

ITT Inc.
Form 10-Q
May 04, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 001-05672

ITT INC.

State of Indiana 81-1197930

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

1133 Westchester Avenue, White Plains, NY 10604

(Principal Executive Office)

Telephone Number: (914) 641-2000

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 2, 2018, there were 87.4 million shares of common stock (\$1 par value per share) of the registrant outstanding.

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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. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our business, future financial results and the industry in which we operate, and other legal, regulatory and economic developments. These forward-looking statements include, but are not limited to, future strategic plans and other statements that describe the company's business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future events and future operating or financial performance.

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

Where in any forward-looking statement we express an expectation or belief as to future results or events, such expectation or belief is based on current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will occur or that anticipated results will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included in our reports filed with the U.S. Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the year ended December 31, 2017 (particularly under the caption "Risk Factors"), our Quarterly Reports on Form 10-Q (including Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q) and in other documents we file from time to time with the SEC. The forward-looking statements included in this Quarterly Report on Form 10-Q (this Report) speak only as of the date of this Report. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can inspect, read and copy these reports, proxy statements and other information at the SEC's Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov where you may access our reports, proxy statements and other information that we file with, or furnish to, the SEC.

We make available free of charge at www.itt.com (in the "Investors" section) copies of materials we file with, or furnish to, the SEC. We also use the Investor Relations page of our website at www.itt.com (in the "Investors" section) to disclose important information to the public.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

For the Three Months Ended March 31

	2018	2017
Revenue	\$689.3	\$625.8
Costs of revenue	465.1	422.7
Gross profit	224.2	203.1
General and administrative expenses	65.1	65.7
Sales and marketing expenses	43.5	43.1
Research and development expenses	24.7	22.4
Asbestos-related (benefit) costs, net	(19.7)	14.9
Operating income	110.6	57.0
Interest and non-operating expenses, net	1.8	2.2
Income from continuing operations before income tax expense	108.8	54.8
Income tax expense	7.6	9.1
Income from continuing operations	101.2	45.7
Income (loss) from discontinued operations, including tax (expense) benefit of \$(0.1) and \$0.1, respectively	0.1	(0.1)
Net income	101.3	45.6
Less: Income (loss) attributable to noncontrolling interests	0.1	(0.4)
Net income attributable to ITT Inc.	\$101.2	\$46.0
Amounts attributable to ITT Inc.:		
Income from continuing operations, net of tax	\$101.1	\$46.1
Income (loss) from discontinued operations, net of tax	0.1	(0.1)
Net income attributable to ITT Inc.	\$101.2	\$46.0
Earnings per share attributable to ITT Inc.:		
Basic:		
Continuing operations	\$1.15	\$0.52
Discontinued operations	—	—
Net income	\$1.15	\$0.52
Diluted:		
Continuing operations	\$1.14	\$0.52
Discontinued operations	—	—
Net income	\$1.14	\$0.52
Weighted average common shares – basic	88.0	88.5
Weighted average common shares – diluted	89.0	89.2
Cash dividends declared per common share	\$0.134	\$0.128

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

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

For the Three Months Ended March 31	2018	2017
Net income	\$101.3	\$45.6
Other comprehensive income:		
Net foreign currency translation adjustment	26.5	19.2
Net change in postretirement benefit plans, net of tax impacts of \$0.4 and \$0.5, respectively	1.1	1.1
Other comprehensive income	27.6	20.3
Comprehensive income	128.9	65.9
Less: Comprehensive income (loss) attributable to noncontrolling interests	0.1	(0.4)
Comprehensive income attributable to ITT Inc.	\$128.8	\$66.3
Disclosure of reclassification adjustments to postretirement benefit plans		
Reclassification adjustments (see Note 15):		
Amortization of prior service benefit, net of tax expense of \$(0.2) and \$(0.5), respectively	\$(0.9)	\$(0.7)
Amortization of net actuarial loss, net of tax benefits of \$0.6 and \$1.0, respectively	2.0	1.8
Net change in postretirement benefit plans, net of tax	\$1.1	\$1.1
The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of the above statements of comprehensive income.		

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

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$438.7	\$ 389.8
Receivables, net	581.4	629.6
Inventories, net	404.9	311.9
Other current assets	173.0	147.4
Total current assets	1,598.0	1,478.7
Plant, property and equipment, net	526.6	521.7
Goodwill	895.7	886.8
Other intangible assets, net	151.8	156.2
Asbestos-related assets	329.6	304.0
Deferred income taxes	167.0	149.9
Other non-current assets	202.8	202.9
Total non-current assets	2,273.5	2,221.5
Total assets	\$3,871.5	\$ 3,700.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans and current maturities of long-term debt	\$247.9	\$ 163.6
Accounts payable	367.0	351.4
Accrued liabilities	394.2	384.4
Total current liabilities	1,009.1	899.4
Asbestos-related liabilities	792.9	800.1
Postretirement benefits	227.6	227.3
Other non-current liabilities	181.4	175.6
Total non-current liabilities	1,201.9	1,203.0
Total liabilities	2,211.0	2,102.4
Shareholders' equity:		
Common stock:		
Authorized – 250.0 shares, \$1 par value per share		
Issued and outstanding – 87.4 shares and 88.2 shares, respectively	87.4	88.2
Retained earnings	1,891.8	1,856.1
Total accumulated other comprehensive loss	(320.6)	(348.2)
Total ITT Inc. shareholders' equity	1,658.6	1,596.1
Noncontrolling interests	1.9	1.7
Total shareholders' equity	1,660.5	1,597.8
Total liabilities and shareholders' equity	\$3,871.5	\$ 3,700.2

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

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

For the Three Months Ended March 31	2018	2017
Operating Activities		
Net income	\$101.3	\$45.6
Less: Income (loss) from discontinued operations	0.1	(0.1)
Less: Income (loss) attributable to noncontrolling interests	0.1	(0.4)
Income from continuing operations attributable to ITT Inc.	101.1	46.1
Adjustments to income from continuing operations:		
Depreciation and amortization	27.6	24.8
Equity-based compensation	4.5	3.7
Asbestos-related (benefit) costs, net	(19.7)	14.9
Asbestos-related payments, net	(12.8)	(13.0)
Changes in assets and liabilities:		
Change in receivables	(13.3)	(34.7)
Change in inventories	(20.7)	(1.6)
Change in accounts payable	10.4	2.5
Change in accrued expenses	(31.2)	(3.5)
Change in accrued and deferred income taxes	0.1	(4.6)
Other, net	(3.6)	(7.7)
Net Cash – Operating activities	42.4	26.9
Investing Activities		
Capital expenditures	(28.7)	(36.7)
Acquisitions, net of cash acquired	—	(113.7)
Other, net	0.5	0.3
Net Cash – Investing activities	(28.2)	(150.1)
Financing Activities		
Commercial paper, net repayments	(162.4)	(1.5)
Short-term revolving loans, borrowings	246.5	—
Long-term debt, issued	—	2.1
Long-term debt, repayments	(1.5)	(0.3)
Repurchase of common stock	(55.3)	(2.3)
Proceeds from issuance of common stock	0.6	5.9
Dividends paid	(0.2)	(0.2)
Net Cash – Financing activities	27.7	3.7
Exchange rate effects on cash and cash equivalents	8.2	7.9
Net Cash – Operating activities of discontinued operations	(1.2)	(0.8)
Net change in cash and cash equivalents	48.9	(112.4)
Cash and cash equivalents – beginning of year (includes restricted cash of \$1.2 and \$1.2, respectively)	391.0	461.9
Cash and cash equivalents – end of period (includes restricted cash of \$1.2 and \$1.0, respectively)	\$439.9	\$349.5
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	\$1.0	\$1.0
Income taxes, net of refunds received	\$7.0	\$13.2

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

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

For the Three Months Ended March 31	2018	2017
Common Stock		
Common stock, beginning balance	\$88.2	\$88.4
Activity from stock incentive plans	0.3	0.4
Share repurchases	(1.1)	(0.1)
Common stock, ending balance	87.4	88.7
Retained Earnings		
Retained earnings, beginning balance	1,856.1	1,789.2
Cumulative adjustment for accounting change (See Note 2)	(4.1)	0.5
Net income attributable to ITT Inc.	101.2	46.0
Dividends declared	(11.9)	(11.4)
Activity from stock incentive plans	4.7	10.5
Share repurchases	(54.2)	(2.2)
Retained earnings, ending balance	1,891.8	1,832.6
Accumulated Other Comprehensive Loss		
Postretirement benefit plans, beginning balance	(137.6)	(145.2)
Net change in postretirement benefit plans	1.1	1.1
Postretirement benefit plans, ending balance	(136.5)	(144.1)
Cumulative translation adjustment, beginning balance	(210.6)	(306.0)
Net cumulative translation adjustment	26.5	19.2
Cumulative translation adjustment, ending balance	(184.1)	(286.8)
Total accumulated other comprehensive loss	(320.6)	(430.9)
Noncontrolling interests		
Noncontrolling interests, beginning balance	1.7	2.0
Income (loss) attributable to noncontrolling interests	0.1	(0.4)
Other	0.1	—
Noncontrolling interests, ending balance	1.9	1.6
Total Shareholders' Equity		
Total shareholders' equity, beginning balance	1,597.8	1,428.4
Net change in common stock	(0.8)	0.3
Net change in retained earnings	35.7	43.4
Net change in accumulated other comprehensive loss	27.6	20.3
Net change in noncontrolling interests	0.2	(0.4)
Total shareholders' equity, ending balance	\$1,660.5	\$1,492.0

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

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

NOTE 1

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

Description of Business

ITT Inc. is a diversified manufacturer of highly engineered critical components and customized technology solutions for the transportation, industrial, and oil and gas markets. Unless the context otherwise indicates, references herein to “ITT,” “the Company,” and such words as “we,” “us,” and “our” include ITT Inc. and its subsidiaries. ITT operates through the following segments: Industrial Process, consisting of industrial pumping and complementary equipment; Motion Technologies, consisting of friction and shock and vibration equipment; and Connect & Control Technologies, consisting of electronic connectors, fluid handling, motion control and noise and energy absorption products. Financial information for our segments is presented in Note 3, Segment Information.

Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the SEC and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such SEC rules. We believe that the disclosures made are adequate to make the information presented not misleading. We consistently applied the accounting policies described in ITT’s Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Annual Report) in preparing these unaudited financial statements, other than those described below. These financial statements should be read in conjunction with the financial statements and notes thereto included in our 2017 Annual Report.

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

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

Certain prior year amounts have been reclassified or restated to conform to the current year presentation. For further information, refer to Note 2, Recent Accounting Pronouncements.

Update to Summary of Significant Accounting Policies

Revenue Recognition

Revenue is derived from the sale of products and services to customers. We recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

For product sales, we consider practical and contractual limitations in determining whether there is an alternative use for the product. For example, long-term design and build contracts are typically highly customized to a customer’s specifications. For contracts with no alternative use and an enforceable right to payment for work performed to date, including a reasonable profit if the contract were terminated at the customer’s convenience, we recognize revenue over time. All other product sales are recognized at a point in time.

For contracts recognized over time, we use the cost-to-total cost method or the units of delivery method, depending on the nature of the contract, including length of production time.

For contracts recognized at a point in time, we recognize revenue when control passes to the customer, which is generally based on shipping terms when title and risk and rewards pass to the customer. However, we also consider certain customer acceptance provisions as certain contracts with customers include installation, testing, certification or other acceptance provisions. In instances where contractual terms include a provision for customer acceptance, we consider whether we have previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria in assessing whether control has passed to the customer.

For service contracts, we recognize revenue as the services are rendered if the customer is benefiting from the service as it is performed, or upon completion of the service. Separately priced extended warranties are recognized as a separate performance obligation over the warranty period.

The transaction price in our contracts consists of fixed consideration and the impact of variable consideration including returns, rebates and allowances and penalties. Variable consideration is generally estimated using a probability-weighted approach based on historical experience, known trends and current factors including market conditions and status of negotiations.

When there is more than one performance obligation, the transaction price is allocated to the performance obligations based on the relative estimated standalone selling prices. If not sold separately, estimated standalone selling prices are determined considering various factors including market and pricing trends, geography, product customization and profit objectives. Revenue is recognized when the appropriate revenue recognition criteria for the individual performance obligations have been satisfied.

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

Shipping and handling activities are accounted for as activities to fulfill a promise to transfer a product to a customer. As such, shipping and handling activities are not evaluated as a separate performance qualification.

For most contracts, payment is due from the customer within 30 to 90 days after the product is delivered or the service has been performed. For design and build contracts, we generally collect progress payments from the customer throughout the term of the contract, resulting in contract assets or liabilities depending on the timing of the payments. Contract assets consist of unbilled amounts when revenue recognized exceeds customer billings. Contract liabilities consist of advance payments and billings in excess of revenue recognized.

Design and engineering costs for highly complex products to be sold under a long-term production-type contract are capitalized and amortized throughout the life of the related contract or anticipated contract. Other design and development costs are capitalized only if there is a contractual guarantee for reimbursement. Costs to obtain a contract (e.g., commissions) for contracts greater than one year are capitalized and amortized over the life of the related contract.

NOTE 2

RECENT ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all accounting standard updates (ASUs). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

Accounting Pronouncements Recently Adopted

In May 2014, the FASB issued ASU 2014-09 amending the existing accounting standards for revenue recognition. The new standard was effective for ITT as of January 1, 2018. Most revenue streams are recorded consistently under both the new standard and the previous standard. However, the timing of revenue recognition of certain design and build contracts in our Industrial Process segment, recognized using the percentage of completion method under the previous standard, is now dependent on certain terms within the contract and therefore will vary based on the new guidance. ITT adopted this guidance using a modified retrospective approach. As of the date of adoption, we have recognized approximately \$49 of revenue and \$5 of operating income on open contracts in our Industrial Process segment using the percentage of completion method that under the new guidance are recognized at a point in time, resulting in a cumulative adjustment to the opening balance in retained earnings of \$4, net of tax. The comparative information has not been restated and continues to be reported under the accounting guidance in effect in those periods. Additionally, the new guidance resulted in a change in balance sheet presentation. Certain progress payments, previously presented as a reduction of inventory, are now presented

within accrued liabilities. Unbilled receivables, previously presented within receivables, net, are now presented within other current or non-current assets.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet related to the adoption of ASU 2014-09 is as follows:

	Balance as of December 31, 2017	Cumulative Effect of Adjustments	Balance as of January 1, 2018
Assets:			
Receivables, net	\$ 629.6	\$ (71.9)	\$ 557.7
Inventories, net	311.9	66.3	378.2
Other current assets	147.4	43.2	190.6
Deferred income taxes	149.9	1.0	150.9
Liabilities:			
Accrued liabilities	384.4	43.7	428.1
Other non-current liabilities	175.6	(1.0)	174.6
Equity:			
Retained earnings	1,856.1	(4.1)	1,852.0

The impacts to our Consolidated Statements of Operation and Consolidated Balance Sheet had we not adopted ASU 2014-09 are as follows for the three months ended March 31, 2018:

	As Reported	Amounts under previous standard	Effect of Change
Statement of Operations			
Revenue	\$ 689.3	\$ 695.1	\$ 5.8
Costs of revenue	465.1	470.8	5.7
Net income	101.3	101.4	0.1
Balance Sheets			
Assets:			
Receivables, net	581.4	635.3	53.9
Inventories, net	404.9	338.4	(66.5)
Other current assets	173.0	147.2	(25.8)
Deferred income taxes	167.0	166.0	(1.0)
Liabilities:			
Accrued liabilities	394.2	349.5	(44.7)
Other non-current liabilities	181.4	182.4	1.0
Equity:			
Retained earnings	1,891.8	1,896.0	4.2

In March 2017, the FASB issued ASU 2017-07 which amends the Statement of Operations presentation for the components of net periodic benefit cost for entities that sponsor defined benefit pension and other postretirement plans. Under the ASU, entities are required to disaggregate the service cost component and present it with other current compensation costs for the related employees. All other components of net periodic benefit cost are no longer classified as an operating expense. In addition, only the service cost component will be eligible for capitalization on the balance sheet. The ASU requires a retrospective transition method to adopt the requirement to present service costs separately from the other components of net periodic benefit cost in the statements of operations, and a prospective transition method to adopt the requirement that prohibits capitalization of all components of net periodic benefit cost on the balance sheet except service costs. ITT adopted the ASU beginning in first quarter of 2018. Service costs eligible for capitalization on the balance sheet in 2018 are considered immaterial. As a result of the adoption, our Consolidated Statement of Operations for the three months ended March 31, 2017 was restated as follows:

For the three months ended March 31, 2017	Previously Reported	Effect of Change	Restated
Costs of revenue	\$ 423.5	\$(0.8)	\$422.7
General and administrative expenses	66.2	(0.5)	65.7
Research and development expenses	22.5	(0.1)	22.4
Operating income	55.6	1.4	57.0
Interest and non-operating expenses, net	0.8	1.4	2.2

In November 2016, the FASB issued ASU 2016-18 which requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending amounts on the of the Statement of Cash Flows. In addition, when cash and restricted cash are presented on separate lines on the Balance Sheet, an entity is required to reconcile the total cash, cash equivalents and restricted cash in the Statement of Cash Flows to the related line items in the Balance Sheet. The ASU requires a retrospective transition method and ITT adopted the ASU beginning in the first quarter of 2018.

In March 2016, the FASB issued ASU 2016-09 to simplify several aspects of the accounting standard for employee share-based payment transactions, including the classification of excess tax benefits and deficiencies and the accounting for employee forfeitures. ITT elected to adopt this guidance as of January 1, 2017 resulting in a cumulative-effect adjustment of \$1.0 to increase retained earnings. The increase to retained earnings was driven by previously unrecognized tax benefits due to net operating loss carryforwards of \$2.1, offset by a reduction in retained earnings of \$1.1, net of tax, due to a change in our accounting policy for the forfeiture of share-based compensation arrangements. For further information on our adoption of the new standard, refer to our 2017 Annual Report.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02 impacting the accounting for leases intending to increase transparency and comparability of organizations by requiring balance sheet presentation of leased assets and increased financial statement disclosure of leasing arrangements. The revised standard will require entities to recognize a liability for their lease obligations and a corresponding asset representing the right to use the underlying asset over the lease term. Lease obligations are to be measured at the present value of lease payments and accounted for using the effective interest method. The accounting for the leased asset will differ slightly depending on whether the agreement is deemed to be a financing or operating lease. For financing leases, the leased asset is depreciated on a straight-line basis and recorded separately from the interest expense in the statements of operations, resulting in higher expense in the earlier part of the lease term. For operating leases, the depreciation and interest expense components are combined, recognized evenly over the term of the lease, and presented as a reduction to operating income. The ASU requires that assets and liabilities be presented or disclosed separately and classified appropriately as current and noncurrent. The ASU further requires additional disclosure of certain qualitative and quantitative information related to lease agreements. The ASU is effective for the Company beginning in the first quarter 2019, at which time we expect to adopt the new standard. We are currently assessing our existing lease agreements and related financial disclosures to evaluate the impact of these amendments on our financial statements.

NOTE 3

SEGMENT INFORMATION

The Company's segments are reported on the same basis used by our chief operating decision maker, for evaluating performance and for allocating resources. Our three reportable segments are referred to as: Industrial Process, Motion Technologies, and Connect & Control Technologies.

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

Motion Technologies manufactures brake components and specialized sealing solutions, shock absorbers and damping technologies primarily for the global automotive, truck and trailer, public bus and rail transportation markets.

Connect & Control Technologies manufactures harsh-environment connector solutions and critical energy absorption and flow control components for the aerospace and defense, general industrial, medical, and oil and gas markets.

Corporate and Other consists of corporate office expenses including compensation, benefits, occupancy, depreciation and other administrative costs, as well as charges related to certain matters, such as asbestos and environmental liabilities, that are managed at a corporate level and are not included in segment results when evaluating performance or allocating resources. Assets of the segments exclude general corporate assets, which principally consist of cash, investments, asbestos-related receivables, deferred taxes, and certain property, plant and equipment.

For the Three Months Ended March 31	Revenue		Operating Income ^(a)		Operating Margin	
	2018	2017	2018	2017	2018	2017
Industrial Process	\$189.8	\$186.1	\$16.9	\$8.1	8.9 %	4.4 %
Motion Technologies	342.2	287.3	61.9	55.0	18.1 %	19.1 %
Connect & Control Technologies	157.9	153.3	23.0	16.7	14.6 %	10.9 %
Total segment results	689.9	626.7	101.8	79.8	14.8 %	12.8 %
Asbestos-related benefit (costs), net	—	—	19.7	(14.9)	—	—
Eliminations / Other corporate costs	(0.6)	(0.9)	(10.9)	(7.9)	—	—
Total Eliminations / Corporate and Other costs	(0.6)	(0.9)	8.8	(22.8)	—	—
Total	\$689.3	\$625.8	\$110.6	\$57.0	16.0 %	9.1 %

^(a) Operating income and operating margin for the three months ended March 31, 2017 has been restated to reflect the adoption of ASU 2017-07. Refer to Note 2, Recent Accounting Pronouncements for further information.

For the Three Months Ended March 31	Total Assets		Capital Expenditures		Depreciation & Amortization	
	2018	2017 ^(b)	2018	2017	2018	2017
Industrial Process	\$1,056.0	\$1,025.7	\$1.0	\$9.9	\$6.9	\$6.8
Motion Technologies	1,218.9	1,140.4	25.0	22.3	14.3	10.7
Connect & Control Technologies	708.9	694.8	2.7	4.4	5.3	5.6
Corporate and Other	887.7	839.3	—	0.1	1.1	1.7
Total	\$3,871.5	\$3,700.2	\$28.7	\$36.7	\$27.6	\$24.8

^(b) Amounts reflect balances as of December 31, 2017.

NOTE 4
REVENUE

The following table represents our revenue disaggregated by product category for the three months ended March 31, 2018.

For the Three Months Ended March 31, 2018	Industrial Process	Motion Technologies	Connect & Control Technologies	Eliminations	Total
Industrial pumps	\$ 141.5	\$ —	\$ —	\$ —	\$ 141.5
Oil & gas pumps and components	48.3	—	9.0	—	57.3
Vehicle components	—	299.6	—	—	299.6
Aerospace & defense components	—	1.8	87.6	—	89.4
Rail components	—	39.0	—	—	39.0
Industrial components and other	—	1.8	61.3	(0.6)	62.5
Total	\$ 189.8	\$ 342.2	\$ 157.9	\$ (0.6)	\$ 689.3

Revenue recognized related to our Industrial Process segment primarily consists of pumps, valves and plant optimization systems and services which serve the general industrial, oil and gas, chemical and petrochemical, pharmaceutical, mining, pulp and paper, food and beverage, and power generation markets. Many of Industrial Process's products are highly engineered and customized to our customer needs and therefore do not have an alternative use. For these longer term design and build projects, if the contracts states that we also have an enforceable right to payment, we recognize revenue over time using the cost-to-total-cost method as we satisfy the performance obligations identified in the contract. If no right to payment exists, revenue is recognized at a point in time, generally based on shipping terms. A majority of our design and build project contracts currently do not have a right to payment. For other pumps that do have an alternative use to us, revenue is recognized at a point in time. Revenue on service and repair contracts, representing approximately 3% of consolidated ITT revenue, is recognized after services have been agreed to by the customer and rendered or over the service period.

Our Motion Technologies segment manufactures brake pads, shims, shock absorbers, and damping and sealing technologies primarily for the transportation industry. Our Connect & Control Technologies segment manufactures a range of highly engineered connectors and specialized control components for critical applications. In both of these segments, most products have an alternative use. Therefore, revenue is recognized at a point in time when control passes to the customer. In certain circumstances, we have concluded we do not have an alternative use for the component product. In these cases, due to the short-term nature of the production process we use a units-of-delivery method of revenue recognition which faithfully depicts the transfer of control to the customer.

Contract Assets and Liabilities

Contract assets consist of unbilled amounts under long term-term contracts where revenue recognized exceeds customer billings. Contract liabilities consist of advance payments and billings in excess of revenue recognized. The following table represents our net contract assets and liabilities as of March 31, 2018.

	March 31, 2018	January 1, 2018	Change
Current contract assets	\$ 25.8	\$ 43.2	(40.3)%
Noncurrent contract assets	0.7	—	100.0 %
Current contract liabilities	(57.5)	(61.7)	(6.8)%
Net contract liabilities	\$(31.0)	\$(18.5)	67.6 %

During the first quarter of 2018, the increase in our net contract liability of \$12.5, or 67.6%, was primarily due to higher customer billings. In the first quarter of 2018, we recognized revenue of \$30.9 related to contract liabilities at January 1, 2018.

For contracts greater than one year, the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of March 31, 2018 was \$39.6. Of this amount, we expect to recognize approximately \$20 to \$25 of revenue during 2018, and the remainder in 2019.

As of March 31, 2018, deferred contract costs were \$7.3, primarily related to pre-contract costs. During the three months ended March 31, 2018, we amortized \$0.2 of deferred contract costs.

NOTE 5

RESTRUCTURING ACTIONS

The table below summarizes the restructuring costs presented within general and administrative expenses in our Consolidated Condensed Statements of Operations for the three months ended March 31, 2018 and 2017. We have initiated various restructuring activities throughout our businesses during the past two years, however there were no restructuring activities considered to be individually significant.

For the Three Months Ended March 31	2018	2017
Severance costs	\$0.6	\$1.1
Other restructuring costs	0.3	1.5
Total restructuring costs	\$0.9	\$2.6
By segment:		
Industrial Process	\$0.1	\$1.3
Motion Technologies	0.4	0.2
Connect & Control Technologies	0.4	0.5
Corporate and Other	—	0.6

The following table displays a rollforward of the restructuring accruals, presented on our Consolidated Condensed Balance Sheet within accrued liabilities, for the three months ended March 31, 2018 and 2017.

For the Three Months Ended March 31	2018	2017
Restructuring accruals - beginning balance	\$8.9	\$14.6
Restructuring costs	0.9	2.6
Cash payments	(2.4)	(5.4)
Foreign exchange translation and other	1.2	1.0
Restructuring accrual - ending balance	\$8.6	\$12.8
By accrual type:		
Severance accrual	\$7.7	\$11.2
Facility carrying and other costs accrual	0.9	1.6

NOTE 6

INCOME TAXES

For the three months ended March 31, 2018 and 2017, the Company recognized income tax expense of \$7.6 and \$9.1 and had an effective tax rate of 7.0% and 16.6%, respectively. The lower effective tax rate in 2018 is primarily due to tax benefits of \$21.6 from the reversal of a valuation allowance on German deferred tax assets and \$4.5 from a reduction to the provisional one-time tax charge associated with the 2017 U.S. tax reform.

Our effective tax rate in 2018 includes the impact of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) that was approved by Congress on December 20, 2017 and signed into law by the U.S. President on December 22, 2017. The Tax Act significantly changes the U.S. corporate income tax rules most of which are effective January 1, 2018. On December 22, 2017 the SEC issued guidance under Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act and therefore records provisional amounts under the Tax Act. The ultimate impact of the Tax Act may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions a company has made, additional regulatory guidance that may be issued, and actions a company may take as a result of the Tax Act.

Quantifying the impact of the Tax Act is subject to guidance and regulations to be issued by the U.S. Treasury and possible changes to state tax laws. The Company is currently unable to compute with certainty the impact of the Tax Act on its financial statements. The Company has performed provisional computations of the impact of the Tax Act and has recorded the provisional amounts in its 2017 financial statements. The Company has updated some of these provisional computations to account for further guidance from the United States Treasury

Department. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date.

The Tax Act imposed a one-time tax on accumulated earnings of foreign subsidiaries as of December 31, 2017. In its 2017 financial statements, the Company recognized the provisional tax impacts resulting from the Tax Act. The Company has updated the provisional one-time tax amount to \$53.5 as compared to \$58.0 reported in December 31, 2017 financial statements.

The Company intends to distribute most earnings of its foreign subsidiaries to the U.S. in future years, and therefore is no longer asserting permanent reinvestment of these earnings outside the U.S. Further, the Company will provide for any U.S. state and foreign taxes on distributions of future earnings of its foreign subsidiaries as these earnings will not be considered permanently reinvested in the foreign countries.

The Company has performed provisional computations and has not provided deferred taxes on its remaining excess of financial reporting over tax bases of investments in its foreign subsidiaries that it intends to permanently reinvest outside the U.S. The Company anticipates that accumulated foreign earnings of \$1.2 billion and future earnings of its foreign subsidiaries that are considered not permanently reinvested will be sufficient to meet its U.S. cash needs. In the event additional foreign funds are needed to support U.S. operations, and if U.S. tax has not already been previously provided, we would be required to accrue and pay additional U.S. and foreign taxes.

The Tax Act limits the deductibility of compensation for certain senior officers. The Company has determined that certain deferred tax assets associated with officer compensation may not be deductible. The Company has therefore written off a provisional amount of \$2.8 of deferred tax assets relating to such compensation.

The Tax Act adopts a new rule “Global Intangible Low Taxed Income” (GILTI) that requires certain income of controlled foreign corporations to be subject to U.S. taxation. We are allowed under ASC 740 to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred or (2) factoring such amounts into the Company’s measurement of its deferred taxes. Because of the complexity of these rules, and anticipated guidance from U.S. Treasury we will continue to evaluate the impact on the Company’s financial statements. Therefore, we have not recorded any deferred taxes related to GILTI and have not made a policy decision regarding whether to record deferred taxes on GILTI.

The Company operates in various tax jurisdictions and is subject to examination by tax authorities in these jurisdictions. The Company is currently under examination in several jurisdictions including Canada, Germany, Hong Kong, Italy, Mexico, the U.S. and Venezuela. The estimated tax liability calculation for unrecognized tax benefits considers uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. Due to the complexity of some uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the unrecognized tax benefit. Over the next 12 months, the net amount of the tax liability for unrecognized tax benefits in foreign and domestic jurisdictions could change by approximately \$16 due to changes in audit status, expiration of statutes of limitations and other events. In addition, the settlement of any future examinations relating to the 2011 and prior tax years could result in changes in amounts attributable to the Company under its Tax Matters Agreement with Exelis Inc. and Xylem Inc. relating to the Company’s 2011 spin-off of those businesses.

NOTE 7

EARNINGS PER SHARE DATA

The following table provides a reconciliation of the data used in the calculation of basic and diluted earnings per share from continuing operations attributable to ITT for the three months ended March 31, 2018 and 2017.

For the Three Months Ended March 31	2018	2017
Basic weighted average common shares outstanding	88.0	88.5
Add: Dilutive impact of outstanding equity awards	1.0	0.7
Diluted weighted average common shares outstanding	89.0	89.2

There were no anti-dilutive shares underlying stock options excluded from the computation of diluted earnings per share for the three months ended March 31, 2018. During the three months ended March 31, 2017 there were 0.4 anti-dilutive shares underlying stock options excluded from the computation of diluted earnings per share with a weighted average exercise price per share of \$42.40. Anti-dilutive shares underlying stock options for the three months ended March 31, 2017 will expire between 2024 and 2025.

In addition, 0.2 of outstanding Performance stock units (PSU) awards were excluded from the computation of diluted earnings per share for the three months ended March 31, 2018 and 2017, as the necessary performance conditions had not yet been satisfied.

NOTE 8

RECEIVABLES, NET

	March 31, 2018	December 31, 2017
Trade accounts receivable	\$572.0	\$ 601.4
Notes receivable	4.4	3.9
Other	21.8	40.4
Receivables, gross	598.2	645.7
Less: Allowance for doubtful accounts	(16.8)	(16.1)
Receivables, net	\$581.4	\$ 629.6

NOTE 9

INVENTORIES, NET

	March 31, 2018	December 31, 2017
Finished goods	\$62.7	\$ 55.9
Work in process	88.9	54.8
Raw materials	212.4	184.4
Inventoried costs related to long-term contracts	40.9	38.1
Total inventory before progress payments	404.9	333.2
Less: Progress payments (see Note 2)	—	(21.3)
Inventories, net	\$404.9	\$ 311.9

NOTE 10

OTHER CURRENT AND NON-CURRENT ASSETS

	March 31, 2018	December 31, 2017
Asbestos-related assets	\$64.7	\$ 64.7
Advance payments and other prepaid expenses	56.7	50.9
Short-term contract asset (see Note 2)	25.8	—
Prepaid income taxes	24.4	30.3
Other	1.4	1.5
Other current assets	\$173.0	\$ 147.4
Other employee benefit-related assets	\$112.3	\$ 111.3
Capitalized software costs	39.4	41.9
Environmental-related assets	24.5	24.5
Equity method investments	7.4	6.7
Other	19.2	18.5
Other non-current assets	\$202.8	\$ 202.9

NOTE 11

PLANT, PROPERTY AND EQUIPMENT, NET

	March 31, 2018	December 31, 2017
Land and improvements	\$29.2	\$ 28.7
Machinery and equipment	1,062.3	1,039.9
Buildings and improvements	266.6	262.5
Furniture, fixtures and office equipment	75.1	74.5
Construction work in progress	66.1	58.4
Other	11.1	10.9
Plant, property and equipment, gross	1,510.4	1,474.9
Less: Accumulated depreciation	(983.8)	(953.2)
Plant, property and equipment, net	\$ 526.6	\$ 521.7

Depreciation expense of \$20.7 and \$18.3 was recognized in the three months ended March 31, 2018 and 2017, respectively.

During 2017, the Company entered into an agreement to sell excess property for a cash purchase price of approximately \$41. The purchaser's due diligence period has ended, however there are remaining conditions to closing which are anticipated to be finalized within three months from the date of this filing. At closing, the Company will receive the cash proceeds and is expected to record a gain of approximately \$38 to \$40.

NOTE 12

GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

The following table provides a rollforward of the carrying amount of goodwill for the three months ended March 31, 2018 by segment.

	Industrial Process	Motion Technologies	Connect & Control Technologies	Total
Goodwill - December 31, 2017	\$ 324.5	\$ 295.6	\$ 266.7	\$ 886.8
Adjustments to purchase price allocations	—	3.3	—	3.3
Foreign exchange translation	3.1	1.9	0.6	5.6
Goodwill - March 31, 2018	\$ 327.6	\$ 300.8	\$ 267.3	\$ 895.7

Goodwill adjustments to purchase price allocations are related to our acquisition of Axtone Railway Components (Axtone) in the first quarter of 2017. The acquired goodwill, representing the excess of the purchase price over the net assets acquired, has been adjusted to reflect the final fair value of the net assets acquired. Refer to Note 19, Acquisitions, for additional information.

Other Intangible Assets, Net

Information regarding our other intangible assets is as follows:

	March 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Customer relationships	\$ 166.6	\$ (77.8)	\$ 88.8	\$ 166.2	\$ (74.4)	\$ 91.8
Proprietary technology	54.8	(23.2)	31.6	54.4	(21.8)	32.6
Patents and other	13.0	(9.3)	3.7	13.5	(9.2)	4.3
Finite-lived intangible total	234.4	(110.3)	124.1	234.1	(105.4)	128.7
Indefinite-lived intangibles	27.7	—	27.7	27.5	—	27.5
Other intangible assets	\$ 262.1	\$ (110.3)	\$ 151.8	\$ 261.6	\$ (105.4)	\$ 156.2

Amortization expense related to finite-lived intangible assets was \$4.6 for both the three months ended March 31, 2018 and 2017, respectively.

NOTE 13

ACCRUED LIABILITIES AND OTHER NON-CURRENT LIABILITIES

	March 31, 2018	December 31, 2017
Compensation and other employee-related benefits	\$ 120.0	\$ 147.2
Contract liabilities and other customer-related liabilities (see Note 2)	82.0	45.5
Asbestos-related liabilities	77.4	77.1
Accrued income taxes and other tax-related liabilities	34.8	36.1
Environmental liabilities and other legal matters	23.1	22.8
Accrued warranty costs	17.4	17.0
Other accrued liabilities	39.5	38.7
Accrued liabilities	\$ 394.2	\$ 384.4