HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form 8-K
December 20, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 17, 2012

Hercules Technology Growth Capital, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**814-00702**	**74-3113410**
(State or other jurisdiction of incorporation)	**(Commission File No.)**	**(I.R.S. Employer Identification No.)**

400 Hamilton Ave., Suite 310 Palo Alto, CA	**94301**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (650) 289-3060

Not Applicable

(Former name or address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement

Securitization Transaction

On December 19, 2012, Hercules Technology Growth Capital, Inc. (the Company) completed a $230,681,409 term debt securitization in connection with which an affiliate of the Company made an offering of $129,300,000 in aggregate principal amount of fixed-rate asset-backed notes (the Notes), which Notes were rated A2(*sf*) by Moody s Investors Service, Inc. The Notes were issued by Hercules Capital Funding Trust 2012-1 pursuant to a note purchase agreement, dated as of December 12, 2012, by and among the Company, Hercules Capital Funding 2012-1 LLC, as Trust Depositor (the Trust Depositor), Hercules Capital Funding Trust 2012-1, as Issuer (the Issuer), and Guggenheim Securities, LLC, as Initial Purchaser, and are backed by a pool of senior loans made to certain portfolio companies of the Company and secured by certain assets of those portfolio companies and are to be serviced by the Company. Interest on the Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Notes have a stated maturity of December 16, 2017.

As part of this transaction, the Company entered into a sale and contribution agreement with the Trust Depositor under which the Company has agreed to sell or has contributed to the Trust Depositor certain senior loans made to certain portfolio companies of the Company (the Loans). The Company has made customary representations, warranties and covenants in the sale and contribution agreement with respect to the Loans as of the date of their transfer to the Trust Depositor.

In connection with the issuance and sale of the Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The Notes are secured obligations of the Issuer and are non-recourse to the Company. The Issuer also entered into an indenture governing the Notes, which indenture includes customary representations, warranties and covenants. The Notes were sold without being registered under the Securities Act of 1933, as amended (the Securities Act), to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers for purposes of Section 3(c)(7) under the Investment Company Act of 1940, as amended. In addition, the Trust Depositor entered into an amended and restated trust agreement, which includes customary representation, warranties and covenants.

The Loans will be serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company will perform certain servicing and administrative functions with respect to the Loans. The Company will be entitled to receive a monthly fee from the Issuer for servicing the Loans. This servicing fee will equal the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including December 5, 2012 through and including January 15, 2013 over 360) of 2.00% and the aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including December 5, 2012, to the close of business on January 4, 2013).

The Company will also serve as administrator to the Issuer under an administration agreement, which includes customary representations, warranties and covenants.

The foregoing descriptions of the sale and servicing agreement, the sale and contribution agreement, the note purchase agreement, the administration agreement, the indenture and the amended and restated trust agreement do not purport to be complete and are qualified in their entirety by reference to the full text of the sale and servicing agreement, the sale and contribution agreement, the note purchase agreement, the administration agreement, the indenture and the amended and restated trust agreement filed with this report as Exhibits 10.1, 10.2, 10.3, 10.4, 4.1 and 4.2, respectively, and which are incorporated herein by reference.

Union Bank Amendment

On December 17, 2012, the Company amended its revolving senior secured credit facility (the Credit Facility) pursuant to a third amendment to amended and restated loan and security agreement (the Third Amendment) with Union Bank, N.A. (Union Bank) and Royal Bank of Canada (RBC) to remove RBC from the Credit Facility. After giving effect to the Third Amendment, Union Bank continues to hold a commitment to make loans of up to $30,000,000 to the Company. Following the removal of RBC, the Credit Facility consists solely of Union Bank s commitment of $30,000,000. In connection with the Third Amendment, the maximum availability under the Credit Facility, subject to a borrowing base, was reduced from $55,000,000 to $30,000,000. The Credit Facility contains an accordion feature, in which the Company could increase the credit line by up to $95,000,000 in the aggregate, funded by commitments from additional lenders and with the agreement of Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join the Credit Facility.

Other than the foregoing amendments, the terms of the Credit Facility remain the same. Borrowings under the Credit Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25%, subject to a floor of 4.0%. The Credit Facility requires the payment of a non-use fee of 0.50% annually. The Credit Facility is collateralized by debt investments in the Company s portfolio companies placed in the collateral pool by the Company, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool by the Company. The Credit Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. The maturity date of the Credit Facility is November 1, 2014.

The foregoing description of the Credit Facility does not purport to be complete and is qualified in its entirety by reference to the amended and restated loan and security agreement, as amended by the first amendment to amended and restated loan and security agreement dated as of March 30, 2012, the second amendment to amended and restated loan and security agreement dated as of September 17, 2012 and the Third Amendment, incorporated herein by reference. The full text of the Third Amendment is attached hereto as Exhibit 10.5.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information set forth in Item 1.01 of this Current Report is incorporated herein by this reference.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits:

Exhibit No.	Document
4.1	Indenture, dated as of December 19, 2012, by and among Hercules Capital Funding Trust 2012-1, as Issuer, and U.S. Bank National Association, as Trustee. Filed herewith.
4.2	Amended and Restated Trust Agreement, dated as of December 19, 2012, by and among Hercules Capital Funding 2012-1 LLC, as Trust Depositor, and Wilmington Trust, National Association, as Owner Trustee. Filed herewith.
10.1	Sale and Servicing Agreement, dated as of December 19, 2012, by and among Hercules Capital Funding Trust 2012-1, as Issuer, the Company, as Seller and Servicer, Hercules Capital Funding 2012-1 LLC, as Trust Depositor, and U.S. Bank National Association, as Trustee, Backup Servicer, Custodian and Securities Intermediary. Filed herewith.
10.2	Sale and Contribution Agreement, dated as of December 19, 2012, by and among the Company, as Seller and Hercules Capital Funding 2012-1 LLC, as Trust Depositor. Filed herewith.
10.3	Note Purchase Agreement dated as of December 12, 2012 among the Company, Hercules Capital Funding 2012-1 LLC, as Trust Depositor, Hercules Capital Funding Trust 2012-1, as Issuer, and Guggenheim Securities, LLC, as Initial Purchaser. Filed herewith.
10.4	Administration Agreement dated December 19, 2012 among the Company, as Administrator, Hercules Capital Funding Trust 2012-1, as Issuer, Wilmington Trust National Association, as Owner Trustee, and U.S. Bank National Association, as Trustee. Filed herewith.
10.5	Third Amendment to the Amended and Restated Loan and Security Agreement, dated as of December 17, 2012, between the Company, as Borrower, Royal Bank of Canada, as a Lender and Union Bank, N.A. as a Lender and as Agent. Filed herewith.
99.1	Press Release, dated December 19, 2012.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

December 20, 2012

By: /s/ Jessica Baron
Jessica Baron
Chief Financial Officer

sp; 18.3% 18.3%

Germany

48.7 59.5 (18.2)% (7.2)%

France

31.3 35.6 (12.1)% (1.8)%

Other developed markets

97.4 94.4 3.2% 9.5%

Total developed markets

402.2 379.5 6.0% 10.5%

South and Central America[a]

52.3 57.1 (8.4)% 0.5%

Eastern Europe and Russia

23.6 32.7 (27.8)% (19.9)%

Middle East and Africa

31.9 29.5 8.1% 10.6%

China and Hong Kong

28.5 29.9 (4.7)% (4.0)%

Other emerging markets

29.0 23.7 22.4% 26.1%

Total emerging markets

165.3 172.9 (4.4)% 1.3%

Total Revenue

$567.5 $552.4 2.7% 7.7% For the Six Months Ended June 30 **2012** 2011 % Change

Constant
Currency

% Change

United States

$440.8 $389.4 13.2% 13.2%

Germany

118.7 136.3 (12.9)% (5.0)%

France

64.8 69.4 (6.6)% 0.7%

Other developed markets

201.1 191.0 5.3% 9.2%

Total developed markets

825.4 786.1 5.0% 8.1%

South and Central America[a]

102.0 90.8 12.3% 19.3%

Eastern Europe and Russia

52.6 54.9 (4.2)% 3.3%

Middle East and Africa

57.1 50.8 12.4% 14.3%

China and Hong Kong

53.6 61.0 (12.1)% (12.3)%

Other emerging markets

53.7 41.9 28.2% 30.5%

Total emerging markets

319.0 299.4 6.5% 10.5%

Total Revenue

$1,144.4	$1,085.5	5.4%	8.7%

(a) Includes Mexico

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The following tables illustrate the impact from organic growth, recent acquisitions, and fluctuations in foreign currency, in relation to consolidated revenue during the three and six months ended June 30, 2012.

For the Three Months Ended June 30	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT	% Change
2011 Revenue	$ 200.5	$ 164.4	$ 108.6	$ 83.2	$ (4.3)	$ 552.4	
Organic growth	30.3	8.0	(5.0)	(1.9)	2.7	34.1	6.2%
Acquisitions/(divestitures), net	8.0		(1.1)			6.9	1.2%
Foreign currency translation	(5.8)	(17.3)	(2.6)	(0.2)		(25.9)	(4.7)%
Total change in revenue	32.5	(9.3)	(8.7)	(2.1)	2.7	15.1	2.7%
2012 Revenue	$ 233.0	$ 155.1	$ 99.9	$ 81.1	$ (1.6)	$ 567.5	

For the Six Months Ended June 30	Industrial Process	Motion Technologies	Interconnect Solutions	Control Technologies	Eliminations	Total ITT	% Change
2011 Revenue	$ 368.2	$ 348.1	$ 216.9	$ 161.7	$ (9.4)	$ 1,085.5	
Organic growth	80.8	12.8	(18.5)	(1.9)	6.6	79.8	7.4%
Acquisitions/(divestitures), net	15.4		(2.2)			13.2	1.2%
Foreign currency translation	(5.1)	(25.6)	(3.4)	(0.1)	0.1	(34.1)	(3.2)%
Total change in revenue	91.1	(12.8)	(24.1)	(2.0)	6.7	58.9	5.4%
2012 Revenue	$ 459.3	$ 335.3	$ 192.8	$ 159.7	$ (2.7)	$ 1,144.4	

Industrial Process

Industrial Process revenue for the three months ended June 30, 2012 increased $32.5 or 16.2% year-over-year, as 15.1% organic revenue growth and 4.0% acquisitive growth related to our fourth quarter 2011 acquisition of Blakers Pump Engineers Unit Trust (Blakers) were partially offset by an unfavorable impact from foreign currency fluctuations of 2.9%. The segment s organic revenue growth was primarily driven by improvement in industrial market production and utilization rates in North America. Sales to the Central and South American region were down 1.4%; however these results reflect significant growth in Chile, Argentina and Peru that were offset by the fulfillment of a $22.0 project in the Oil & Gas market during the second quarter of 2011.

Industrial Process revenue for the six months ended June 30, 2012 increased $91.1 or 24.7% year-over-year, as 21.9% organic revenue growth and 4.2% acquisitive growth related to our fourth quarter 2011 acquisition of Blakers were partially offset by an unfavorable impact from foreign currency fluctuations of 1.4%. The organic revenue results reflect growth across all geographic regions and end-markets, except in the Oil & Gas market which included the fulfillment of a $22 project during the second quarter of 2011.

Motion Technologies

Motion Technologies revenue for the three months ended June 30, 2012 declined $9.3 or 5.7% year-over-year, as an increase in organic revenue of $8.0 or 4.9% from increased volume to the Automotive and Rail markets in Asia Pacific and the United States was more than offset by unfavorable foreign currency impacts of $17.3 primarily related to the strengthening of the U.S. Dollar against the Euro. For the year-to-date period, Motion Technologies revenue declined $12.8 or 3.7% as compared to the prior year-to-date period, as unfavorable foreign currency impacts from Euro weakness of $25.6 more than offset the segment s organic revenue growth of $12.8 or 3.7%.

A strategic area of focus for Motion Technologies is growth within the emerging market economies of the Asia Pacific region, with an emphasis on China. Our brake pads are installed on many different models for Shanghai General Motors and Daimler automobile models and KONI rail dampers are utilized on high speed passenger trains. For the three and six month periods of 2012, aggregate sales to China and Hong Kong on a constant currency basis grew by 98.5% and 60.9%, respectively, over the same prior year periods.

Revenue growth of 44.6% and 16.8% within the United States, for the three and six months ended June 30, 2012, was primarily within the Automotive market from recent platform wins and increased market share.

Economic conditions in Europe continue to negatively impact the European auto industry with industry data estimating a year-over-year second quarter decline in light vehicle sales of approximately 7% within the Western European region, with substantial year-over-year weakness in Italy and Spain. For the three and six month periods of 2012, Motion Technologies sales within Europe (including Russia) on a constant currency basis have declined by 3.4% and 1.2%, respectively, as compared to the same prior year periods. Our ability to outperform the market during this difficult economic time is due to our increasing number of positions on premium auto platforms and the consumer demand for the platform models that our products are on.

Within our brake pads business, accounting for approximately 80% of segment revenue and 4.6% year-over-year organic revenue growth, the mix of revenue derived from original equipment and aftermarket equipment shifted from an approximately 50/50 split to a 57/43 split. This shift is partially related to our increased number of OEM platforms but is also associated with a declining trend in automotive travel within Europe which has slowed the rate of purchase for aftermarket replacement parts.

Interconnect Solutions

Interconnect Solutions revenue for the three months ended June 30, 2012 declined by $8.7, or 8.0%, which included unfavorable impacts of $2.6 from foreign currency translation and $1.1 from the June 2011 divestiture of a cable cord product line. Organic revenue declined by 4.6% or $5.0 for the second quarter of 2012, primarily driven by a sales decline in the communications market of approximately $3.1 or 19.2% from lower production rates at a major smartphone customer and share declines in a specific non-strategic communications application. Second quarter 2012 revenue was also impacted by a decrease in sales of electric vehicle connectors and cables due to a decline in shipments to one customer. Sales growth within the oil and gas market of $3.6 partially offset the declines in the other markets.

Interconnect Solutions revenue for the six months ended June 30, 2012 declined by $24.1, or 11.1%, which included unfavorable impacts of $3.4 from foreign currency translation and $2.2 from the June 2011 divestiture of a cable cord product line impact from foreign currency translation. Organic revenue declined by 8.5% or $18.5 for the year-to-date 2012 period, primarily driven by lower production rates at a major smartphone customer and share declines in a specific communications application. Our year-over-year comparisons also reflect declines in the aerospace and transportation markets.

Control Technologies

Control Technologies revenue for the three and six months ended June 30, 2012 declined by $2.1 or 2.5% and $2.0 or 1.2%, respectively. The comparable 2011 results include $5.3 and $9.7, respectively, related to a VIP seat program on a Chinese rail infrastructure project that was completed in the fourth quarter of 2011. We have not recognized any revenue from the program in 2012. Organic revenue from the remaining Control Technologies businesses increased year-over-year by $3.4 or 4.4% for the three month period and by $7.8 or 5.1% for the six month period.

For the year ended 2011, we recognized revenue of $16.1 from the Chinese rail infrastructure project and we are not currently forecasting any revenue from this project during 2012.

GROSS PROFIT

Gross profit for the second quarter of 2012 was $173.7, a decline of $2.3 or 1.3% from 2011 as the benefits from increased sales volume of $8.1 from Industrial Process and Motion Technologies was partially offset by a $7.0 unfavorable impact from foreign currency, primarily related to a weakening Euro. The benefit from increased sales volume was also offset by an unfavorable change in sales mix and lower volume at Interconnect Solutions and unfavorable product pricing at Industrial Process attributable to the competitive project business environment. Gross profit for the second quarter of 2012 was favorably impacted by net savings from productivity, sourcing and Value Based Lean Six Sigma (VBLSS) initiatives. The year-over-year decline in gross margin of 130 basis points primarily reflects the unfavorable changes in sales mix and pricing.

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Gross profit for the six months ended June 30, 2012 was $346.6, representing a $2.5 increase, or 0.7% from 2011, as the factors impacting the year-over-year comparison for the three month period also explain the six month results. Increased sales volume from Industrial Process and Motion Technologies of $18.9 and net savings from productivity, sourcing and VBLSS initiatives were partially offset by lower volume and an unfavorable change in sales mix at Interconnect Solutions, as well as unfavorable product pricing attributable to the competitive project business environment and increased levels of project business in the first half of 2012 affecting Industrial Process. In addition, foreign currency unfavorably impacted our six month 2012 gross margin results by $9.2, primarily due to a weakening Euro. The year-over-year decline in gross margin of 140 basis points primarily reflects the volume decline at Interconnect Solutions and unfavorable changes in sales mix and pricing. The following table illustrates the gross profit and gross margin results of our segments for the three and six months ended June 30, 2012 and 2011.

	Three Months			Six Months		
For the Periods Ended June 30	**2012**	2011	Change	**2012**	2011	Change
Industrial Process	**$ 72.8**	$ 66.5	9.5%	**$ 141.3**	$ 121.9	15.9%
Motion Technologies	**38.0**	41.6	(8.7)%	**85.9**	89.8	(4.3)%
Interconnect Solutions	**30.6**	37.2	(17.7)%	**57.1**	72.6	(21.3)%
Control Technologies	**32.0**	30.9	3.6%	**61.5**	60.2	2.2%
Corporate and Other	**0.3**	(0.2)	250.0%	**0.8**	(0.4)	300.0%
Total gross profit	**$ 173.7**	$ 176.0	(1.3)%	**$ 346.6**	$ 344.1	0.7%
Gross margin:						
Consolidated	**30.6%**	31.9%	(130)bp	**30.3%**	31.7%	(140)bp
Industrial Process	**31.2%**	33.2%	(200)bp	**30.8%**	33.1%	(230)bp
Motion Technologies	**24.5%**	25.3%	(80)bp	**25.6%**	25.8%	(20)bp
Interconnect Solutions	**30.6%**	34.3%	(370)bp	**29.6%**	33.5%	(390)bp
Control Technologies	**39.5%**	37.1%	240bp	**38.5%**	37.2%	130bp

OPERATING EXPENSES

Operating expenses for the three and six months ended June 30, 2012 declined $13.4 or 10.4% and $54.8 or 17.8%, respectively from the comparable prior year periods, which was primarily driven by lower Corporate & Other expenses of $24.3 for the quarter-to-date period and $79.2 for the year-to-date period. The decline in Corporate & Other expenses, which relates to various items further discussed below and within the Operating Income section, were partially offset by increases of $3.0 and $9.8 in sales and marketing costs for the three and six month periods, respectively, associated with the increase in second quarter 2012 sales volume. The following table provides further information by expense type, as well as a breakdown of operating expense by segment.

	Three Months			Six Months		
For the Periods Ended June 30	**2012**	2011	Change	**2012**	2011	Change
Sales and marketing expenses	**$ 46.9**	$ 43.9	6.8%	**$ 95.1**	$ 85.3	11.5%
General and administrative expenses	**37.9**	48.2	(21.4)%	**91.9**	92.5	(0.6)%
Research and development expenses	**17.1**	17.0	0.6%	**33.8**	33.5	0.9%
Asbestos-related costs, net	**9.7**	15.6	(37.8)%	**22.3**	31.5	(29.2)%
Transformation costs	**4.4**	4.7	(6.4)%	**9.3**	64.4	(85.6)%
Total operating expenses	**$ 116.0**	$ 129.4	(10.4)%	**$ 252.4**	$ 307.2	(17.8)%
By Segment:						
Industrial Process	**$ 45.1**	$ 37.3	20.9%	**$ 91.8**	$ 71.7	28.0%
Motion Technologies	**17.8**	19.9	(10.6)%	**38.4**	40.4	(5.0)%
Interconnect Solutions	**25.1**	21.9	14.6%	**49.7**	46.0	8.0%
Control Technologies	**17.5**	15.5	12.9%	**34.0**	31.4	8.3%
Corporate & Other	**10.5**	34.8	(69.8)%	**38.5**	117.7	(67.3)%

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Sales and marketing expenses increased $3.0 or 6.8% and $9.8 or 11.5% for the three and six months ended June 30, 2012, respectively, as compared to the same prior year periods, primarily due to increased commission and other selling expenses associated with the increase in revenue from Industrial Process, as well as additional costs from our fourth quarter 2011 acquisition of Blakers.

General and administrative (G&A) expenses declined $10.3 or 21.4% and $0.6 or 0.6% during the three and six months ended June 30, 2012, respectively, as compared to the same prior year periods. The decline in G&A expenses is primarily due to lower Corporate & Other G&A costs of $17.0 and $12.3 for the three and six month periods, respectively, primarily because of higher prior year expenses associated with certain legal entity reorganizations and the recognition of an insurance-related asset on environmental exposures during the second quarter of 2012. The reduction in Corporate & Other G&A costs was partially offset by additional costs from our Blakers acquisition, an increase in strategic investments and by lost leverage resulting from the Distribution related to higher standalone facility and infrastructure costs.

During the three and six months ended June 30, 2012, we recognized restructuring costs of $1.4 and $1.7, respectively. These restructuring costs, presented within G&A expenses, were relatively flat as compared to the prior year. During the second half of 2012, we expect to implement restructuring actions across our businesses to proactively address on-going macro uncertainties. Certain actions are in the process of being implemented, whereas other actions are still in the planning phase. For actions that are in the implementation stage, we expect to incur costs of approximately $4.0 to $5.0 during the remainder of 2012.

Asbestos-Related Costs, Net

During the three and six months ended June 30, 2012, we recognized net asbestos related costs of $9.7 and $22.3, reflecting a decrease of $6.9 and $9.2 compared to the prior year. As part of our annual asbestos measurement process performed in the third quarter, the underlying assumptions used to estimate asbestos liabilities and potential recoveries are estimated based on our experience since our last detailed review, the appropriate reference period of years of experience used in determining each assumption is reassessed, and our expectations regarding future conditions are evaluated. The net asbestos-related costs primarily reflect the recognition of incremental asbestos liabilities and related asbestos assets to maintain our rolling 10-year projection of unasserted claims. The year-over-year decrease for the three and six months ended June 30, 2012 is due to a distribution from certain insolvent insurers on a receivable that was mostly reserved in an earlier period. The year-over-year decrease for the six month period also includes the benefit recognized from an agreement-in-principle reached with an insurer during the first quarter of 2012.

The net asbestos expense is primarily recorded within Corporate & Other; however, an additional net asbestos expense of $0.7 was recorded for the three and six months ended June 30, 2012 and $2.8 for the six months ended June 30, 2011, associated with businesses that were disposed of a number of years ago, and is reported within discontinued operations in our Consolidated Condensed Financial Statements. There was no net asbestos expense recorded during the second quarter of 2011 within discontinued operations. See Note 16, Commitments and Contingencies, in our Notes to the Consolidated Condensed Financial Statements for further information on our asbestos-related liabilities and assets.

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Transformation Costs

During the three and six months ended June 30, 2012, we recognized expenses of $4.4 and $9.3, respectively, in connection with the Transformation within income from continuing operations, representing a decline of $0.3 and $55.1 from the comparable prior year periods. The components of transformation costs included within income from continuing operations during 2012 and 2011 are presented below.

	Three Months		Six Months	
For the Periods Ended June 30	**2012**	2011	**2012**	2011
Asset impairments[(a)]	**$**	$	**$**	$ 55.0
Advisory fees	**1.8**		**2.8**	
IT costs	**1.3**		**1.9**	
Employee retention and other compensation costs	**0.1**	2.8	**1.1**	3.7
Other costs	**1.2**	1.9	**3.5**	5.7
Transformation costs	**$ 4.4**	$ 4.7	**$ 9.3**	$ 64.4

(a) Includes $55 non-cash impairment charge related to a decision to discontinue development of an information technology consolidation initiative.

The Company expects to incur transformation costs of approximately $4.0, net of tax, during the remainder of 2012. The Company anticipates after-tax cash outflows during the remainder of 2012 and 2013 of approximately $10.0 and $3.0, respectively.

The Company expects to incur costs of approximately $15.0, net of tax, during the remainder of 2012 and a total of approximately $15.0, net of tax, during 2013 and 2014 to complete the repositioning of the post-Transformation organization. Cash outflows for these repositioning actions are expected to be approximately $10.0, net of tax, during the remainder of 2012 and approximately $25.0, net of tax, thereafter. The repositioning costs and cash outflows primarily consist of advisory fees, costs to exit transition services agreements, IT infrastructure modifications, and other actions.

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OPERATING INCOME

Operating income for the three and six months ended June 30, 2012 was $57.7 and $94.2, respectively, as compared to $46.6 and $36.9 for the same prior year periods. The increase in operating income and operating margin for both 2012 periods is primarily due to reductions in various Corporate & Other items, which are further discussed below. The following table illustrates the 2012 and 2011 operating income results of our segments, including operating margin results.

	Three Months			Six Months		
For the Periods Ended June 30	**2012**	2011	Change	**2012**	2011	Change
Industrial Process	**$ 27.7**	$ 29.2	(5.1)%	**$ 49.5**	$ 50.2	(1.4)%
Motion Technologies	**20.2**	21.7	(6.9)%	**47.5**	49.4	(3.8)%
Interconnect Solutions	**5.5**	15.3	(64.1)%	**7.4**	26.6	(72.2)%
Control Technologies	**14.5**	15.4	(5.8)%	**27.5**	28.8	(4.5)%
Segment operating income	**67.9**	81.6	(16.8)%	**131.9**	155.0	(14.9)%
Asbestos-related costs, net	**(9.7)**	(15.6)	(37.8)%	**(22.3)**	(31.5)	(29.2)%
Transformation costs[a]	**(3.4)**	(4.7)	(27.7)%	**(7.1)**	(64.4)	(89.0)%
Other corporate costs	**2.9**	(14.7)	(119.7)%	**(8.3)**	(22.2)	(62.6)%
Total operating income	**$ 57.7**	$ 46.6	23.8%	**$ 94.2**	$ 36.9	155.3%
Operating margin:						
Consolidated	**10.2%**	8.4%	180bp	**8.2%**	3.4%	480bp
Segment operating margin	**12.0%**	14.7%	(270)bp	**11.5%**	14.3%	(280)bp
Industrial Process	**11.9%**	14.6%	(270)bp	**10.8%**	13.6%	(280)bp
Motion Technologies	**13.0%**	13.2%	(20)bp	**14.2%**	14.2%	
Interconnect Solutions	**5.5%**	14.1%	(860)bp	**3.8%**	12.3%	(850)bp
Control Technologies	**17.9%**	18.5%	(60)bp	**17.2%**	17.8%	(60)bp

[a] Excludes transformation costs of $1.0 and $2.2 reflected within the total segment operating income results for the three and six months ended June 30, 2012, respectively.

Industrial Process

Industrial Process operating income for the quarter declined $1.5 or 5.1%, resulting in a 270 basis point decline in operating margin. While sales volume increased and we realized net cost reductions from sourcing and VBLSS initiatives, the benefits were more than offset by project pricing resulting in a net operating income benefit of $3.8 that translated into a 40 basis point decline to operating margin. In addition, the year-over-year operating income comparison for the second quarter of 2012 was unfavorably impacted by $2.5 from lost leverage resulting from the Distribution related to higher standalone facility and infrastructure costs (110 basis point decline) and $1.0 of transformation costs (50 basis point decline) as well as an additional $1.2 of strategic investment related costs (50 basis point decline).

Industrial Process operating income for the six months ended June 30, 2012 declined $0.7 or 1.4%, resulting in a 280 basis point decline in operating margin. While sales volume increased and we realized net cost reductions from sourcing and VBLSS initiatives, these were more than offset by project pricing and sales mix resulting in a net operating income benefit of $8.0 that translated into a 30 basis point decline to operating margin. In addition, the year-over-year operating income comparison for the second quarter of 2012 was unfavorably impacted by $4.4 from lost leverage resulting from the Distribution related to higher standalone facility and infrastructure costs (110 basis point decline) and $1.6 of transformation costs (40 basis point decline) as well as an additional $2.8 of strategic investment related costs (80 basis point decline).

Motion Technologies

Motion Technologies operating income for the quarter declined $1.5 or 6.9%, resulting in a 20 basis point decline in operating margin. The decline in operating income and margin was primarily due to foreign currency effects, primarily related to the

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Euro that unfavorably impacted operating income by $1.6 but provided a 50 basis point improvement to operating margin. In addition, operating income was negatively impacted by $1.1 from a change in sales mix shift between OEMs and aftermarket as well as competitive pricing actions (70 basis point decline) which were offset by a $2.1 benefit from higher sales volume (70 basis points improvement). Operating income was also unfavorably impacted by $1.6 from expenses incurred in the development of a new production and research facility in Wuxi, China (100 basis point decline), and $1.0 from additional warranty expense (60 basis point decline). These items were partially offset by net savings from productivity, sourcing and VBLSS initiatives.

Motion Technologies operating income for the six months ended June 30, 2012 declined $1.9 or 3.8%, with no associated change in operating margin. This decline was primarily due to foreign currency effects, primarily related to the Euro that unfavorably impacted operating income by $3.5 but provided a 10 basis point improvement to operating margin. In addition, operating income benefited by $1.9 from higher sales volume (10 basis points improvement), however this benefit was reduced by $1.6 associated with competitive pricing actions (40 basis point decline). Operating income was also unfavorably impacted by $2.6 from expenses incurred on the development of a new production and research facility in Wuxi, China (90 basis point decline), and $1.5 from additional warranty expense (40 basis point decline). These items were partially offset by net savings from productivity, sourcing and VBLSS initiatives.

Interconnect Solutions

Interconnect Solutions operating income for the quarter declined $9.8 or 64.1%, resulting in an 860 basis point decline in operating margin. The decline in operating income was due to lower sales volumes which negatively impacted operating income by $2.7 (180 basis point decline), an unfavorable change in product mix primarily due to lower sales of our Universal Connector product line that impacted operating income by $2.3 (220 basis point decline), a prior year gain of $3.6 on the June 2011 sale of a product line (380 basis point decline) and a prior year warranty accrual reversal of $1.2 associated with a cable cord product line (110 basis point decline) during the second quarter of 2011. The impact from these items was partially offset by net savings from productivity, sourcing and VBLSS initiatives.

Interconnect Solutions operating income for the six months ended June 30, 2012 declined $19.2 or 72.2%, resulting in an 850 basis point decline in operating margin. The decline in operating income was due to lower sales volumes which negatively impacted operating income by $9.4 (370 basis point decline), an unfavorable change in product mix primarily due to lower sales of our Universal Connector product line that impacted operating income by $3.5 (170 basis point decline) and a prior year gain of $3.6 on the June 2011 sale of a product line (220 basis point decline). The impact from these items was partially offset by net savings from productivity and VBLSS initiatives.

Control Technologies

Control Technologies operating income for the quarter declined $0.9 or 5.8%, resulting in a 60 basis point decline in operating margin. The year-over-year operating income comparison was negatively impacted by $1.5 of additional recurring costs following the Distribution (180 basis point decline), lower sales volume of $1.1 (60 basis point decline) and unfavorable foreign currency effects of $0.5 (60 basis point decline). The impact of these items was partially offset by benefits from changes in product mix and pricing of $1.5 (160 basis point improvement) as well as net savings from productivity, sourcing and VBLSS initiatives.

Control Technologies operating income for the six months ended June 30, 2012 declined $1.3 or 4.5%, resulting in a 60 basis point decline in operating margin. The year-over-year operating income comparison was negatively impacted by $3.0 of additional recurring costs following the Distribution (190 basis point decline), lower sales volume of $1.4 (40 basis point decline), an increase in investment spending of $1.3 (60 basis point decline) and unfavorable foreign currency effects of $0.5 (40 basis point decline). The impact of these items was partially offset by benefits from changes in product mix and pricing of $1.4 (70 basis point improvement) as well as net savings from productivity, sourcing and VBLSS initiatives.

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Other Corporate Costs

Other corporate costs declined $17.6, resulting in a benefit to operating income of $2.9 during the second quarter of 2012, and declined $13.9 for the six months ended June 30, 2012 primarily due to the recognition of an insurance-related asset on environmental exposures during the second quarter of 2012 as well as higher prior year expenses associated with certain legal entity reorganizations.

INTEREST AND NON-OPERATING EXPENSES, NET

	Three Months			Six Months		
For the Periods Ended June 30	**2012**	2011	Change	**2012**	2011	Change
Interest expense	**$ 2.5**	$ 22.0	(88.6)%	**$ 4.6**	$ 47.1	(90.2)%
Interest income	**(0.4)**	(0.9)	(55.6)%	**(1.6)**	(1.9)	(15.8)%
Miscellaneous (income) expense, net	**1.3**	(2.9)	(144.8)%	**2.0**	(1.6)	(225.0)%
Total interest and non-operating expenses, net	**$ 3.4**	$ 18.2	(81.3)%	**$ 5.0**	$ 43.6	(88.5)%

Interest expense decreased by $19.5 and $42.5 during the three and six months ended June 30, 2012, due to the extinguishment of $1.25 billion of long-term debt during the fourth quarter of 2011 which resulted in lower interest costs during 2012.

INCOME TAX EXPENSE

For the three months ended June 30, 2012, the Company recognized income tax expense of $37.6 representing an effective tax rate of 69.2% as compared to an income tax expense of $9.7, an effective tax rate of 34.2%, for the three months ended June 30, 2011. For the six months ended June 30, 2012, the Company recognized income tax expense of $62.3 representing an effective tax rate of 69.8% as compared to an income tax benefit of $3.9, an effective tax rate of 58.2%, for the six months ended June 30, 2011. The higher tax rate recorded in 2012 was mainly due to the recognition of a valuation allowance against deferred tax assets. We recorded a valuation allowance related to current U.S. deferred tax assets in the first and second quarters of 2012 primarily because of a determination that it is more likely than not that the current year temporary differences expected to reverse in future years will not be realized as the Company does not expect to be able to carry back such amounts to prior years.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX

On October 31, 2011, the Company completed the Distribution of Exelis and Xylem. As a result, the operating results of Exelis and Xylem through the date of the Distribution have been classified in the consolidated financial statements as discontinued operations for all periods presented. The tables included below provide the operating results of discontinued operations through the date of disposal or distribution.

Three Months Ended June 30, 2011	Exelis	Xylem	Other[a]	Total
Revenue	$ 1,484.7	$ 970.8	$	$ 2,455.5
Transformation costs	8.8	17.6	31.7	58.1
Earnings (loss) before income taxes	122.7	125.6	(32.8)	215.5
Income tax expense (benefit)	45.1	26.7	(7.3)	64.5
Income (loss) from discontinued operations	77.6	98.9	(25.5)	151.0

Six Months Ended June 30, 2011	Exelis	Xylem	Other[a]	Total
Revenue	$ 2,832.1	$ 1,861.1	$	$ 4,693.2
Transformation costs	12.4	20.9	48.9	82.2
Earnings (loss) before income taxes	256.6	221.8	(53.0)	425.4
Income tax expense (benefit)	89.7	56.8	(14.9)	131.6
Income (loss) from discontinued operations	166.9	164.9	(38.0)	293.8

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[a] Amounts presented in the Other column in the tables above relate to various divested ITT businesses accounted for as discontinued operations in the year of divestiture for which legacy liabilities remain, as well as certain transformation costs which were directly related to the Distribution that provide no future benefit to the Company. See Note 3, Company Transformation for further information.

Income (loss) from discontinued operations was $0.1 and $(6.9) for the three and six month periods ended June 30, 2012, respectively. These results include costs incurred in connection with the Distribution that qualified for classification within discontinued operations and net asbestos-related expenses related to a business we disposed of a number of years ago.

LIQUIDITY

Funding and Liquidity Strategy

Our funding needs are monitored and strategies are executed to meet overall liquidity requirements, including the management of our capital structure on both a short- and long-term basis. Historically, we have generated operating cash flow sufficient to fund our working capital, dividends, capital expenditures and financing requirements. Subsequent to the Distribution, while our ability to generate cash flows is more limited, we expect to fund our ongoing working capital, dividends, capital expenditures and financing requirements through cash flows from operations and cash on hand, and as needed or when advantageous to do so, accessing the commercial paper market or utilizing our borrowing capacity under the 2011 Revolving Credit Agreement (see Credit Facility section below). If our access to the commercial paper market were adversely affected, we believe that alternative sources of liquidity, including our 2011 Revolving Credit Agreement would be sufficient to meet our short-term funding requirements.

We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct business and the cost effectiveness with which those funds can be accessed. We continue to look for opportunities to access cash balances in excess of local operating requirements to meet global liquidity needs in a cost-efficient manner. We have and may continue to transfer cash from certain international subsidiaries to the United States and other international subsidiaries when it is cost effective to do so. Our intent is generally to indefinitely reinvest these funds outside of the United States; however, in connection with the Distribution we reviewed our domestic and foreign cash profile, expected future cash generation and investment opportunities and determined that certain previously undistributed foreign earnings would no longer be considered indefinitely reinvested outside the United States. Such undistributed foreign earnings have not been remitted to the United States and the timing of such remittance, if any, is currently under evaluation.

The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors and will be based on, and affected by, a number of factors, including our financial position and results of operations, available cash, expected capital spending plans, prevailing business conditions, and other factors the Board deems relevant. Therefore, there can be no assurance as to what level of dividends, if any, will be paid in the future. In the second quarter of 2012, we declared a dividend of $0.091 per share for shareholders of record on May 25, 2012.

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

We access the commercial paper market to supplement the cash flows generated internally or to provide additional short-term funding for strategic investments and other funding requirements. We manage our short-term liquidity through the use of our commercial paper program by adjusting the level of commercial paper borrowings as opportunities to deploy additional capital arise, it is cost effective to do so, and a sufficient return on investment can be generated. There have been no material changes that have impacted our funding and liquidity capabilities since December 31, 2011.

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Credit Facilities

Effective October 31, 2011, we replaced a three-year revolving $1.5 billion credit agreement (August 2010 Credit Facility) with a new four-year revolving $500 credit agreement (the 2011 Revolving Credit Agreement). The 2011 Revolving Credit Agreement is intended to provide access to additional liquidity and be a source of funding for the commercial paper program, if needed. Our policy is to maintain unused committed bank lines of credit in an amount greater than outstanding commercial paper balances. The interest rate for borrowings under the 2011 Revolving Credit Agreement is generally based on the London Interbank Offered Rate (LIBOR), plus a spread, which reflects our debt rating. The provisions of the 2011 Revolving Credit Agreement require that we maintain an interest coverage ratio, as defined, of at least 3.0 times and a leverage ratio, as defined, of not more than 3.0 times. At June 30, 2012, we had no amounts outstanding under the 2011 Revolving Credit Agreement and our interest coverage ratio and leverage ratio were well within the prescribed thresholds.

Asbestos

Based on the estimated undiscounted asbestos liability as of June 30, 2012 (for claims filed or estimated to be filed through June of 2022), we have estimated that we will be able to recover 57% of the asbestos indemnity and defense costs for pending claims as well as unasserted claims estimated to be filed over the next 10 years from our insurers or other responsible parties. However, there is uncertainty in estimating when cash payments related to the recorded asbestos liability will be fully expended and such cash payments will continue for a number of years past 2022 due to the significant proportion of future claims included in the estimated asbestos liability and the lag time between the date a claim is filed and when it is resolved. In addition, because there are gaps in our insurance coverage, reflecting uninsured periods, the insolvency of certain insurers and prior insurance settlements, and our expectation that certain policies from some of our primary insurers will exhaust within the next 10 years, actual insurance reimbursements vary from period to period and the anticipated recovery rate is expected to decline over time. Future recoverability rates may be impacted by other factors, such as future insurance settlements, unforeseen insolvencies and judicial determinations relevant to our coverage program, which are difficult to predict and subject to a high degree of uncertainty.

Subject to these inherent uncertainties, it is expected that future annual cash payments, net of recoveries related to pending asbestos claims and unasserted claims estimated to be filed within the next 10 years, will extend through approximately 2026 due to the length of time between the filing of a claim and its resolution. Certain of our primary coverage-in-place agreements are expected to exhaust in the next twelve months, which will result in higher net cash outflows for the short-term. These annual net cash outflows are projected to average $10 to $20, net of tax benefits over the next five years, as compared to an average of approximately $6, net of tax benefits in the past three years, and increase to an average of approximately $35 to $45, net of tax benefits over the remainder of the projection period. Recovery rates for the tenth year of our model are currently projected to be approximately 29% of cash spent on indemnity and defense costs.

In light of the uncertainties and variables inherent in the long-term projection of the Company s asbestos exposures and potential recoveries, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years, we do not believe there is a reasonable basis for estimating the number of future claims, the nature of future claims, or the cost to resolve future claims for years beyond the next 10 years at this time. Accordingly, no liability or related asset has been recorded for any costs which may be incurred for claims asserted subsequent to 2022.

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

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Sources and Uses of Liquidity

Our principal source of liquidity is our cash flow generated from operating activities, which provides us with the ability to meet the majority of our short-term funding requirements. The following table summarizes net cash derived from operating, investing, and financing activities, as well as net cash derived from discontinued operations, for the six months ended June 30, 2012 and 2011.

For the Six Months Ended June 30	**2012**	2011
Operating Activities	**$ 103.1**	$ (169.2)
Investing Activities	**(28.7)**	(33.1)
Financing Activities	**(15.4)**	180.3
Foreign Exchange	**(10.3)**	3.0
Total net cash flow from continuing operations	**$ 48.7**	$ (19.0)
Net cash from discontinued operations	**0.5**	146.5
Net change in cash and cash equivalents	**$ 49.2**	$ 127.5

Net cash provided by operating activities was $103.1 for the six months ended June 30, 2012, representing an increase of $272.3 from the comparable prior year period. The increase in operating cash flow was primarily attributable to net income tax refunds of $89.5 during the six months of 2012 as compared to net income tax payments of $152.7 during the comparable 2011 period, resulting in a year-over-year change of $242.2. Additional year-over-year cash flow sources and uses include: a) a decline in cash paid for transformation-related costs of $17.1, b) an increase in cash contributions to pension plans of $28.8 as discussed further below, c) favorable inventory comparison of $18.2 due to targeted inventory reductions at Control Technologies and Motion Technologies, d) favorable accounts receivable comparison of $18.3 primarily due to the 2012 collection of a significant prior year project-related receivable, e) an unfavorable accounts payable and accrued expense comparison of $49.2 primarily due to lower inventory-related and transformation-related payables, and f) a favorable change of $73.5 due to fluctuations in other assets and other liability balances.

Net cash used in investing activities decreased by $4.4 in the six months ended June 30, 2012 as compared to 2011 due to lower capital expenditures, partially offset by proceeds of $4.6 from the 2011 sale of an Interconnect Solutions product line.

Net cash used in financing activities in the six months ended June 30, 2012 increased by $195.7. This fluctuation reflects a $215.4 source of cash during the first six months of 2011 from the net effect of the global cash pooling in which Exelis and Xylem participated prior to the Distribution, increased 2012 spending of $71.4 for repurchases of common stock and lower net commercial paper borrowings of $26.2. These cash flow items were partially offset by lower aggregate dividend payments of $121.1 due to the Distribution of Exelis and Xylem as well as the occurrence of two dividend payments in the first quarter of 2011.

Cash used for share repurchases of $76.8 during the first six months of 2012 ($38.2 for the second quarter of 2012) are intended to offset actual and forecasted dilution in 2012 associated with the exercise of employee stock options and other stock-based compensation actions. Any future repurchase activity will be based on a number of factors, including changes to dilution forecasts and ongoing market conditions.

We expect to receive U.S. federal income tax refunds over the remainder of 2012 aggregating approximately $109.2 for contributions to the U.S. Salaried Retirement Plan which was distributed to Exelis at the Distribution Date, net operating losses and research and development tax credits generated during 2011. In addition, we expect to receive a $24.9 U.S. federal income tax refund in early 2013 for the carryback of foreign tax credits to prior years. Pursuant to the Tax Matters Agreement, $85.3 of the $134.1 aggregate expected refund is owed to Exelis. On July 6, 2012, the Surface Transportation Extension Act, which is also referred to as the Moving Ahead for Progress in the 21st Century Act (MAP-21), was signed into law by President Obama. MAP-21, in part, modified certain elections related to the timing of tax deductions associated with pension plan contributions. The Company and Exelis are evaluating the effect of MAP-21 on the income tax receivables and payables associated with the post-Distribution contributions to the U.S. Salaried Retirement Plan.

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Funding of Postretirement Plans

During the six months ended June 30, 2012, we contributed $32.8 to our U.S. pension plans, including first quarter 2012 contributions of $32.2, of which $14.9 was considered to be discretionary. MAP-21, in part, provides temporary relief for employers who sponsor defined benefit pension plans related to minimum funding contributions by spreading the required funding for U.S. pension plans over a longer period of time. We have not yet estimated the effect of MAP-21 on our projected pension contributions as the rules to apply the new law are not yet available; however, future minimum funding requirements are expected to be lower than previously estimated. Additionally, as a result of MAP-21, we expect that a greater portion of our first quarter 2012 contribution will be considered discretionary. We do not expect to make additional contributions to our U.S. qualified pension plans during the remainder of 2012 as the required 2012 contributions were accelerated to the first quarter of 2012. We do expect to contribute $0.5 to our U.S. non-qualified pension plans for the remainder of 2012.

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

Future statutory minimum contributions will depend primarily on the return on assets and discount rate, both determined using AFTAP guidelines. Depending on these factors, and the resulting funded status of our U.S. pension plans, the level of future statutory minimum contributions could be material.

CRITICAL ACCOUNTING ESTIMATES

The preparation of ITT s financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. ITT believes the most complex and sensitive judgments, because of their significance to the Consolidated Condensed Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management s Discussion and Analysis in the 2011 Annual Report describes the critical accounting estimates that are used in preparation of the Consolidated Condensed Financial Statements. Actual results in these areas could differ from management s estimates. There have been no significant changes concerning ITT s critical accounting estimates as described in our 2011 Annual Report.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Consolidated Condensed Financial Statements for information on recent accounting pronouncements.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Some of the information included herein includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995 (the Act). These forward-looking statements include statements that describe our business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance. Whenever used, words such as anticipate, estimate, expect, project, intend, plan, believe, target and other terms of similar meaning are intended to identify forward-looking statements. Forward-looking statements are uncertain and to some extent unpredictable, and involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in, or implied from, such forward-looking statements. Factors that could cause results to differ materially from those anticipated include:

n Uncertainties with respect to our estimation of asbestos liability exposures, third party recoveries and net cash flows;
n Economic, political and social conditions in the countries in which we conduct our businesses;
n Changes in U.S. or International sales and operations;
n Contingencies related to actual or alleged environmental contamination, claims and concerns and related recoveries from insurers;
n Decline in consumer spending;
n Revenue mix and pricing levels;
n Availability of adequate labor, commodities, supplies and raw materials;
n Foreign currency exchange rate fluctuations;
n Changes in government regulations and compliance therewith;
n Competition, industry capacity and production rates;
n Declines in orders or sales as a result of industry or geographic downturns;
n Ability of third parties, including our commercial partners, counterparties, financial institutions and insurers, to comply with their commitments to us;
n Our ability to borrow and availability of liquidity sufficient to meet our needs;
n Changes in the recoverability of goodwill or intangible assets;
n Our ability to achieve stated synergies or cost savings from acquisitions or divestitures;
n The number of personal injury claims filed against the Company or the degree of liability;
n Our ability to effect restructuring and cost reduction programs and realize savings from such actions;
n Changes in our effective tax rate as a result in changes in the geographic earnings mix, valuation allowances, tax examinations or disputes, tax authority rulings or changes in applicable tax laws;
n Changes in technology;
n Intellectual property matters;
n Potential future postretirement benefit plan contributions and other employment and pension matters;
n Susceptibility to market fluctuations and costs as a result of becoming a smaller, more focused company after the Distribution; and
n Changes in generally accepted accounting principles.

We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A. Risk Factors, for further discussion pertaining to known and unknown risk affecting the Company.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the information concerning market risk as stated in our 2011 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures are effective.

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to personal injury claims, environmental exposures, intellectual property matters, commercial or contractual disputes, sometimes related to acquisitions or divestitures, and employment and pension matters. We will continue to defend vigorously against all claims. See information provided below and Note 16 to the Consolidated Condensed Financial Statements for further information.

Asbestos Proceedings

ITT, including its subsidiary Goulds Pumps, Inc., has been joined as a defendant with numerous other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims allege that certain of our products sold prior to 1985 contained a part manufactured by a third party (e.g., a gasket) which contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. In certain other cases, it is alleged that former ITT companies were distributors for other manufacturers products that may have contained asbestos. Frequently, the plaintiffs are unable to identify any ITT or Goulds Pump product as a source of asbestos exposure. In addition, in a large majority of the claims against the Company, the plaintiffs are unable to demonstrate any injury. Many of those claims have been placed on inactive dockets. Our experience to date is that a substantial portion of resolved claims have been dismissed without payment by the Company.

We record a liability for pending asbestos claims and asbestos claims estimated to be filed over the next 10 years. While it is probable that we will incur additional costs for future claims to be filed against the Company, a liability for potential future claims beyond the next ten years is not reasonably estimable due to a number of factors. As of June 30, 2012, we have recorded an undiscounted asbestos-related liability for pending claims and unasserted claims estimated to be filed over the next 10 years of $1,662.2, including expected legal fees, and an associated asset of $941.8, which represents estimated recoveries from insurers and other responsible parties, resulting in a net asbestos exposure of $720.4.

Other Matters

On December 20, 2011, the Ad Hoc Committee of ITT Bondholders filed a Complaint in New York State court alleging that ITT breached the early redemption provisions of certain bonds issued in 2009. In 2009, ITT issued $500 in bonds maturing in 2019 at an interest rate of 6.125%. The documents governing the bonds contained certain provisions governing early redemptions. On September 20, 2011, ITT notified the holders of the debt that it intended to redeem the bonds on October 20, 2011 in accordance with the terms of the governing documents. On October 18, 2011, the redemption price was disclosed. This matter was resolved in July 2012 for an immaterial amount.

ITEM 1A. RISK FACTORS

There has been no material change in the information concerning risk factors as disclosed in our 2011 Annual Report.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(IN MILLIONS) 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(2)	MAXIMUM DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS(2)
4/1/12 4/30/12	1.1	$ 22.32	1.1	$ 495.6
5/1/12 5/31/12				$ 495.6
6/1/12 6/30/12				$ 495.6

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

(2) On October 27, 2006, a three-year $1 billion share repurchase program (2006 Share Repurchase Program) was approved by our Board of Directors. On December 16, 2008, the provisions of the share repurchase program were modified by our Board of Directors to replace the original three-year term with an indefinite term. As of June 30, 2012, we had repurchased 6.8 million shares for $504.4, including commissions, under the 2006 Share Repurchase Program. The program is consistent with our capital allocation process, which has centered on those investments necessary to grow our businesses organically and through acquisitions, while also providing cash returns to shareholders. Our strategy for cash flow utilization is to invest in our business, execute strategic acquisitions, pay dividends and repurchase common stock.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

The following is provided as an update to the ITT 2011 Annual Report, Item 1. Description of Business, Employees section:

On July 28, 2012, our contract with the United Steelworkers at our Seneca Falls, NY location was extended five years, to July 28, 2017.

Item 6. EXHIBITS

(a) See the Exhibit Index for a list of exhibits filed herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ITT Corporation

(Registrant)

By: /s/ JANICE M. KLETTNER
Janice M. Klettner
Vice President and Chief Accounting Officer
(Principal accounting officer)

August 3, 2012

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(31.1)	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
(31.2)	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
(32.1)	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
(32.2)	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601(b) (32) (ii) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference.
(101)	The following materials from ITT Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Income Statements, (ii) Consolidated Condensed Statements of Comprehensive Income, (iii) Consolidated Condensed Balance Sheets, (iv) Consolidated Condensed Statements of Cash Flows and (v) Notes to Consolidated Condensed Financial Statements	Submitted electronically with this report.