its stockholders consisting of all the shares of common stock of ITT Destinations, Inc., a Nevada corporation (ITT Destinations), and all the shares of common stock of ITT Hartford Group, Inc., a Delaware corporation (now known as The Hartford Financial Services Group, Inc. or The Hartford), both of which were wholly-owned subsidiaries of ITT Delaware. In connection with the Distribution, ITT Destinations changed its name to ITT Corporation. On February 23, 1998, ITT Corporation was acquired by Starwood Hotels & Resorts Worldwide, Inc. On July 1, 2006 ITT Industries, Inc. changed its name to ITT Corporation.

ITT Delaware, ITT Destinations, and The Hartford entered into a Distribution Agreement (the Distribution Agreement) providing for, among other things, certain corporate transactions required to effect the Distribution and other arrangements among the three parties subsequent to the Distribution.

The Distribution Agreement provides for, among other things, assumptions of liabilities and cross-indemnities generally designed to allocate the financial responsibility for the liabilities arising out of or in connection with (i) the former automotive, defense & electronics, and fluid technology segments to ITT Industries, Inc. (now ITT Corporation) and its subsidiaries, (ii) the hospitality, entertainment, and information services businesses to ITT Destinations and its subsidiaries, and (iii) the insurance businesses to The Hartford and its subsidiaries. The Distribution Agreement also provides for the allocation of the financial responsibility for the liabilities arising out of or in connection with former and present businesses not described in the immediately preceding sentence to or among ITT Industries, Inc., ITT Destinations, and The Hartford on a shared basis. The Distribution Agreement provides that neither ITT Industries, Inc. (now ITT Corporation), ITT Destinations nor The Hartford will take any action that would jeopardize the intended tax consequences of the Distribution.

ITT Industries, Inc. (now ITT Corporation), ITT Destinations, and The Hartford also entered into agreements in connection with the Distribution relating to intellectual property, tax, and employee benefit matters.

Available Information, Internet Address and Internet Access to Current and Periodic Reports

ITT s website address is www.itt.com. ITT makes available free of charge on or through www.itt.com/ir our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the SEC). Information contained on our website is not incorporated by reference unless specifically stated herein. As noted, we file the above reports electronically with the SEC, and they are available on the SEC s web site (www.sec.gov). In addition, all reports filed by ITT with the SEC may be read and copied at the SEC s Public Reference Room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements for information regarding forward-looking statements and cautionary statements relating thereto.

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ITEM 1A.

RISK FACTORS

We are subject to various risks and uncertainties relating to or arising out of the nature of our businesses, financial conditions and results of operations, including those discussed below, which may affect the value of our securities. We believe the risks discussed below are currently the most significant, although additional risks not presently known to us or that we currently deem less significant may also materially impact our business, financial condition and results of operations.

Factors that could cause results to differ materially from those anticipated by ITT are listed below.

General global economic conditions, particularly in the local economies of the countries or regions in which we sell our products, including declines in consumer spending, which could have a negative impact on the results of all of our businesses.

We manufacture and sell products used in cyclical businesses including the construction, defense, mining and minerals, transportation, automotive and aerospace industries. Downturns in these industries could adversely affect our businesses.

Our business could be adversely affected if we are not able to integrate acquisitions or implement footprint rationalization initiatives.

Competitive pressures in all our businesses include product capability, technological innovation, cycle time, price, quality and the reliability of services we offer. In our Fluid Technology business segment, competition includes public bidding on many contracts. Our revenues and profitability could be negatively impacted as a result of competition.

Weather conditions including drought, natural disasters, and excessive rains may negatively affect our Fluid Technology and Motion & Flow Control business segments.

Industry overcapacity in the pump and valve market could have an adverse impact on the results of our Fluid Technology business segment.

Decrease in demand for replacement parts and services would adversely affect our Fluid Technology and Motion & Flow Control business segments.

Our Fluid Technology business segment depends upon the ability of municipal markets to fund projects involving our products and services. A significant decline or delay in this funding would have an adverse effect on the results of our business.

Economic downturns in automotive, aerospace and marine and leisure markets could negatively affect our Motion & Flow Control businesses segment.

Because 94% of our Defense Electronics & Services sales are to the U.S. government, changes in the portion of the U.S. defense budget devoted to products and services of the types of products provided by ITT, and our present ability to receive awards of U.S. government contracts, would adversely impact our business.

Many of our government contracts are subject to profit limitations, which limit our upside potential on a per contract basis, and all are subject to termination by our customers. Termination of key government contracts or a significant number of government contracts would have a negative impact on our business.

Many Defense Electronics & Services contracts are subject to security and facility clearances, as well as export licenses, which, if withdrawn, restricted or made unavailable, would adversely affect our business.

Changes in government contracting regulations, and related governmental investigations could increase our costs of regulatory compliance and could have a negative effect on our brand name and on our ability to win new business.

Employment and pension matters, including changes in laws relating to pension reform, could increase our costs of operations.

Interest and foreign currency exchange rate trends and fluctuations may adversely affect our results. We engage in hedging strategies, but it is not possible to hedge against all eventualities.

The commodities, supplies and raw materials that we use in our operations may not be available or may only be available at increased prices, which would have a negative effect on our results of operations.

Our liability for actual or alleged environmental contamination, claims and concerns may exceed our reserves, which would negatively impact our results of operations.

Our inability to protect our intellectual property could have a material adverse effect on our business. In addition, third parties may claim that we infringe on their intellectual property, and we could suffer significant litigation or licensing expense as a result.

Personal injury claims against us may exceed our reserves, which would negatively impact our results of operations.

Unanticipated changes in our tax rate or exposure to additional tax liabilities could negatively affect our profitability.

Oil and geopolitical risks including global terrorism could adversely affect all our businesses.

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- As a global business, we are subject to the laws of foreign countries and U.S. laws such as the Foreign Corrupt Practices Act, any violations of which could create a substantial liability for us, and also could cause harm to our reputation.

- As a result of a material weakness identified in income tax accounting controls, there is a possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis.

These risk factors are discussed in more detail under the captions BUSINESS Competition; Exposure to Currency Fluctuations; Cyclicality; Governmental Regulations and Related Matters; Environmental Matters; Raw Materials; Intellectual Property LEGAL PROCEEDINGS and CONTROLS AND PROCEDURES.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None

ITEM 2.

PROPERTIES

Our principal executive offices are in leased premises located in White Plains, NY. We consider the many offices, plants, warehouses, and other properties that we own or lease to be in good condition and generally suitable for the purposes for which they are used. These properties are located in several states in the United States, as well as in numerous countries throughout the world. See BUSINESS for further information with respect to properties in each of our business segments, including the number of locations and countries in which they are located. See also Note 14, Leases and Rentals, in the Notes to Consolidated Financial Statements for further information.

ITEM 3.

LEGAL PROCEEDINGS
(In millions, unless otherwise stated)

ITT is from time to time involved in legal proceedings that are incidental to the operation of its businesses. Some of these proceedings allege damages against the Company relating to environmental liabilities, product liabilities (including asbestos), employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. The Company will continue to vigorously defend itself against all claims. Accruals for anticipated settlements have been established where the outcome of the matter is probable and can be reasonably estimated. In addition, accruals for legal fees for various matters have been established where the fees are probable of payment and can be reasonably estimated. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including the Company s assessment of the merits of the particular claim, as well as its current reserves and insurance coverage, the Company does not expect that such legal proceedings will have a material adverse impact on the financial position, results of operations, or cash flow of the Company on a consolidated basis.

Environmental:

The Company has accrued for environmental remediation costs associated with identified sites consistent with the policy set forth in Note 1, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements. In management s opinion, the total amount accrued and related receivables are appropriate based on existing facts and circumstances. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company s share, if any, of liability for such conditions, the selection of alternative remedies, and changes in clean-up standards. Management does not anticipate that these liabilities will have a material adverse effect on the consolidated financial position, results of operations or cash flows.

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. The Company has received notice that it is considered a potentially responsible party (PRP) at a limited number of sites by the United States Environmental Protection Agency (EPA) and/or a similar state agency under the Comprehensive Environmental Response, Compensation and Liability Act or its state equivalent. As of December 31, 2007, the Company is responsible, or is alleged to be responsible, for approximately 90 ongoing environmental investigation and remediation sites in various countries. These sites are in various stages of investigation and/or remediation and in many of these proceedings the Company s liability is considered de minimis. At December 31, 2007, the Company s best estimate for environmental liabilities is $124.7, which approximates the accrual related to the investigation and remediation of ground water, soil, and soil vapor as well as related legal fees. This estimate includes the Company s estimated accrual for environmental liabilities associated with its former automotive business. See Note 5, Discontinued Operations, in the Notes to Consolidated Financial Statements for additional information. The low range estimate for its environmental liabilities is $94.6 and the high range estimate for those liabilities is $213.2. On an annual basis the Company spends between $8.0 and $12.0 on its environmental remediation liabilities. These estimates, and related accruals, are reviewed periodically and updated for progress of investigation and remediation efforts and changes in facts and legal circumstances. Liabilities for environmental expenditures are recorded on an undiscounted basis.

The Company is involved in an environmental proceeding in Glendale, California relating to the San Fernando Valley. The Company is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifers. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California against the Company and Lockheed Martin Corporation, *United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX*, to recover costs it incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including the Company and Lockheed Martin, reached a settlement, embodied in a consent decree, requiring the PRPs to perform additional remedial activities. Pursuant to the settlement, the PRPs, including the Company, have constructed and are funding operation of a water treatment plant. The operation of the water treatment plant is expected to continue until 2013, at which time a separate allocation for continued operation of the plant is expected. ITT and the other PRPs continue to pay their respective allocated costs of the operation of the water treatment plant. In 2007, one PRP defaulted on its percentage share of costs, and the PRP Group is pursuing a remedy of the default; however, this default may increase ITT s allocated share of the liability. Additionally, modification to the allowable hexavalent chromium National Pollution Discharge Elimination System discharge standard occurred in 2007, and the impact of this change may result in additional costs for potential modifications to the water treatment plant. As of December 31, 2007, the Company s accrual for operation of the water treatment plant through 2013 was $8.5 representing its best estimate; its low estimate for the liability is $5.1 and its high estimate is $14.0.

Prior to the 1995 Distribution Agreement (See Company History and Certain Relationships within Part I, Item 1 of this 2007 Annual Report on Form 10-K for a description of the Distribution Agreement), the predecessor ITT Corporation operated a facility in Madison County, Florida from 1968 until 1991. In 1995, elevated levels of contaminants were detected at the former manufacturing site. Since then, ITT has completed the investigation of the site in coordination with state and federal environmental authorities and is in the process of evaluating various remedies. A final remedy for the site has not yet been selected. Currently, the estimated range for the remediation is between $2.8 and $16.7. The Company has accrued $5.4 for this matter, which approximates its best estimate.

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

The Company operated a facility in Rochester, New York, called Rochester Form Machine from 1979 until 2003. Rochester Form Machine was a former subsidiary of the predecessor ITT Corporation known as ITT Higbie after ITT acquired Higbie in 1972. In August 2003, the Company, through its subsidiary ITT Fluid Handling Systems, entered into an Order on Consent with New York State Department of Environmental Conservation to investigate and remediate facility-related impacts to soil, soil vapor, indoor air and ground water. As of December 31, 2007, the Company s current estimate for this exposure is between $3.9 and $15.8 and it has an accrual for this matter of $6.3 which represents the best estimate. The Company is pursuing a legal claim against certain other PRPs who may share responsibility for impacts.

In a suit filed in 1991 by the Company, in the California Superior Court, Los Angeles County*, ITT Corporation, et al. v. Pacific Indemnity Corporation et al.*, against its insurers, the Company is seeking recovery of costs it incurred in connection with its environmental liabilities including the matters listed above. Discovery, procedural matters, changes in California law, and various appeals have prolonged this case. For several years, the case had been on appeal before the California Court of Appeals from a decision by the California Superior Court dismissing certain claims of the Company. The dismissed claims were claims where the costs incurred were solely due to administrative (versus judicial) actions. However, in April 2007, the Superior Court vacated its earlier ruling dismissing the claims based on the California Supreme Court s decision in *Powerine Oil Co. v. Superior Court*. As a result, the Court of Appeals dismissed the appeal as moot. Thus, the case is now back before the Superior Court with the parties engaged in informal discovery and information exchange in anticipation of settlement conferences and, if necessary, further litigation. During the course of the litigation, the Company has negotiated settlements with certain defendant insurance companies and is prepared to pursue its legal remedies where reasonable negotiations are not productive.

Product Liability and Other Matters:

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

As of December 31, 2007, there were approximately 103,000 open claims against the Company, down 8,000 from the prior year. Frequently, the plaintiffs are unable to demonstrate any injury or do not identify any ITT or Goulds product as a source of asbestos exposure. During 2007, the Company resolved approximately 12,200 claims. Nearly all of these claims were dismissed, with settlement on a small percentage of claims. The average amount of settlement per claim has been nominal and substantially all defense and settlement costs have been covered by insurance.

The Company s estimated accrued costs, net of expected insurance recoveries, for the resolution of all of these pending claims were $24.8 and $21.8 as of December 31, 2007 and 2006, respectively. While it is probable that the Company will incur additional costs for claims to be filed in the future, these additional costs are not reasonably estimable at this time.

Although it is impossible to predict the ultimate outcome of these product liability suits, based on current information, the Company s experience in handling these matters, and its substantial insurance program, management does not believe that these claims will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

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

In addition, Utica National (Utica) and Goulds have negotiated a coverage-in-place agreement to allocate the Goulds asbestos liabilities between insurance policies issued by Utica and those issued by others. The terms of the settlement provide Goulds with substantial coverage from Utica for asbestos liabilities. Gould s will continue to seek coverage from its other insurers for these liabilities.

The Company provides an indemnity to U.S. Silica Company for silica personal injury suits against its former subsidiary Pennsylvania Glass Sand filed prior to September 12, 2005. ITT sold the stock of Pennsylvania Glass Sand to U.S. Silica Company in 1985. The Company s indemnity had been paid in part by its historic product liability carrier, however, in September 2005, the carrier communicated to ITT that it would no longer provide insurance for these claims. On October 4, 2005, ITT filed a suit against the insurer, *ITT v. Pacific Employers Insurance Co., CA*

No. 05CV 5223, seeking its defense costs and indemnity from the insurance carrier for Pennsylvania Glass Sand product liabilities. In April 2007, the Court granted the Company s motion for summary judgment on the carrier s duty to defend the silica cases. All silica related costs, net of insurance recoveries, are shared pursuant to the Distribution Agreement. See BUSINESS Company History and Certain Relationships for a description of the Distribution Agreement. The insurer has appealed the Court s decision, and the matter was returned to the Superior Court in part for determination of several factual issues. The Company will continue to seek its past and future defense costs for these cases from this carrier. Management believes that these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

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

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

On March 27, 2007, the Company reached a settlement relating to an investigation of its ITT Night Vision Division s compliance with the International Traffic in Arms Regulations (ITAR). As part of the settlement, the Company pleaded guilty in the United States District Court for the Western District of Virginia to one ITAR violation relating to the improper handling of sensitive documents and one ITAR violation involving making misleading statements. The Company was assessed a total of $50 in fines, forfeitures and penalties. Of the total, $30 was paid in 2007 and the remaining balance is to be paid over five years, including $4 during the first quarter of 2008. This liability was fully accrued at December 31, 2006. The U.S. government has agreed to defer action regarding a third count of ITAR violations pending the Company s implementation of a remedial action plan. The Company has also agreed to invest $50.0 over the next five years in research and development and capital improvements for its Night Vision products. As a result of the guilty plea, the Company became subject to automatic statutory debarment from future export licenses. However, because the debarment is applicable to only a portion of the Company s Night Vision business, it is expected that the net effect of the debarment will restrict less than 5% of total Night Vision sales for a period of not less than one year. The Company can seek reinstatement of export privileges after one year. On October 11, 2007, the Company and the Department of Defense finalized an Administrative Compliance Agreement wherein the Company agreed to take certain remedial actions including implementing compliance programs and appointing an independent monitor for the oversight of the Company s compliance programs. On December 28, 2007, the Company finalized an administrative agreement with the Department of State. Management believes that these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

On April 17, 2007, the Company s Board of Directors received a letter on behalf of a shareholder requesting that the Board take appropriate action against the employees responsible for the actions described in the Company s agreements with the United States Attorney s Office for the Western District of Virginia, which were disclosed on Form 8-K filed on March 30, 2007. The Board of Directors has appointed a Special Litigation Committee to evaluate the request.

On April 20, 2007, the Company received notice of a shareholder derivative action, *Sylvia Piven trustee under trust agreement dated April 3, 1973 f/b/o Sylvia B. Piven, derivatively on behalf of ITT Corporation v. Steve Loranger et al. and ITT Corporation*, U.S. District Court for the Southern District of New York, CA No. 07-CV-2878 (the *Piven* action), alleging that the Company s Board of Directors breached their fiduciary duties in connection with the Company s compliance programs at its Night Vision business. The *Piven* Complaint seeks compensatory and punitive damages for the Company from its Directors, the removal of the Directors, and the election of new directors. On July 12, 2007, the Company received notice of a second shareholder derivative action, *Norman Levy, derivatively on behalf of ITT Industries, Inc. v. Steven R. Loranger et al. and ITT Industries, Inc.*, U.S. District Court for the Southern District of New York, CA No. 07-CV-6339 (the *Levy* action). The *Levy* Complaint asserts similar claims as the

Piven Complaint and seeks compensatory damages for the Company from its Directors. On August 20, 2007, the Company received notice of the third derivative action, *Anthony Reale v. Steven R. Loranger et al. and ITT Company [sic]*, U.S. District Court for the Southern District of New York, CA No. 07-CV-6339 (the *Reale* action). The *Reale* action also names as John Doe defendants the individual managers allegedly responsible for the actions that gave rise to the Night Vision guilty plea, as well as the law firm that advised the Company in connection with a voluntary disclosure of violations. All three actions are consolidated before the U.S. District Court for the Southern District of New York, *In Re ITT Corporation Derivative Litigation*, CA No. 07-CV-2878 (CLB). The Company has filed a motion to dismiss the consolidated Complaint, which is currently pending before the District Court. Management believes that this suit will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

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ITEM 4.
SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our shareholders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following information is provided regarding the executive officers of ITT. Each of the executive officers was elected to his or her position to serve at the pleasure of the Company s Board of Directors.

Name	Age at 2/1/08	Current Title	Other Business Experience During Past 5 Years
Scott A. Crum	51	Senior Vice President and Director, Human Resources (2002)	
Henry J. Driesse	64	Senior Vice President, ITT (2001)	President, ITT Fluid Technology (2005), Vice President and President of ITT Defense Electronics & Services (2000)
Donald E. Foley	56	Senior Vice President, Treasurer and Director of Taxes (2003)	Vice President, Treasurer and Director of Taxes (2001)
Steven F. Gaffney	48	Senior Vice President, ITT (2006), President, ITT Defense Electronics & Services (2005)	President and General Manager of ITT System Division (2003)
Nicholas P. Hill	53	Senior Vice President, ITT (2005), President, Motion & Flow Control (2004)	President, ITT Jabsco Worldwide (2003)
Janice M. Klettner	47	Vice President, ITT (2008), Chief Accounting Officer and Assistant Secretary (2006)	Vice President, Corporate Controller, Avon Products (1998)
Steven R. Loranger	55	Chairman, President and Chief Executive Officer and Director (2004)	Executive Vice President and Chief Operating Officer of Textron, Inc. (2002)
Vincent A. Maffeo	57	Senior Vice President and General Counsel (1995)	

Gretchen W. McClain	45	Senior Vice President, ITT (2008), President, ITT Fluid Technology (2007)	President ITT Residential & Commercial Water (2005); Vice President, Honeywell Aerospace (2004) and Honeywell Engines & Systems (2003)
Robert J. Pagano	45	Vice President, Finance (2006)	Vice President, Corporate Controller (2004) President, ITT Fluid Technology Industrial Products Group (2002)
Denise L. Ramos	51	Senior Vice President and Chief Financial Officer (2007)	Chief Financial Officer, Furniture Brands International (2005), Chief Financial Officer, KFC (2002)
Brenda L. Reichelderfer	49	Senior Vice President, ITT (2002), Chief Technology Officer and Director of Engineering (2005)	President, ITT Electronic Components (2003), President, Motion & Flow Control (2002)

Note: Date in parentheses indicates the year in which the position was assumed.

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

	2007		2006	
	High	**Low**	High	Low
Three Months Ended				
March 31	**$ 62.33**	**$ 56.30**	$ 58.73	$ 49.85
June 30	**70.44**	**60.02**	57.57	47.33
September 30	**73.44**	**58.09**	51.89	45.34
December 31	**69.96**	**60.05**	57.44	50.43

The above table reflects the range of market prices of our common stock as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which this security is traded (under the trading symbol ITT). During the period from January 1, 2008 through January 31, 2008, the high and low reported market prices of our common stock were $66.01 and $52.71, respectively.

We declared dividends of $0.14 and $0.11 per share of common stock in each of the four quarters of 2007 and 2006, respectively. In the first quarter of 2008, we decl ared a dividend of $0.175 per share for shareholders of record on March 7, 2008.

Dividend decisions are subject to the discretion of our Board of Directors and will be based on, and affected by, a number of factors, including operating results and financial requirements. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future.

There were 22,125 holders of record of our common stock on January 31, 2008.

ITT common stock is listed on the New York and Euronext exchanges.

Equity Compensation Plan Information

The information called for by Item 5(a) is incorporated herein by reference to the portions of the definitive proxy statement referred to in Item 10 of this Annual Report on Form 10-K set forth under the caption Equity Compensation Plan Information.

Issuer Purchases of Equity Securities

Maximum

Period	Total Number of Shares Purchased	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/07-10/31/07		$		$ 644.3
11/1/07-11/30/07		$		$ 644.3
12/1/07-12/31/07		$		$ 644.3

(1) Average price paid per share is calculated on a settlement basis and excludes commission.

During the fourth quarter of 2006, we announced a three year $1 billion share repurchase program. This program replaces our previous practice of covering shares granted or exercised in the context of ITT s performance incentive plans. The program is consistent with our capital allocation process, which is centered on those investments necessary to grow our businesses organically and thr ough acquisitions, while also providing cash returns to shareholders.

Our strategy for cash flow utilization is to pay dividends, complete strategic acquisitions, invest in our business, repay debt, and repurchase common stock to cover option exercises and restricted stock issuances and make discretionary repurchases of our common stock.

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Performance Graph

CUMULATIVE TOTAL RETURN

Based upon an initial investment of $100 on December 31, 2002 with dividends reinvested

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
ITT Corporation	$ 100.00	$ 123.59	$ 141.87	$ 174.00	$ 193.33	$ 227.41
S&P 500	$ 100.00	$ 128.68	$ 142.68	$ 149.69	$ 173.33	$ 182.85
S&P 500 Industrials Index	$ 100.00	$ 132.20	$ 156.04	$ 159.66	$ 180.88	$ 202.66

(1) Information provided in the Performance Graph shall not be deemed filed with the SEC.

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ITEM 6.

SELECTED FINANCIAL DATA

(Dollars in Millions, Except Per Share Amounts)	**2007**	2006	2005	2004	2003
Results and Position					
Sales and revenues	**$ 9,003.3**	$ 7,807.9	$ 7,040.8	$ 5,965.5	$ 4,850.2
Operating income[(a)]	**977.2**	801.0	725.5	587.8	473.9
Income from continuing operations[(a)]	**633.0**	499.7	528.8	408.2	353.2
Net income[(a)]	**742.1**	581.1	359.5	432.3	403.9
Additions to plant, property and equipment	**239.3**	177.1	164.4	126.1	119.5
Depreciation and amortization[(b)]	**220.0**	194.5	175.9	154.7	143.7
Total assets	**11,552.7**	7,400.6	7,071.9	7,291.3	5,955.1
Long-term debt	**483.0**	500.4	516.0	542.3	460.2
Total debt	**3,566.0**	1,097.4	1,266.9	1,269.7	600.8
Cash dividends declared per common share	**0.56**	0.44	0.36	0.34	0.32
Earnings Per Share					
Income from continuing operations					
Basic	**$ 3.51**	$ 2.71	$ 2.86	$ 2.21	$ 1.92
Diluted	**$ 3.44**	$ 2.67	$ 2.80	$ 2.16	$ 1.88
Net income					
Basic	**$ 4.11**	$ 3.15	$ 1.95	$ 2.34	$ 2.19
Diluted	**$ 4.03**	$ 3.10	$ 1.91	$ 2.29	$ 2.15

(a) Operating income, income from continuing operations and net income in 2007, 2006, 2005, 2004 and 2003 includes expense of $66.1, $51.7, $53.9, $29.3 and $24.9 pretax, respectively, or $44.8, $35.5, $36.8, $20.2 and $17.2, after-tax, respectively, for restructuring and asset impairment charges. See Note 4, Restructuring and Asset Impairment Charges, in the Notes to Consolidated Financial Statements for additional information on these topics.

(b) Includes amortization of stock compensation.

ITEM 7.

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

Business Overview

ITT is a global multi-industry leader in engineering and manufacturing engaged directly and through its subsidiaries. In total, ITT employs approximately 39,700 individuals based in 55 countries. We generate revenue and cash through the design, manufacture, and sale of a wide range of engineered products and the provision of related services. Our businesses are aggregated and organized into the following three principal business segments: Fluid Technology, Defense Electronics & Services, and Motion & Flow Control.

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

Our growth strategy is centered on both organic and acquisition growth. Our ability to grow organically stems from our value-based product development process, new and existing technologies, distribution capabilities, customer relationships and strong market positions. Our key growth platforms include:

- expanding our leadership positions in attractive water and industrial process markets through product development and innovative extensions of our current offerings, with a focus on the needs of the global water infrastructure
- building a motion and flow technology platform by leveraging our technology, operational and channel capabilities, and as a result expanding our businesses into broader end markets
- protecting and growing our core defense product positions through expansion into new and adjacent markets, including international defense markets

In addition to our growth initiatives, we have a number of strategic initiatives within the framework of the ITT Management System aimed at enhancing our operational performance. These include global sourcing, footprint rationalization and realignment, Six Sigma and lean fulfillment.

2008 Outlook

Overall, we expect revenues to increase to between \$11.13 billion to \$11.28 billion. Revenues in the Defense Electronics & Services business segment are expected to grow to between \$5.95 billion to \$6.00 billion led by continued growth in the Advanced Engineering & Sciences and Systems divisions and the integration of newly acquired EDO. The Fluid Technology business segment expects to grow revenues to between $3.68 billion to $3.73 billion due to continued growth in the Water & Wasterwater and Industrial Process businesses. In the Motion & Flow Control business segment, revenues of $1.53 billion to $1.58 billion are expected, with growth largely attributable to the integration of IMC into the segment.

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

Fluid Technology

Fluid Technology is a leading global provider of fluid systems and solutions, including the design, development, production, sale and after-sale support of a broad range of pumps, mixers, controls and treatment systems for residential, municipal, commercial, industrial, and agricultural and turf applications. The Fluid Technology business segment provides goods and services to the following markets: Water & Wastewater (biological/ozone/UV treatment systems for municipal and industrial wastewater treatment, disinfection, and submersible pumps and mixers for sewage, wastewater treatment facilities, dewatering and drainage), Residential & Commercial Water (pumps and accessories for residential, municipal and commercial applications as well as agricultural and turf irrigation), and Industrial Process (pumps/valves for the industrial, mining and chemical industries, pulp and paper solutions for process modules, skid systems and stainless steel vessels).

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

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

Defense Electronics & Services

Defense Electronics & Services develops, manufactures, and supports high-technology electronic systems and components for worldwide defense and commercial markets as well as provides communications systems, engineering and applied research. Defense Electronics & Services consists of two major areas: Systems and Services (Systems, Advanced Engineering & Sciences businesses) and Electronic Systems (Aerospace/Communications Division, Space Systems, Night Vision and Electronic Systems businesses).

On December 20, 2007, we completed the acquisition of EDO, a global aerospace and defense company. EDO designs and manufactures a diverse range of products for aerospace, defense, intelligence and commercial markets, and is a leader in the design and development of advanced systems at the center of the military s transformation to lighter, faster, and smarter defense capabilities. We believe the acquisition will allow us to expand our core businesses through attractive adjacent markets. Furthermore, we expect to be better positioned to play an important role on some of the U.S. military s vital transformational initiatives, such as the Joint Strike Fighter, the Navy s Littoral Combat Ship, Counter Improvised Explosive Device programs, and the Coast Guard Deepwater programs.

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

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

Motion & Flow Control

Motion & Flow Control comprises a diverse group of businesses, including Interconnect Solutions, Friction Technologies, Flow Control, Energy Absorption, Aerospace Controls and Controls. Interconnect Solutions designs and manufactures rugged electronic connectors for communications, industrial, transportation, military/aerospace, commercial aircraft, computer, and consumer uses. Friction Technologies designs and manufactures friction pads for braking applications. Flow Control produces pumps and related products for the leisure marine market, beverage applications, whirlpool baths and hot tub spas, along with valve actuation control systems and solenoid valves. Energy Absorption designs vibration and noise abatement technology for transportation, aerospace and industrial applications as well as compact pneumatic automation components for a variety of markets. Aerospace Controls produces valves, actuators and switches for the commercial, military, regional, business and general aviation markets; switches and regulators for the oil and gas, power generation and chemical markets; and pressure regulators and diaphragm seals for industrial applications and natural gas vehicles. Controls product offerings include electro-mechanical actuators, servo motors, CNC systems, motion controller and other components for medical imaging, semi-conductor, machine tool, industrial automation, metal fabrication and aircraft seating applications.

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

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

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Results of Operations

For the year ended December 31, 2007, we reported sales and revenues of $9,003.3 and net income of $742.1, or $4.03 per diluted share, compared with sales and revenues of $7,807.9 and net income of $581.1, or $3.10 per diluted share for the year ended December 31, 2006. Net income for the year ended December 31, 2007 includes income from discontinued operations of $109.1 or $0.59 per diluted share compared to $81.4 or $0.43 per diluted share for the same comparable prior year period.

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

Consolidated Financial Results

	Year Ended December 31			**2007/2006 Increase (Decrease) %/Point Change**	2006/2005 Increase (Decrease) %/Point Change
	2007	2006	2005		
Sales and revenues	**$ 9,003.3**	$ 7,807.9	$ 7,040.8	**15.3%**	10.9%
Costs of sales and revenues	**6,435.0**	5,618.4	5,072.6	**14.5%**	10.8%
Selling, general and administrative expenses	**1,342.7**	1,175.9	1,032.0	**14.2%**	13.9%
Research and development expenses	**182.3**	160.9	156.8	**13.3%**	2.6%
Restructuring and asset impairment charges, net	**66.1**	51.7	53.9	**27.9%**	(4.1)%
Operating income	**977.2**	801.0	725.5	**22.0%**	10.4%
Interest expense	**114.9**	86.2	75.0	**33.3%**	14.9%
Interest income	**49.6**	25.4	42.7	**95.3%**	(40.5)%
Income tax expense	**265.5**	227.6	144.7	**16.7%**	57.3%
Income from continuing operations	**633.0**	499.7	528.8	**26.7%**	(5.5)%
Income (loss) from discontinued operations, net of tax	**109.1**	81.4	(162.8)	**34.0%**	
Gross margin	**28.5%**	28.0%	28.0%	**0.5**	
Selling, general and administrative expenses as a % of sales	**14.9%**	15.1%	14.7%	**(0.2)**	0.4
Research and development expenses as a % of sales	**2.0%**	2.1%	2.2%	**(0.1)**	(0.1)
Operating margin	**10.9%**	10.3%	10.3%	**0.6**	
Effective tax rate	**29.5%**	31.3%	21.5%	**(1.8)**	9.8

Sales and Revenues

Sales and revenues for the year ended December 31, 2007 were $9,003.3, representing a 15.3% increase over 2006. During 2006, sales and revenues grew 10.9% to $7,807.9 over the prior year. Both year-over-year increases were primarily attributable to higher volumes and prices from existing businesses (organic growth) at each of our business segments. The following table illustrates the impact of organic growth, acquisitions completed during the period, and foreign currency translation fluctuations on sales and revenues during these periods.

	2007/2006 %/Point Change	2006/2005 %/Point Change
Organic growth	**10.9%**	9.7%
Acquisitions	**1.9%**	0.8%
Foreign currency translation	**2.5%**	0.4%
Sales and revenues	**15.3%**	10.9%

During 2007 and 2006, we received orders of $9,118.1 and $8,391.7, respectively. This represents increases of $726.4 and $1,161.9 or 8.7% and 16.1%, respectively, over each prior year period. Order growth in 2007 was attributable to our Fluid Technology and Motion & Flow Control business segments, including contributions from both existing businesses and acquisitions, while the 2006 increase was attributable to contributions from each of our business segments.

Costs of Sales and Revenues and Gross Profit

Higher sales volumes and increased price drove the overall increase in gross profit for both periods. Gross margin (as a percent of sales) was higher in 2007 at 28.5% compared to 28.0% in both 2006 and 2005. This increase was driven by our productivity and cost savings initiatives, including continued efforts to improve supply chain productivity and control material costs, partially offset by unfavorable mix and the impact of foreign currency translation.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased $166.8, or 14.2% in 2007. The year-over-year increase was primarily attributable to higher levels of marketing expense at each of our business segments in support of product campaigns and new sales proposals. In addition, general and administrative expense increased due to higher compensation-related costs, investments in growth and process improvement initiatives, and the impact of foreign currency translation.

SG&A increased $143.9, or 13.9% in 2006. The increase reflects higher marketing costs in all segments, the recognition of employee stock compensation expense in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment, (SFAS 123R), higher employee benefit costs, the impact of foreign currency translation, contributions from 2006 acquisitions, the cost of process improvement initiatives and increased environmental and legal costs, including costs to settle compliance issues in the Defense Electronics & Services business segment.

SG&A as a percentage of sales were 14.9%, 15.1% and 14.7% for the three years ended December 31, 2007, 2006 and 2005, respectively.

Research and Development Expenses

Research and development expenses (R&D) increased $21.4 and $4.1 during 2007 and 2006, respectively, over the prior year period. R&D as a percentage of sales were relatively consistent at 2.0%, 2.1%, and 2.2% for the three years ended December 31, 2007, 2006 and 2005, respectively, as we continued our efforts within each of our business segments to support product development.

Restructuring and Asset Impairment Charges, Net

During 2007, 2006 and 2005, we recorded $65.3, $56.5 and $58.9, respectively, of restructuring charges to streamline our operating structure. Additionally, $4.2, $4.8 and $5.0 of restructuring accruals were reversed into income during 2007, 2006 and 2005, respectively, as management deemed that certain cash expenditures would not be incurred. We also recognized $5.0 of charges in 2007 related to the impairment of long-lived assets. See the section entitled Restructuring and Asset Impairment Charges and Note 4, Restructuring and Asset Impairment Charges, in the Notes to Consolidated Financial Statements for additional information.

Interest Expense and Interest Income

During 2007, 2006 and 2005, we recognized interest expense of $114.9, $86.2 and $75.0, respectively. Interest expense increased 33.3% during 2007 primarily due to higher debt levels during the year, reflecting funding for acquisitions, common stock repurchases, capital expenditures and pension plan contributions. Partially offsetting the 2007 year-over-year increase was a decrease of $7.0 in interest expense related to income taxes as a result of the settlement of a tax examination during the second quarter of 2007. Interest expense increased $11.2 during 2006 to $86.2, or 14.9% higher than the prior year. The increase primarily reflects higher interest rates during the year.

We recorded interest income of $49.6, $25.4 and $42.7 for the years ended December 31, 2007, 2006 and 2005. The 2007 year-over-year increase of $24.2 was primarily attributable to a higher balance of cash and cash equivalents over each period. The 2006 year-over-year decrease of $17.3 reflects the recognition of interest income during 2005 associated with settlements of tax issues related to the 1998 through 2000 audit cycle.

Income Tax Expense

During 2007, 2006 and 2005 income tax expense was $265.5, $227.6 and $144.7 or 29.5%, 31.3% and 21.5% of income from continuing operations, respectively. The year-over-year variances primarily reflect the benefit of tax settlements recognized during both 2007 and 2005 associated with prior year tax examinations, mix of earnings in countries with differing statutory rates, and the impact of a penalty recognized in 2006 associated with ITT Night Vision s compliance matters.

See Note 7, Income Taxes, in the Notes to Consolidated Financial Statements for additional information.

Income from Discontinued Operations, Net of Tax

During 2007, we recognized $109.1 of income from discontinued operations, net of tax. In addition to results of operations from the Switches businesses during 2007, income from discontinued operations reflects an after-tax gain of $84.4 on the sale of substantially all of the Switches businesses during 2007.

During 2006, we recognized $81.4 of income from discontinued operations including a $41.2 gain related to the sale of the automotive brake and fuel tubing and components businesses and our industrial non-metallic lined pumps and valves businesses. The remaining $40.2 primarily relates to the operations of the Switches businesses, automotive brake and fuel tubing and components business, and industrial non-metallic lined pumps and valves businesses. Other contributors to income from discontinued operations include the adjustment of tax and other accruals associated with previously disposed businesses.

During 2005, we recognized a $162.8 loss from discontinued operations. The 2005 loss primarily relates to an after tax charge of $205.6 for the impairment of goodwill associated with our Switches businesses. Losses and asset write-downs associated with our former Network Systems & Services business and costs related to other discontinued operations also contributed to the loss.

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Offsetting this charge was income from the automotive brake and fuel tubing and components businesses and a tax settlement.

See Note 5, Discontinued Operations, in the Notes to Consolidated Financial Statements for additional information.

Segment Review

	Revenue			Operating Income			Operating Margin		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Fluid Technology	**$ 3,509.1**	$ 3,070.1	$ 2,799.1	**$ 432.7**	$ 370.6	$ 319.6	**12.3%**	12.1%	11.4%
Defense Electronics & Services	**4,176.2**	3,659.3	3,224.2	**502.7**	404.3	363.7	**12.0%**	11.0%	11.3%
Motion & Flow Control	**1,332.5**	1,092.9	1,030.9	**187.4**	149.7	133.3	**14.1%**	13.7%	12.9%
Corporate and Other/Eliminations	**(14.5)**	(14.4)	(13.4)	**(145.6)**	(123.6)	(91.1)			
Total	**$ 9,003.3**	$ 7,807.9	$ 7,040.8	**$ 977.2**	$ 801.0	$ 725.5	**10.9%**	10.3%	10.3%

Fluid Technology

Sales and revenues for the year ended December 31, 2007 were $3,509.1, reflecting a 14.3% increase over 2006. During 2006, sales and revenues grew 9.7% over 2005 to $3,070.1. The following table illustrates the impact of organic growth, acquisitions completed during the period, and foreign currency translation fluctuations on sales and revenues during these periods.

	2007/2006 % Change	2006/2005 % Change
Organic growth	**8.9%**	6.9%
Acquisitions	**0.9%**	1.8%
Foreign currency translation	**4.5%**	1.0%
Sales and revenues	**14.3%**	9.7%

During 2007, the Fluid Technology business segment recognized sales and revenues of $3,370.7 on a constant currency basis, an increase of $300.6 or 9.8% over 2006. Excluding revenues of $26.8 from acquisitions completed during 2007, revenues from existing businesses increased $273.8, or 8.9%. This year-over-year increase was due to increased sales volume and higher prices, and was especially attributable to growth in international markets such as Europe, the Middle East, Africa, Central and South America and Asia/Pacific. The Industrial Process business increased sales by 17.3% on a constant currency basis resulting from strength in large project sales, particularly in the mining and oil and gas markets. The Water & Wastewater business grew 10% on a constant currency basis benefiting from strength in large pump sales and the dewatering business, partially offset by softness in the U.S. water treatment business. Residential & Commercial Water grew 5.8% on a constant currency basis, as strength in commercial applications was partially offset by softness in the residential market.

During 2006, the Fluid Technology segment recognized revenues of $3,041.2, an increase of 8.7% over 2005, on a constant currency basis. Higher revenue from existing businesses contributed 6.9% of growth, primarily reflecting the operating results of Water & Wastewater (growth in all geographic regions) and the Industrial Process businesses. Revenues from acquisitions provided 1.8%.

During 2007 and 2006, we received orders of $3,657.1 and $3,144.1, respectively. This represents increases of $513.0 and $331.5 or 16.3% and 11.8%, respectively, over each prior year period. These increases were primarily attributable to strength in the water transport business, particularly within the mining industry and the public utility/municipal markets, and continued strength in industrial project orders.

Operating income increased $62.1 or 16.8% for 2007 compared to 2006. Excluding the impact of foreign currency translation and contributions from acquisitions, operating income increased $43.3 or 11.7% over the same period. The year-over-year increase was primarily driven by higher sales volumes, price increases, operating efficiencies, and savings from restructuring actions partially offset by higher material and facility rationalization costs, and unfavorable mix within Residential & Commercial Water. Operating margin was 12.3% and 12.1% for 2007 and 2006, respectively. Excluding the impact of foreign currency translation and contributions from acquisitions completed in 2007, operating margin for 2007 was 12.4% compared to 12.1% for the same prior year period.

During 2006, operating income increased $51.0, or 16.0% from the prior year. Organic volume growth, price, productivity improvements and savings from restructuring actions, partially offset by material cost increases, represents a 12.8% increase. Foreign currency translation, lower costs of restructuring, and contributions from acquisitions also provided operating income growth of 2.2%, 1.5% and 1.2%, respectively. The recognition of stock-based compensation expense, reflecting the adoption of SFAS 123R, lowered operating income by 1.7%.

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Defense Electronics & Services

Sales and revenues for the year ended December 31, 2007 were $4,176.2, reflecting a 14.1% increase over 2006. During 2006, sales and revenues grew 13.5% over 2005 to $3,659.3. The following table illustrates the impact of organic growth, and acquisitions completed during the period on sales and revenues during these periods.

	2007/2006 % Change	2006/2005 % Change
Organic growth	**12.6%**	13.4%
Acquisitions	**1.5%**	