[ITT INDUSTRIES LOGO]

1998

FORM 10-K
ANNUAL REPORT

Pursuant to Section 13 of the Securities Exchange Act of 1934

For The Fiscal Year Ended December 31, 1998

NOTICE

This document is a copy of the Annual Report filed by ITT Industries, Inc. with the Securities and Exchange Commission and the New York Stock Exchange. It has not been approved or disapproved by the Commission nor has the Commission passed upon its accuracy or adequacy.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
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 NO. 1-5627

ITT INDUSTRIES, INC.
INCORPORATED IN THE STATE OF INDIANA
13-5158950
(I.R.S. EMPLOYER IDENTIFICATION NO.)

4 WEST RED OAK LANE, WHITE PLAINS, NY 10604
(PRINCIPAL EXECUTIVE OFFICE)

TELEPHONE NUMBER: (914) 641-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT, ALL OF WHICH ARE REGISTERED ON THE NEW YORK STOCK EXCHANGE, INC.:
COMMON STOCK, $1 PAR VALUE (ALSO REGISTERED ON PACIFIC STOCK EXCHANGE)
SERIES A PARTICIPATING CUMULATIVE PREFERRED STOCK PURCHASE RIGHTS (ALSO REGISTERED ON PACIFIC STOCK EXCHANGE)
8 7/8% SENIOR DEBENTURES DUE JUNE 2003
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant on January 31, 1999, was approximately $3.5 billion.

As of February 28, 1999, there were outstanding 91,095,976 shares of Common Stock, $1 par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's definitive proxy statement filed or to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors at the annual meeting of the shareholders of the registrant scheduled to be held on May 13, 1999, is incorporated by reference in Part III of this Form 10-K.

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

PART I

ITEM 1. BUSINESS OF ITT INDUSTRIES

ITT Industries, Inc., with 1998 sales of approximately $4.5 billion, is a global manufacturing company that is engaged directly and through its subsidiaries in the design and manufacture of a wide range of engineered products and the provision of related services. We are focused on the four principal business segments of Connectors & Switches, Defense Products & Services, Pumps & Complementary Products, and Specialty Products. See "-- ACQUISITIONS, DIVESTITURES AND RELATED MATTERS" for information concerning the sale in September, 1998 of our automotive Brake and Chassis business and our automotive Electrical Systems business.

Our World Headquarters is located at 4 West Red Oak Lane, White Plains, NY 10604. We have approximately 33,000 employees based in 45 countries. Unless the context otherwise indicates, references herein to "ITT Industries," the "Company," and such words as "we," "us," and "our" include ITT Industries, Inc. and its subsidiaries. Our telephone number is (914) 641-2000.

ITT Industries, Inc. is an Indiana corporation incorporated on September 5, 1995 as ITT Indiana, Inc. It is the successor pursuant to a statutory merger of ITT Corporation, a Delaware corporation ("ITT Delaware"), into ITT Industries effective December 20, 1995. ITT Delaware, originally incorporated in Maryland in 1920 as International Telephone and Telegraph Corporation, was reincorporated in Delaware in 1968. It changed its name to ITT Corporation in 1983. On December 19, 1995, ITT Delaware made a distribution (the "Distribution") to its stockholders consisting of all the shares of common stock of ITT Destinations, Inc., a Nevada corporation ("ITT Destinations"), and all the shares of common stock of ITT Hartford Group, Inc., a Delaware corporation (now known as Hartford Financial Services Group, Inc. or "The Hartford"), both of which were wholly-owned subsidiaries of ITT Delaware. In connection with the Distribution, ITT Destinations changed its name to ITT Corporation, which was acquired in February, 1998 and merged with another corporation unrelated to ITT Industries. Reference is made to "-- CERTAIN RELATIONSHIPS AMONG THE PARTIES TO THE DISTRIBUTION."

The table below shows, in percentage terms, our consolidated sales and revenues and operating income (excluding restructuring and nonrecurring items) attributable to each of our ongoing lines of business for the last three years:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
SALES AND REVENUES			
Connectors & Switches	12%	13%	13%
Defense Products & Services	29	26	27
Pumps & Complementary Products	39	35	27
Specialty Products	19	20	21
Other	1	6	12
	100%	100%	100%
OPERATING INCOME			
Connectors & Switches	16%	15%	14%
Defense Products & Services	30	29	30
Pumps & Complementary Products	45	47	37
Specialty Products	28	32	39
Other	(19)	(23)	(20)
	100%	100%	100%

BUSINESS AND PRODUCTS

CONNECTORS & SWITCHES

Connectors & Switches, with sales and revenues of approximately $527.9 million, $537.7 million, and $501.3 million for 1998, 1997, and 1996, respectively, maintains a position as one of the world's largest connector companies based on revenue and is a leading supplier to the industrial and military/aerospace sectors. Its products are used in telecommunications, computing, aerospace and industrial applications, as well as network services.

Connectors & Switches develops and manufactures interconnects, cable assemblies, RF connectors, switches, rubber switchpads, input/output card kits, smart card connectors, LAN components, network systems, network services and customer use tooling.

Order backlog for Connectors & Switches in 1998 was $130.2 million, compared with $131.7 million in 1997 and $150.6 million in 1996.

Connectors & Switches products are marketed primarily under the Cannon(R) brand name.

The level of activity for Connectors & Switches is affected by overall economic conditions in the markets served and the competitive position with respect to price, quality, technical expertise and customer service. See " -- COMPETITION."

Connectors & Switches companies have an aggregate of approximately 3,800 employees and have 12 facilities located in 8 countries.

DEFENSE PRODUCTS & SERVICES

Defense Products & Services, with sales and revenues of approximately $1.29 billion, $1.10 billion, and $1.01 billion for 1998, 1997 and 1996, respectively, develops, manufactures and supports high technology electronic systems and components for worldwide defense and commercial markets. Operations are in North America, Europe, Asia and the Middle East. Products include tactical communications equipment, space payloads, operations, maintenance and technical services, night vision devices, airborne electronic warfare systems and radar.

Defense Products & Services concentrates its efforts primarily in those market segments where management believes it can be a market leader. It is a leading supplier of products that management believes will be critical to the armed forces in the 21st century. This particularly includes products designated to facilitate communications in the forward area battlefield, night vision devices that enable soldiers to conduct night combat operations and airborne electronic warfare systems that protect aircraft from enemy missiles. Management believes that Defense Products & Services may benefit from trends to commercialize and outsource military support services.

In tactical communications, the ITT Aerospace/Communications Division manufactures products, including voice and data systems, that facilitate communications in the forward area battlefield. The ITT Aerospace/Communications Division produces the Single Channel Ground and Airborne Radio System ("SINCGARS") and has a contract to produce the Near Term Digital Radio ("NTDR"), which has data transmission capacity twenty times greater than SINCGARS.

In space payloads, the ITT Aerospace/Communications Division produces sophisticated sounding and imaging instruments such as those used by the National Oceanographic and Atmospheric Agency in remote sensing/navigation space payloads to track hurricanes, tornadoes and other weather patterns.

In operations, maintenance and technical services, ITT Systems provides military base operations support, equipment and facility maintenance, and training services for government sites around the world. It also provides advanced technology services and customized products to government, industrial and commercial customers in the areas of information technology, consulting and technical assistance, military systems effects and analysis, and hardware design, test and evaluation.

ITT Night Vision provides United States and allied soldiers with the capability to conduct night combat operations with the production of advanced goggles for airborne and ground applications. ITT Night Vision is the leading full service supplier to the United States and allied military forces of Generation III night vision products. ITT Night Vision also produces a commercial line of night vision products for law enforcement and marine applications.

ITT Avionics produces airborne electronic warfare systems, such as the Airborne Self-Protection Jammer ("ASPJ"), to help protect aircraft from radar-guided weapons. ITT Avionics was selected by the United States Army to develop the next-generation fully integrated airborne electronic warfare system for rotary wing aircraft called a Suite of Integrated Radio Frequency Countermeasures ("SIRFC"). ITT Avionics, teamed with Lockheed Martin Sanders, was also awarded the development contract for the United States Integrated Defensive Countermeasures ("IDECM") program for fixed wing aircraft such as the F/A-18 E/F fighter fleet.

ITT Gilfillan produces and installs ship and air defense radar and air traffic control systems both in the United States and elsewhere. The GaAsTEK unit produces gallium arsenide chips and modules for use in radar and other electronic systems.

The following table illustrates the percentage of sales and revenues by product group for the periods specified:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Tactical Communications	20%	29%	29%
Space Payloads	16	14	13
Operations, Maintenance and Technical Services	33	28	29
ITT Night Vision	12	11	11
Airborne Electronic Warfare	11	10	10
Radar and Other	8	8	8
	100%	100%	100%

Defense Products & Services sells its products to a wide variety of governmental and non-governmental entities located throughout the world. Approximately 98% of 1998 sales and revenues of Defense Products & Services was to governmental entities, of which approximately 74% was to the United States Government (principally in defense programs). Defense Products & Services, along with Racal Electronics and British Aerospace, have entered into a joint venture to develop the Bowman Program, a tactical communications system for the British Armed Forces.

A substantial portion of the work of Defense Products & Services is performed in the United States under prime contracts and subcontracts, some of which by statute are subject to profit limitations and all of which are subject to termination by the United States Government. Apart from the United States Government, no other governmental or commercial customer accounted for more than 5% of 1998 sales and revenues for Defense Products & Services.

Sales and revenues to non-governmental entities as a percentage of total sales and revenues for Defense Products & Services were 2% in 1998, 1% in 1997, and 1% in 1996. Certain products sold by Defense Products & Services have particular commercial application, including night vision devices, radar systems and gallium arsenide computer chips and modules. In addition, Defense Products & Services, in partnership with California Commercial Spaceport, Inc. in a venture known as Spaceport Systems International, provides full service payload processing and launch capability for small to medium satellite systems in low polar earth orbits.

Order backlog for Defense Products & Services in 1998 was $2.22 billion, compared with $2.11 billion in 1997 and $2.14 billion in 1996.

The level of activity in Defense Products & Services is affected by overall defense budgets, the portion of those defense budgets devoted to products and services of the type provided by Defense Products & Services, and other factors. See "-- COMPETITION."

Defense Products & Services companies have an aggregate of approximately 10,800 employees and have 61 facilities in 9 countries.

PUMPS & COMPLEMENTARY PRODUCTS

Pumps & Complementary Products, with sales and revenues of approximately $1.77 billion, $1.46 billion, and $1.02 billion for 1998, 1997 and 1996, respectively, is a worldwide enterprise engaged in the design, development, production, sale and after-sale support of products, systems and services used to move, handle, transfer, control and contain fluids. With sales and revenues in more than 135 countries, Pumps & Complementary Products is a leading global supplier of pumps, valves, heat exchangers, mixers and controls for the management of fluids.

The majority of Pumps & Complementary Products' sales and revenues are in North America and Western Europe. Principal markets are water supply and wastewater treatment, industrial and process, and construction. Industrial and process market activity includes strong market positions in chemical processing, pulp and paper, and in selected segments of the hydrocarbon processing industry, power, mining and general industrial markets. Construction market activity includes residential, commercial and municipal well water pumps and systems, heating, ventilation and air conditioning segments of the residential and non-residential construction market and in construction site dewatering.

Sales are made worldwide directly and through independent distributors and representatives. Pumps & Complementary Products is structured in three worldwide product groups. No single customer accounted for more than 2% of 1998 sales and revenues for Pumps & Complementary Products.

ITT Flygt, with 1998 sales of approximately $593.4 million, is a pioneer in submersible technology and is the world leader in submersible pumping and mixing products. About half of ITT Flygt's worldwide sales come from wastewater treatment markets. Other sales are to construction, mining and industrial markets. Brand names include Aercor(R), Flygt(R), Sanitaire(R), and WPCC(R).

Commercial Products, with 1998 sales and revenues of approximately $652.0 million, offers a range of products, including dry-mount pumps and heat exchangers, control and accessory products for liquid based heating and cooling systems, residential well water pumps, and pumps for light industrial, original equipment manufacturers and irrigation markets. Brand names include Bell & Gossett(R), Goulds(R), ITT Standard(R), Lowara(R), McDonnell & Miller(R), and others.

Industrial Pumps, with 1998 sales and revenues of approximately $545.7 million, offers a broad line of pumps and valves for industrial, process and heavy duty commercial applications worldwide. Brand names include A-C Pump(R), Goulds(R), Richter(R), Vogel(R), and others.

The following table illustrates the percentage of sales and revenues by product group for the periods specified:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Flygt	33%	41%	61%
Commercial Products	36	32	25
Industrial Pumps	31	27	14
	100%	100%	100%

Our management believes that Pumps & Complementary Products has a solid technology base and proven expertise in designing its products to meet customer needs, and that the continuing development of new products will enable Pumps & Complementary Products to maintain and build market leadership positions in served markets.

Order backlog for Pumps & Complementary Products was $274.4 million in 1998, compared with $266.8 million in 1997 and $160.8 million in 1996.

The level of activity in Pumps & Complementary Products is dependent upon economic conditions in the markets served, weather conditions, in the case of municipal markets, the ability of municipalities to fund projects for products and services of the type provided by Pumps & Complementary Products, and other factors. See "-- COMPETITION."

Pumps & Complementary Products companies have an aggregate of approximately 11,200 employees and have 158 facilities in 45 countries.

SPECIALTY PRODUCTS

Specialty Products, with sales and revenues of approximately $849.3 million, $823.2 million and $780.9 million for 1998, 1997 and 1996, respectively, produces fluid handling materials such as stainless steel and flexible tubing, specialty shock absorbers and brake friction materials for the transportation industry, engineered valves, controls, and switches for industrial and aerospace applications, and products for the marine and leisure markets. Operations are located in Europe, North America and South America.

Products under this segment are marketed under brand names including Conoflow(R), Dia-Flo(R), Galfer(R), Jabsco(R), Koni(R), Marlow(R), Neo-Dyn(R), Pure-Flo(R), and Rule(R), and under the name ITT(R) Aerospace Controls.

The following table illustrates the percentage of sales by product group for the periods specified:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Fluid Handling Systems	43%	45%	46%
Shock Absorbers	11	10	11
Friction Material	18	18	16
Aerospace	8	7	7
Engineered Valves	9	9	10
Marine & Leisure	10	10	9
Other	1	1	1
	100%	100%	100%

The level of activity for Specialty Products depends upon economic conditions in the, shock absorber, fluid handling friction material aerospace, marine and leisure and related markets.

Specialty Products companies have an aggregate of approximately 6,900 employees and have 42 facilities located in 11 countries. Order backlog is not a significant factor in this segment.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and "BUSINESS SEGMENT INFORMATION" in the "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for further details with respect to business segments.

ACQUISITIONS, DIVESTITURES, AND RELATED MATTERS

On September 25, 1998, we completed the sale to Continental AG and certain of its subsidiaries of our business of designing, developing, manufacturing, and marketing brake systems and chassis modules for the automotive industry worldwide for approximately $1.93 billion in cash. That business was conducted through various direct and indirect subsidiaries, and joint ventures in which we held an ownership interest.

On September 28, 1998, we completed the sale to Valeo SA and certain of its subsidiaries of our business of designing, developing, manufacturing, and marketing electrical motors and actuators, air management and engine cooling products, wiper and washer systems, lamps, power antennas, switches and sensors for the automotive industry worldwide for approximately $1.7 billion in cash. That business was conducted through various direct and indirect subsidiaries, and joint ventures in which we held an ownership interest.

After-tax proceeds from the sales of our automotive Brake and Chassis and our automotive Electrical Systems businesses have been directed to reducing debt, funding acquisitions, investing in our remaining businesses and repurchasing our shares. (See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- HIGHLIGHTS -- SALES OF ITT AUTOMOTIVE BUSINESSES AND -- SHARE REPURCHASE" for further information regarding the sales of automotive businesses and our share repurchase program).

In 1998, we acquired A.G. Johansons Metallfabrik AB, Rule Industries, Inc., Sinton Engineering Co. Limited, and Sinton (UK) Limited, for our Specialty Products segment and The Great American Gumball Company for our Connectors & Switches segment.

We also made significant acquisitions in 1997 with Goulds Pumps, Incorporated for our Pumps & Complementary Products segment and Kaman Sciences Corporation for our Defense Products & Services segment.

Throughout this three-year period we disposed of a number of non-core businesses.

GEOGRAPHIC MARKETS

The geographic sales base of Connectors & Switches is predominantly in Europe, which accounted for 47% of 1998 sales and revenues, and the United States, which accounted for 42% of 1998 sales and revenues. Connectors & Switches has two joint ventures in China and a wholly-owned subsidiary in Japan which together supply connectors and switch products across a broad market spectrum, including the communications, industrial and consumer sectors.

The geographic sales base of Defense Products & Services is predominantly the United States, which accounted for approximately 83% of 1998 sales and revenues. Management of Defense Products & Services has begun to increase its international defense business and anticipates growth opportunities in the Asia/Pacific region, Europe and the Middle East.

The geographic sales base of Pumps & Complementary Products is broad. In 1998, approximately 45% of the sales and revenues of Pumps & Complementary Products was derived from the United States, while approximately 32% was derived from Western Europe. The geographic sales mix differs among products and among divisions of Pumps & Complementary Products. Our management anticipates growth opportunities in Eastern Europe and Central Asia, Africa/Middle East, Latin America and the Asia/Pacific region. In China, Pumps & Complementary Products has manufacturing and distribution facilities to produce and sell submersible pumps for the sewage handling and mining markets and a joint venture that produces vertical turbine pumps and includes a foundry operation. It also has joint venture sales and manufacturing and other operations in Eastern Europe, Latin America, Africa/Middle East and other locations in the Asia/Pacific region.

The geographic sales base of Specialty Products is predominantly in North America and Europe. In 1998, approximately 52% of sales and revenues of Specialty Products were to customers in the United States, and approximately 38% of sales were to customers in Western Europe. Management of ITT Industries sees growth opportunities in South America, Mexico and Asia, particularly in China.

See "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for further geographical information concerning sales and revenues and long lived assets.

COMPETITION

Substantially all of our operations are in highly competitive businesses. The nature of the competition varies across all business segments. A number of large companies engaged in the manufacture and sale of similar lines of products and the provision of similar services are included in the competition, as are many small enterprises with only a few products or services. Technological innovation, price, quality, reliability, and service are primary factors in the markets served by the various segments of our businesses.

In Connectors & Switches, competitive pressures continue on a global basis. In most of the markets served, competition is based primarily upon price, quality, technical expertise and customer service.

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

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

In Specialty Products, competition is a significant factor which has resulted in increased pressure to reduce prices and, therefore, costs. Product capability, quality, engineering support, and experience are also important competitive factors.

EXPOSURE TO CURRENCY FLUCTUATIONS

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

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- MARKET RISK EXPOSURES".

CYCLICALITY

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

GOVERNMENTAL REGULATION AND RELATED MATTERS

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

ENVIRONMENTAL MATTERS

We are subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal. Such environmental laws and regulations include the Federal Clean Air Act, the Clean Water Act, the Resource, Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). Environmental requirements are significant factors affecting all operations. Management believes that our companies closely monitor all of their respective environmental responsibilities, together with trends in environmental laws. We have established an internal program to assess compliance with applicable environmental requirements for all of our facilities, both domestic and overseas. The program is designed to identify problems in a timely manner, correct deficiencies and prevent future noncompliance. Over the past several years we have conducted regular, thorough audits of our major operating facilities. As a result, management believes that our companies are in substantial compliance with current environmental regulations. Management does not believe, based on current circumstances, that we will incur compliance costs pursuant to such regulations that will have a material adverse effect on our financial position, results of operations or cash flows.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- RISKS AND UNCERTAINTIES -- ENVIRONMENTAL MATTERS" and "LEGAL PROCEEDINGS".

RAW MATERIALS

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

RESEARCH, DEVELOPMENT AND ENGINEERING

Our businesses require substantial commitment of resources to research, development and engineering activities to maintain significant positions in the markets we serve. Such activities are conducted in laboratory and engineering facilities at several of our major manufacturing locations. Although most of our funds dedicated to research, development and engineering activities are applied to areas of high technology, such as aerospace and applications involving electronic components, these activities are important in all of our business segments. Expenditures by ITT Industries for research, development, and engineering relating to our on-going lines of business totaled $267.6 million in 1998, $266.6 million in 1997 and $266.3 million in 1996. Of those amounts 67.4% in 1998, 68.4% in 1997 and 58.4% in 1996 was expended pursuant to customer contracts.

INTELLECTUAL PROPERTY

While we own and control a number of patents, trade secrets, confidential information, trademarks, trade names, copyrights and other intellectual property rights which, in the aggregate, are of material importance to our business, management believes that our business, as a whole, is not materially dependent upon any one intellectual property or related group of such properties. We are licensed to use certain patents, technology and other intellectual property rights owned and controlled by others, and, similarly, other companies are licensed to use certain patents, technology and other intellectual property rights owned and controlled by us.

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

As a result of the Distribution, we obtained the exclusive right and license to use the "ITT" name, mark and logo with respect to the businesses that we operated on the date of Distribution and in the operation of any businesses closely related thereto. We also have the non-exclusive right to use the "ITT" name, mark and logo in the operation of any new business we operate so long as such new business is not included in ITT Destinations' or The Hartford's businesses on the date of Distribution or businesses closely related thereto. These rights and licenses are perpetual, subject to the maintenance of certain quality standards and other terms of the operative license agreement, and are considered by our management to be of material importance to ITT Industries.

EMPLOYEES

As of December 31, 1998, ITT Industries and its subsidiaries employed an aggregate of approximately 33,000 people. Of this number, approximately 18,300 are employees in the United States, of whom approximately 30.4% are represented by labor unions. Generally, labor relations have been maintained in a normal and satisfactory manner.

DISCONTINUED OPERATIONS

In September, 1998 we completed the sale of our automotive Brake and Chassis business and the sale of our automotive Electrical Systems business. As a result of these sales, these two units, as well as several other small previously sold automotive units, have been accounted for as discontinued operations.

See "DISCONTINUED OPERATIONS" in the "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for further information concerning discontinued operations.

CERTAIN RELATIONSHIPS AMONG THE PARTIES TO THE DISTRIBUTION

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

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

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

Two members of the Board of Directors of ITT Industries also serve on the Board of Directors of The Hartford.

On February 23, 1998, ITT Corporation (so renamed from ITT Destinations after the Distribution) was acquired by Starwood Hotels & Resorts Worldwide, Inc. While the Distribution Agreement continues in full force and effect, it cannot be determined at this time what effect, if any, such acquisition of ITT Corporation may have with respect to ongoing obligations under the Distribution Agreement and related matters.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- FORWARD-LOOKING STATEMENTS" for information regarding forward-looking statements and cautionary statements relating thereto.

ITEM 2. PROPERTIES

Our principal executive offices are in leased premises located in White Plains, NY. We consider the many offices, plants, warehouses and other properties that we own or lease to be in good condition and generally suitable for the purposes for which they are used. These properties are located in several states in the United States, as well as in numerous countries throughout the world. See "BUSINESS OF ITT INDUSTRIES" for further information with respect to properties in each of our business segments, including the numbers of facilities and countries in which they are located.

ITEM 3. LEGAL PROCEEDINGS

ITT Industries and its subsidiaries are responsible, in whole or in part, or are alleged to be responsible for environmental investigation and remediation at approximately 130 sites in North America and Europe. Of those sites, ITT Industries has received notice that it is considered a Potentially Responsible Party ("PRP") at approximately 43 sites by the United States Environmental Protection Agency ("EPA") and/or a similar state agency under

CERCLA or its state equivalent. In many of these proceedings, ITT Industries' liability is considered de minimis. At 16 of these sites, formerly operated by subsidiaries of the Company, liability and/or defense costs are being divided equally among the three parties to the Distribution Agreement. The remaining cases are generally either actions brought by private parties relating to sites formerly owned or operated by subsidiaries of the Company seeking to recoup incurred costs or shift environmental liability to ITT Industries pursuant to contractual language, or situations discovered by ITT Industries through its internal environmental assessment program.

ITT Industries has been involved since 1991 in an environmental proceeding in California relating to the San Fernando Valley aquifer. ITT Industries is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. ITT Industries and other allegedly responsible parties have completed an allocation arbitration and have commenced the clean-up required by the EPA. Lockheed Martin Corporation, one of such parties, challenged the allocation arbitration in the Superior Court, Los Angeles County. The lower court ruled in ITT Industries' favor; however, Lockheed Martin has appealed. Oral argument has been scheduled for Spring of 1999. In January, 1999, the EPA filed a complaint in the United States District Court for the Central District of California against ITT Industries and Lockheed Martin Corporation, United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX, to recover costs it has incurred in connection with the foregoing. The matter is the subject of ongoing negotiations with the EPA. ITT Industries has filed a suit against its insurers in the California Superior Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al. for recovery of costs it has incurred in connection with this and other environmental matters. ITT Industries already has negotiated settlements with certain defendant insurance companies, is engaged in negotiations with others, and is prepared to pursue its legal remedies where reasonable negotiations are not productive.

While there can be no assurance as to the ultimate outcome of any litigation involving ITT Industries, management does not believe any pending legal proceeding will result in a judgment or settlement that will have, after taking into account ITT Industries' existing provisions for such liabilities, a material adverse effect on ITT Industries' financial position, results of operations or cash flows.

Reference is made to "BUSINESS OF ITT INDUSTRIES -- CERTAIN RELATIONSHIPS AMONG THE PARTIES TO THE DISTRIBUTION" for information concerning the allocation of certain liabilities.

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

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

EXECUTIVE OFFICERS OF ITT INDUSTRIES

The following information is provided regarding the executive officers of ITT Industries:

NAME	AGE AT FEBRUARY 1, 1999	POSITION	YEAR OF INITIAL ELECTION AS AN OFFICER	DATE OF ELECTION TO PRESENT POSITION
Ralph D. Allen....................	57	Vice President, Director of Investor Relations	1981	12/19/95
Travis Engen......................	54	Chairman and Chief Executive and Director	1987	12/19/95
Donald E. Foley...................	47	Vice President and Treasurer	1996	5/21/96
Gerard Gendron....................	46	Vice President	1998	10/27/98
Louis J. Giuliano.................	52	President and Chief Operating Officer	1988	10/27/98
Martin Kamber.....................	50	Senior Vice President, Director of Corporate Development	1995	12/19/95
Heidi Kunz........................	44	Executive Vice President and Chief Financial Officer	1995	10/27/98
Richard J. Labrecque..............	60	Executive Vice President	1985	10/27/98
Vincent A. Maffeo.................	48	Senior Vice President and General Counsel	1995	12/19/95
Thomas R. Martin..................	45	Senior Vice President, Director of Corporate Relations	1996	3/9/99
Richard W. Powers.................	57	Vice President, Director of Taxes and Assistant Secretary	1991	12/19/95
Marvin R. Sambur..................	52	Vice President	1998	10/27/98
James P. Smith, Jr................	56	Senior Vice President, Director of Human Resources	1995	12/19/95
Edward W. Williams................	60	Vice President and Controller	1998	10/27/98

Each of the above-named officers was elected to his or her present position to serve at the pleasure of the Board of Directors. Mr. Engen has an employment agreement with ITT Industries providing, among other things, for his employment as Chairman and Chief Executive through December 31, 1999.

Throughout the past five years, all of the above-named officers have held executive positions with ITT Industries or with its predecessor, ITT Delaware, bearing at least substantially the same responsibilities as those borne in their present offices, except that (i) Mr. Engen, prior to his election as Chairman and Chief Executive (1995) (having yielded his position as President in 1998), was Executive Vice President of ITT Delaware (1991); (ii) Mr. Foley, prior to his election as Vice President and Treasurer, was Assistant Treasurer of International Paper Company; (iii) Mr. Gendron, prior to his election as Vice President, was and continues as President of our Connectors & Switches business (1997) and, prior to that, its Vice President (1995), and, prior to that, its Controller (1992); (iv) Mr. Giuliano, prior to his election as President and Chief Operating Officer, was Senior Vice President (1995) and, prior to that was Senior Vice President of ITT Delaware in addition to being President of our Defense & Electronics business; (v) Mr. Kamber, prior to his election as Senior Vice President, Director of Corporate Development, was Vice President, Corporate Development, of ITT Automotive, Inc. (1993); (vi) Ms. Kunz, prior to her election as Executive Vice President and Chief Financial Officer, was Senior Vice President and Chief Financial Officer (1995) and, prior to that was Vice President (1994) and Treasurer (1993) of General Motors Corporation; (vii) Mr. Labrecque, prior to his election as Executive Vice President, was Senior Vice President (1995), and prior to that was Vice President of ITT Delaware; (viii) Mr. Maffeo, prior to his election as Senior Vice President and General Counsel, was Vice President and General Counsel of ITT Automotive, Inc.; (ix) Mr. Martin, prior to his election as Senior Vice President, Director of Corporate Relations, was Vice President, Director of Corporate Relations (1996), and, prior to that, was Vice President of Corporate Communications of Federal Express Corp. (1995) and, prior to that, was Managing Director of Public Relations of Federal Express Corp. (x) Mr. Powers, prior to his election as Vice President, Director of Taxes, was Vice President of ITT Delaware; (xi) Mr. Sambur, prior to his election as Vice President, was President of our

Aerospace/Communications Division (1991); (xii) Mr. Smith, prior to his election as Senior Vice President, was Executive Vice President of ITT Sheraton Corporation (1993); and (xiii) Mr. Williams, prior to his election as Vice President and Controller, was Vice President and Controller of our Defense & Electronics business.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

COMMON STOCK -- MARKET PRICES AND DIVIDENDS

	1998		1997	
	HIGH	LOW	HIGH	LOW
	IN DOLLARS			
Three Months Ended				
March 31	$38.94	$28.13	$26.38	$22.38
June 30	38.44	32.88	27.75	22.13
September 30	38.13	29.50	33.69	25.00
December 31	40.88	30.69	33.38	28.75

The above table reflects the range of market prices of our common stock as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which this security is traded (under the trading symbol "IIN"). During the period from January 1, 1999 through February 28, 1999, the high and low reported market prices of our common stock were $40.88 and $37.50, respectively.

We declared dividends of $.15 per share of common stock in each of the four quarters of 1997 and 1998 and in the first quarter of 1999.

The payment and level of future cash dividends by ITT Industries will be subject to the discretion of our Board of Directors. Dividend decisions will be based on, and affected by, a number of factors, including our operating results and financial requirements. Although our management presently contemplates that dividends will be paid at the present dividend rate for the foreseeable future, there can be no assurance that such dividends will be paid.

There were 52,371 holders of record of our common stock on February 28, 1999.

Pursuant to our previously announced share repurchase program as of February 28, 1999, we repurchased 27,349,283 shares for $974,222,733.

ITT Industries common stock is listed on the following exchanges: Frankfurt, London, Midwest, New York, Pacific, and Paris.

ITEM 6. SELECTED FINANCIAL DATA
IN MILLIONS, EXCEPT PER SHARE AMOUNTS

	1998	1997	1996	1995	1994
RESULTS AND POSITION					
Sales and revenues................	$4,492.7	$4,207.6	$3,744.5	$3,726.7	$3,415.7
Operating income (loss)(a)........	(74.6)	141.3	246.0	(41.6)	127.8
Income (loss) from continuing operations(a)...................	(97.6)	11.9	66.4	(130.8)	44.4
Net income........................	1,532.5	108.1	222.6	707.9	1,021.8
Income from continuing operations, as adjusted(b)..................	146.0	95.9	66.4	19.7	44.4
Expenditures on plant additions...	212.9	212.5	176.0	213.2	164.1
Depreciation and amortization.....	195.6	196.9	187.3	177.8	157.2
Total assets......................	5,048.8	5,058.4	3,976.9	4,290.6	9,530.0
Total assets, excluding discontinued operations.........	5,048.8	4,127.0	2,929.6	3,216.8	3,012.1
Long-term debt....................	515.5	531.2	582.2	930.7	1,681.9
Total debt........................	767.1	2,172.6	1,368.0	1,554.4	2,570.7
Cash dividends declared per common share...........................	.60	.60	.60	.99	1.98
EARNINGS PER SHARE					
Income from continuing operations, as adjusted(b)					
Basic...........................	$ 1.29	$ .81	$ .56	$ .18	$ .08
Diluted.........................	$ 1.29	$ .79	$ .55	$ .18	$ .20
Net income					
Basic...........................	$ 13.55	$ .91	$ 1.89	$ 6.24	$ 8.65
Diluted.........................	$ 13.55	$ .89	$ 1.85	$ 6.18	$ 8.02

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(a) Income from continuing operations in 1998 and 1997 include charges of $399.4 and $137.8 pretax, respectively, or $243.6 and $84.0, after-tax, respectively, for restructuring and other items as described in Note 5.

(b) Income from continuing operations in 1998, as adjusted, excludes the items in note (a) above and $83.2, after-tax, for operating income from discontinued operations and $1,546.9, after-tax, for gain on sales of ITT Automotive operations. The 1997 income from continuing operations, as adjusted, excludes the items in note (a) above and operating income from discontinued operations of $101.8, after-tax; and a charge for the cumulative effect of accounting change of $5.6, after-tax. The 1996 income from continuing operations, as adjusted, excludes operating income from discontinued operations of $156.2, after-tax.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

HIGHLIGHTS

For the years ended December 31, ITT Industries, Inc. (the "Company") reported the following (in millions):

	1998(A)	1997(B)	1996
Total sales and revenues from continuing operations.........	$4,492.7	$4,207.6	$3,744.5
Operating income from continuing operations.................	$ 324.8	$ 279.1	$ 246.0
Income from continuing operations, after-tax................	$ 146.0	$ 95.9	$ 66.4

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The above amounts exclude discontinued operations for all years.

(a) 1998 figures are adjusted to exclude restructuring and nonrecurring items of $399.4 pretax or $243.6 after-tax.

(b) 1997 figures are adjusted to exclude restructuring and nonrecurring items of $137.8 pretax or $84.0 after-tax.

SALES OF ITT AUTOMOTIVE BUSINESSES: During 1998, the Company sold its automotive Brake and Chassis business to Continental AG of Germany and its automotive Electrical Systems business to Valeo SA of France. The transactions were completed at the end of the third quarter for total proceeds of $3.7 billion. The after-tax proceeds of approximately $2.7 billion have been, and will continue to be used to reduce debt, fund acquisitions, invest in the Company's remaining businesses, and repurchase shares on the open market. See "Risks and Uncertainties" and Note 19 "Commitments and Contingencies" in the Notes to Consolidated Financial Statements.

NEW BUSINESS SEGMENTS: In the third quarter of 1998, the Company realigned its businesses into four new reporting segments, which highlight the diversity and balance of the Company's portfolio, and better define each of the Company's continuing businesses. The four new segments are as follows:

Connectors & Switches: This business, formerly included within the "Defense & Electronics" segment, consists of the Company's products marketed under the Cannon(R) brand. These products include connectors, switches and cabling used in telecommunications, computing, aerospace and industrial applications, as well as network services.

Defense Products & Services: The businesses in this segment are those that directly serve the military and government agencies with products and services. These products include air traffic control systems, jamming devices that guard military planes against radar-guided weapons, digital combat radios, night vision devices, and satellite instruments. Approximately 33% of the sales and revenues in this segment are generated through contracts for technical and support services, which are provided to the military and other government agencies.

Pumps & Complementary Products: This segment contains the Company's pump businesses, including brands such as Flygt(R), Goulds(R), Bell & Gossett(R), A-C Pump(R), Lowara(R), and Vogel(R). Businesses within this segment also supply mixers, heat exchangers and related products with brand names such as McDonnell & Miller(R) and ITT Standard(R) in addition to those brand names mentioned above.

Specialty Products: Businesses in the Specialty Products segment produce engineered valves and switches for industrial and aerospace applications, products for the marine and leisure markets, specialty shock absorbers, brake friction materials and fluid handling materials such as stainless steel and flexible tubing for the transportation industry.

RESTATEMENT: Prior years' financial statements have been restated to reflect the discontinued status of the automotive businesses sold in 1998, as well as some automotive businesses sold in previous years, and to reflect the new reporting segments. Unless otherwise indicated, all financial data has been restated to reflect continuing operations only and all segment related information has been restated to reflect the four new reporting segments.

ACQUISITIONS: During 1998, the Company continued to make acquisitions intended to strengthen market positions and present the highest potential for creating value. Most notably, the Company acquired Rule Industries, Inc., Sinton Engineering Co. Limited and Sinton (UK) Limited, and A.G. Johansons Metallfabrik AB in its Specialty Products segment, and The Great American Gumball Company in the Connectors & Switches segment.

RESTRUCTURING AND NONRECURRING ITEMS: In anticipation of a relatively flat economic environment, the Company announced a structural cost reduction program on December 2, 1998. The objective of this program is to reduce the structural cost of doing business and to increase leverage when historical growth trends resume. The actions taken affect all four segments and include rationalization of operating locations, consolidation of sales and distribution facilities, workforce reductions and product pruning. The actions taken also include write-downs of assets of businesses to be sold and an increase in environmental reserves. The total restructuring and other nonrecurring charges recorded in the fourth quarter of 1998 amounted to $368.6 million pretax. Along with actions taken earlier in 1998, the total restructuring and nonrecurring items for all of 1998 amounted to $399.4 million pretax. Reference is made to Note 5 in the accompanying Notes to the Consolidated Financial Statements.

SHARE REPURCHASE: In July 1998, the Board of Directors approved and the Company began a $1.1 billion share repurchase program. This program would use some of the proceeds from the sales of the two automotive businesses. As of February 28, 1999, approximately 27.3 million shares had been repurchased at an average price of approximately $35.62 per share for an aggregate amount of approximately $974.2 million.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1997: Net sales and revenues in 1998 were $4.49 billion, an increase of $285.1 million, or 6.8% compared to 1997. Defense Products & Services' sales and revenues increased by $197.7 million, or 18%, due primarily to the Kaman Sciences acquisition at the end of 1997 and increases in international sales. Pumps & Complementary Products' sales increased $309.8 million, or 21.2%, due primarily to the inclusion of Goulds (a 1997 acquisition) for an additional five months. Specialty Products' sales increased $26.1 million, or 3.2%, due to increased sales volume in aerospace controls, friction material and shock absorber businesses as well as the acquisitions of Rule, Sinton, and A.G. Johansons. These improvements were partly offset by the impact of the General Motors strike. These increases more than offset the loss of sales due to the dispositions of non-core businesses.

Gross margin increased to 23.6% in 1998 compared to 22.8% in 1997. This improvement is largely due to cost reductions implemented early in the year at Connectors & Switches, to offset the weakening market conditions in Asia and a decline in sales of Mobile Communications products.

Selling, general and administrative expenses of $730.0 million reflect an increase of $66.3 million, or 10% over 1997, primarily due to the inclusion of Goulds for an additional five months and Kaman Sciences (a year-end 1997 acquisition) for the full year.

Restructuring and nonrecurring items totaled $399.4 million pretax in 1998 and $137.8 million pretax in 1997.

Other operating expenses of $4.4 million in 1998 and $15.5 million in 1997 include gains and losses from foreign exchange transactions, gains and losses on sales of assets, and other charges. The $11.1 million favorable variance is mostly due to higher gains on the sales of fixed assets offset partially by unfavorable foreign exchange.

The total operating loss in 1998 of $74.6 million includes the aforementioned restructuring and nonrecurring items of $399.4 million. Excluding the restructuring and nonrecurring items, operating income was $324.8 million, an improvement of 16.4% over the 1997 amount of $279.1 million. The increase in operating income is attributable to improvements across all segments.

Interest expense decreased to $125.8 million in 1998 from $133.2 million in 1997. A portion of the proceeds from the automotive sales was used to significantly reduce the Company's debt level. The debt reduction primarily occurred late in the third quarter, thus, the entire annualized interest cost savings is not reflected. The reduction in debt and subsequent reduction in interest expense towards the end of

1998 more than offset increases in interest expense earlier in the year. Interest income increased to $43.4 million in 1998 from $17.5 million in 1997, primarily due to higher marketable securities investments ("cash equivalents") generated from the remaining proceeds from the automotive sales.

Miscellaneous expense of $3.0 million in 1998 and $6.1 million in 1997 includes the results of joint venture investments.

Operating income, net of tax, from discontinued operations declined to $83.2 million in 1998 from $101.8 million in 1997. The decline was primarily due to the absence of any income being reflected in the fourth quarter of 1998 for the automotive businesses that were sold at the end of the third quarter. In addition, after-tax charges of $18.5 million were recorded in the fourth quarter of 1998 for residual exposures related to discontinued businesses sold in previous years as provided for in the 1995 Distribution Agreement under which ITT Corporation, a Delaware corporation, was divided into three separate and unrelated entities.

Net income in 1998 was $1.53 billion or $13.55 per diluted share compared to $108.1 million or $.89 per diluted share in 1997. Included in 1998 net income is income from discontinued operations of $1.63 billion, or $14.41 per diluted share, which includes the gains on the sales of automotive operations of $1.55 billion. Excluding the income from discontinued operations, automotive gains, and restructuring and nonrecurring items, net income was $146.0 million. In addition, net income for 1997 was also negatively impacted as a result of the implementation of the Emerging Issues Task Force Issue No. 97-13, which required that reengineering costs incurred in connection with software installation efforts be expensed as incurred and that costs previously capitalized be written-off. As a consequence, net income for 1997 was adversely impacted by $5.6 million after-tax, or $.05 per diluted share.

YEAR ENDED DECEMBER 31, 1997 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1996: Net sales and revenues in 1997 were $4.21 billion, compared with net sales and revenues of $3.74 billion in 1996. The increase was primarily at the Company's Pumps & Complementary Products segment as well as the Defense Products & Services segment. Higher sales at the Pumps & Complementary Products segment were a result of the May 1997 acquisition of Goulds. Higher sales at the Defense Products & Services segment resulted from strong order input. These increases more than offset the loss of sales due to the divestiture of non-core businesses.

Gross margin increased to 22.8% in 1997, compared to 21.0% in 1996. The improvement was mainly due to changes in the Company's business portfolio through acquisitions, dispositions, and market share gains. The Company improved the mix of its higher-margin businesses in the Pumps & Complementary Products segment, Defense Products & Services segment, and Connectors & Switches segment, in addition to disposing of lower-margin, non-core businesses.

Selling, general and administrative expenses of $663.7 million in 1997 reflect an increase of $99.6 million over 1996. The acquisition of Goulds in May 1997 added $85.1 million of such expenses in 1997 compared to 1996.

Restructuring and nonrecurring items were $137.8 million in 1997. The Company recognized charges of $65.8 million for estimated losses on the divestitures of non-core businesses, as well as a charge of $15.0 million to increase environmental reserves. Also in 1997, asset write-offs and restructuring charges of $57.0 million were recognized at the Specialty Products and the Pumps & Complementary Products segments for the rationalization of production capacity and related workforce reductions.

Other operating expenses were $15.5 million in 1997 compared to other operating income of $22.3 million in 1996. The unfavorable variance was mostly due to higher amortization expense resulting from the acquisition of Goulds in May 1997 and larger net gains on the sales of assets in 1996.

Interest expense decreased to $133.2 million in 1997 from $169.0 million in 1996, reflecting a restructuring of outstanding debt and increasing the amount of floating rate debt. Interest income decreased to $17.5 million in 1997 from $32.7 million in 1996, primarily as a result of maintaining lower cash balances by using available cash to reduce debt.

Miscellaneous expense was $6.1 million in 1997 compared to miscellaneous income of $1.0 million in 1996. Losses from joint venture investments were reported in 1997, as compared to income in 1996.

Income from continuing operations was $11.9 million, or $.10 per diluted share in 1997, compared with $66.4 million, or $.55 per diluted share in 1996. The decline was mainly due to the $84.0 million of after-tax restructuring and nonrecurring items, or $.69 per diluted share. Excluding the restructuring and nonrecurring items, 1997 income from continuing operations was $95.9 million, or $.79 per diluted share.

Operating income, net of tax, from discontinued operations declined to $101.8 million in 1997 from $156.2 million in 1996. The decline was primarily due to after-tax restructuring and nonrecurring items of $53.1 million recorded in 1997.

Net income in 1997 was $108.1 million, or $.89 per diluted share, compared with $222.6 million, or $1.85 per diluted share, in 1996.

BUSINESS SEGMENTS

Sales and revenues and operating income for each of the Company's four major business segments were as follows (in millions):

YEAR ENDED DECEMBER 31,	CONNECTORS & SWITCHES	DEFENSE PRODUCTS & SERVICES	PUMPS & COMPLEMENTARY PRODUCTS	SPECIALTY PRODUCTS	DISPOSITIONS, OTHER & ELIMINATIONS	CORPORATE	TOTAL
1998							
Sales and revenues......	$ 527.9	$1,293.4	$1,770.0	$849.3	$ 52.1	$ --	$4,492.7
Operating income (loss):							
Before restructuring and nonrecurring items...............	52.7	97.9	145.5	90.9	5.4	(67.6)	324.8
Restructuring and nonrecurring items..............	(102.4)	(69.6)	(147.6)	(9.0)	31.0	(101.8)	(399.4)
Total operating income (loss)................	$ (49.7)	$ 28.3	$ (2.1)	$ 81.9	$ 36.4	$(169.4)	$ (74.6)
1997							
Sales and revenues......	$ 537.7	$1,095.7	$1,460.2	$823.2	$290.8	$ --	$4,207.6
Operating income (loss):							
Before restructuring and nonrecurring items...............	41.9	81.4	130.2	89.6	(4.1)	(59.9)	279.1
Restructuring and nonrecurring items..............	--	--	(44.1)	(12.9)	(65.8)	(15.0)	(137.8)
Total operating income (loss)................	$ 41.9	$ 81.4	$ 86.1	$ 76.7	$(69.9)	$ (74.9)	$ 141.3
1996							
Sales and revenues......	$ 501.3	$1,011.9	$1,018.1	$780.9	$432.3	$ --	$3,744.5
Total operating income (loss)................	$ 34.0	$ 73.2	$ 91.5	$ 96.0	$ 4.9	$ (53.6)	$ 246.0

Sales and revenues for Connectors & Switches were off 1.8% from 1997 due to lower demand in Asia and a decline in sales of Mobile Communications products. These reductions were partly offset by significant revenue increases in the Network Systems, Switches, and RF Products units. Excluding restructuring and nonrecurring items, operating income increased 25.8% over 1997 due to improved cost structure and the launch of new commercial products. In 1997, sales increased 7.3% over 1996 and operating income in 1997 increased 23.3% over 1996. The improvement in sales was mainly due to better conditions in the interconnect market, especially in the Information Systems portion of the market. The improvement in operating income was mostly due to strong market conditions, cost reductions, and new product launches. Connectors & Switches' order backlog was $130.2 million at December 31, 1998 compared to $131.7 million at year-end 1997.

Sales and revenues for Defense Products & Services increased 18% over 1997 due to the acquisition of Kaman Sciences and an increase in international sales. The segment has experienced six consecutive years of double-digit growth in sales outside the United States. International sales now represent 21.6% of sales, up from 15.4% in 1997. Excluding restructuring and nonrecurring items, operating income increased 20.3% in 1998 due to increased sales and revenues as mentioned above and continued productivity improvements.

The 1997 sales and revenues increased 8.3% over 1996 due to strong order input received for the SINCGARS tactical communication products and other defense products. The 1997 operating income increased 11.2% over 1996 resulting primarily from the higher sales of defense products. Defense Products & Services' order backlog was $2.22 billion at December 31, 1998 compared with $2.11 billion at year-end 1997. Approximately 98% of 1998, 1997 and 1996 Defense Products & Services' sales and revenues were to governmental entities, of which 74%, 83% and 78%, respectively, were to the military and space programs of the U.S. government.

Pumps & Complementary Products' sales for the year increased 21.2% over sales in 1997 primarily due to the inclusion of Goulds for an additional five months in 1998. In addition, slower industrial markets offset stronger water/waste water activity. Sales in North America were up due to an increase in U.S. market share of nearly two percentage points, as well as favorable weather conditions including a dry Southwest and wet Northeast. Excluding restructuring and nonrecurring items, operating income increased 11.8% due to the inclusion of Goulds for an additional five months and continued cost control activities and consolidation efforts in this segment. Sales in 1997 increased 43.4% over sales in 1996. The increase was mainly due to the acquisition of Goulds in May 1997, which also accounted for the $38.7 million increase in operating profit before restructuring and nonrecurring items.

Specialty Products' sales for the year were $849.3 million, up $26.1 million or 3.2%, due to increased sales volume in the aerospace controls, friction material and shock absorber businesses. The acquisitions of Rule, Sinton and A.G. Johansons also contributed to the improvement. Further, the segment was unfavorably impacted by the General Motors strike. Excluding restructuring and nonrecurring items, operating income was up 1.5%. The 1997 sales were 5.4% higher than 1996 sales. The increase was mainly due to higher sales of friction materials and fluid handling products, which more than offset unfavorable pricing pressures. Operating profit for 1997, before restructuring and nonrecurring items, declined $6.4 million. The decline was mainly due to unfavorable pricing pressures and foreign exchange.

RESTRUCTURING AND NONRECURRING ITEMS

During 1998 the Company recorded restructuring and nonrecurring items of $20.1 million in the first quarter, $10.7 million in the second quarter, and $368.6 million in the fourth quarter. The majority of these charges relate to the structural cost reduction program, which was announced by the Company on December 2, 1998. In anticipation of a relatively flat economic environment, the Company has undertaken a program to reduce the structural cost of doing business and to increase leverage when historical growth trends resume. The actions taken affect all four segments and include rationalization of operating locations, consolidation of sales and distribution facilities, workforce reductions and product pruning. The actions taken also include write-downs of businesses to be sold and an increase in environmental reserves.

In total, restructuring charges of $185.6 million, write-offs of $180.3 million and other of $33.5 million were recorded. Of the total $399.4 million pretax charges, it is expected that cash of $188.8 million will be used to complete the various actions included in the plan. All actions contemplated in the plan are expected to be completed within approximately one year, including all divestitures of non-core businesses. The restructuring charges include severance and other related costs for gross headcount reductions of 2,422. Since the majority of the charges were recorded late in the fourth quarter, only a relatively small amount of the expected cash to complete the actions had been spent as of the end of December 31, 1998. Except for environmental remediation costs, which will extend over many years, the majority of the cash expenditures to complete the plan are expected to be incurred in 1999.

The restructuring and nonrecurring charges recorded in 1998 are expected to generate future cash savings for the period 1999-2003 in the amount of $364.2 million. These savings are due to lower costs for facilities and lower salaries and wages. The restructuring and nonrecurring charges recorded in 1998 are expected to generate non-cash savings for the period 1999-2003 in the amount of $78.1 million. These savings are due to lower depreciation expense and lower goodwill amortization.

During 1997, the Company recorded restructuring and nonrecurring items of

$137.8 million. Most of this charge was recorded in the third quarter, when the Company took several actions to strengthen its operating performance and improve operating efficiencies. The 1997 restructuring charges break down across our business segments as follows: Pumps & Complementary Products $44.1 million; Specialty Products $12.9 million; and Headquarters and Other $80.8 million. The charge consists of $64.7 million for the write-down to fair value of the net assets of two non-core businesses expected to be divested, $57.0 million for asset write-offs and severance costs associated with the closure and consolidation of facilities and related workforce reductions, $15.0 million for an increase in environmental reserves, and $1.1 million loss on the sale of a non-core business. The projected cash to complete these actions was $36.4 million. All cash expenditures contemplated by the charges, except for some minor litigation issues and ongoing environmental remediation efforts, have been incurred by the end of 1998.

For more details of the restructuring and nonrecurring items recorded in 1998 and 1997, see Note 5 in Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash from operating activities of $188.5 million and total divestiture proceeds of $3.7 billion were used primarily for debt repayment of approximately $1.48 billion, repurchases of common stock of $830.8 million, capital expenditures of $212.9 million, acquisitions of $79.6 million, dividend payments of $70.5 million, and $624.7 million to fund the Company's discontinued automotive operations and to pay sales-related costs.

DIVESTITURES: During the third quarter of 1998, the Company sold its automotive Brake and Chassis and Electrical Systems businesses for combined proceeds of $3.7 billion. As of December 31, 1998, taxes paid on the gains were approximately $439.1 million. Additional taxes relating to the gains on the sales will be paid in 1999. In addition to the taxes, approximately $106.0 million of the costs associated with the sales have been paid by the end of 1998. In the current year, the Company also divested its Barton fluid measurement and Pomona electronics units. Total proceeds from divestitures amounted to $3.75 billion for the year.

SHARE REPURCHASE: During 1998, the Company repurchased 22,477,283 shares as a part of its share repurchase program announced on July 29, 1998. The total cost of the share repurchases was $830.8 million for 1998. In addition, 1,262,422, 2,323,814, and 522,132 shares in 1998, 1997 and 1996, respectively, were repurchased in connection with stock option exercises.

CASH FLOWS: Cash flows from operating activities were $188.5 million in 1998, a decrease of $209.2 million, or 52.6% from $397.7 million generated in 1997. In 1998, working capital cash requirements increased, primarily due to higher inventory levels, the timing of accounts receivable collections, and lower payables throughout the segments. The decrease in other net operating activities was mainly due to the timing of pension related payments and a larger reclassification of gains from asset sales compared to prior years, resulting primarily from the sales of Barton and Pomona units, to proceeds from the sale of assets.

DEBT AND CREDIT FACILITIES: External debt at December 31, 1998 was $767.1 million, compared to $2.17 billion at December 31, 1997. Proceeds from the divestiture of the Company's automotive businesses were used to significantly reduce the debt level. The maximum amount of borrowing available under the Company's revolving credit agreement at December 31, 1998 was $1.50 billion.

ADDITIONS TO PLANT, PROPERTY AND EQUIPMENT: Capital expenditures during 1998 were $212.9 million, a slight increase from $212.5 million in 1997. Approximately 35.3% of the 1998 spending was incurred at Pumps & Complementary Products related to expansion of production capacity and distribution of submersible pumps, new product lines and expansion into developing countries. Approximately 25.1% was incurred at Specialty Products related to expansion of production capacity at Friction Materials plants and installation of assembly equipment at Shock and Fluid Handling plants to cover new models. The Shocks' facility was expanded to house new assembly equipment. Additions to plant, property and equipment in future periods are expected to be somewhat higher than 1998 levels and are expected to be funded through the internal cash flows of the Company.

At December 31, 1998, contractual commitments have been made for future expenditures totaling $35.1 million.

ACQUISITIONS: During 1998, the Company acquired Rule, Sinton, A.G. Johansons, and The Great American Gumball Company for which it paid a total of $79.6 million. The acquisitions were accounted for as purchases and, accordingly, the results of operations of each acquired company are included in the income statement from the date of acquisition. The Company expects to use a portion of the proceeds from the sales of the automotive Brake and Chassis and Electrical Systems businesses to finance additional acquisitions. In 1997, the Company acquired Goulds, Kaman Sciences, and several smaller businesses for which it paid a total of $1.03 billion.

MARKET RISK EXPOSURES

The Company, in the normal course of doing business, is exposed to the risks associated with changes in interest rates, currency exchange rates, and commodity prices. To limit the risks from such fluctuations, the Company enters into various hedging transactions that have been authorized pursuant to the Company's policies and procedures. See Note 1, "Accounting Policies", and Note 16, "Financial Instruments", in the Notes to Consolidated Financial Statements.

To manage exposure to interest rate movements and to reduce its borrowing costs, the Company has borrowed in several currencies and from various sources and has used interest rate swaps. At December 31, 1998, the Company's cash and cash equivalents exceeded its short-term and long-term debt obligations. Based on this position, which the Company does not expect to continue into 1999, and the Company's overall exposure to interest rate changes, a 42 basis point increase in interest rates (which is equivalent to 10% of the Company's weighted average short-term interest rate at December 31, 1998) on the Company's cash and cash equivalents, and on its floating rate debt obligations and related interest rate derivatives, would have a $3.0 million positive effect on the Company's pretax earnings in the year ending December 31, 1999. A similar 42 basis point change in interest rates would have a $17.1 million effect on the fair value of the Company's fixed rate debt and related interest rate derivatives.

The multinational operations of the Company are exposed to foreign currency exchange rate risk. The Company utilizes foreign currency denominated forward contracts to hedge against adverse changes in foreign exchange rates. Such contracts generally have durations of less than one year. The Company has also utilized foreign currency denominated debt instruments to selectively hedge its net long-term investments in foreign countries. The Company's largest exposures to foreign exchange rates primarily exist with the Deutsche Mark, Belgian Franc, Swedish Krona, and Italian Lira against the U.S. Dollar.

A 10% adverse change in currency exchange rates for the Company's foreign currency derivatives and other foreign currency denominated financial instruments, held as of December 31, 1998, would have an impact of approximately $41.6 million on the fair value of such instruments. The Company uses derivative instruments to hedge exposures, and as such, the quantification of the Company's market risk for foreign exchange financial instruments does not account for the offsetting impact of the Company's underlying investment and transactional positions.

The Company purchases various non-ferrous metals for use in the production of certain of its products and on a limited basis, in 1997, used commodity based financial instruments to hedge the cost of anticipated purchases of non-ferrous metals. The contracts expired in 1998. Commodity derivative activity is not material to the Company's consolidated financial position, results of operations, or cash flows.

INCOME TAXES

FOREIGN TAX CREDITS: As a global company, the Company makes provisions for, and pays taxes, in numerous jurisdictions, some of which impose income taxes in excess of equivalent U.S. domestic rates. Credit for such taxes is generally available under U.S. tax laws when earnings are remitted or deemed to be remitted to the U.S. As of the end of 1998, the Company was able to fully utilize credits for income taxes paid in foreign jurisdictions in its U.S. consolidated tax return. However, in future years the Company may not be able to fully utilize such credits.

DEFERRED TAX ASSETS: The Company had a deferred tax asset of $367.4 million at December 31, 1998 and $295.3 million at December 31, 1997. The deferred tax asset for both periods is composed of U.S., foreign, and state and local deferred tax assets. The increase of $72.1 million is substantially due to the restructuring and other nonrecurring items recorded in 1998 and certain expenses related to the automotive sales that are not deductible in tax returns in 1998. It is management's expectation that the Company will have sufficient future taxable income from continuing operations to utilize these deductions in future periods.

RISKS AND UNCERTAINTIES

SALES OF BUSINESSES: The Company from time to time has made dispositions of various businesses, including the dispositions of most of its automotive businesses referred to in "Highlights -- Sales of ITT Automotive Businesses" herein. Certain of those dispositions have resulted in various claims or legal actions. Although it cannot be determined at this time whether or to what extent the Company will face obligations with respect to such claims or legal actions, management does not believe that any such obligation would have a material adverse effect on the cash flows, results of operations, or financial condition of the Company and its subsidiaries on a consolidated basis. See Note 19 "Commitments and Contingencies" in Notes to Consolidated Financial Statements.

ENVIRONMENTAL MATTERS: The Company is subject to stringent environmental laws and regulations that affect its operating facilities and impose liability for the cleanup of past discharges of hazardous substances. In the United States, these laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Management believes that the Company is in substantial compliance with these and all other applicable environmental requirements. Environmental compliance costs are accounted for as normal operating expenses.

In estimating the costs of environmental investigation and remediation, the Company considers, among other things, regulatory standards, its prior experience in remediating contaminated sites, and the professional judgment of environmental experts. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such problems, the selection of alternative remedies, and changes in cleanup standards. When it is possible to create reasonable estimates of liability with respect to environmental matters, the Company establishes reserves in accordance with generally accepted accounting principles. Insurance recoveries are recorded when fixed and determinable. Although the outcome of the Company's various remediation efforts presently cannot be predicted with a high level of certainty, management does not expect that these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

YEAR 2000 READINESS DISCLOSURE: The year 2000 ("Y2K") issue arises because many computer systems and other equipment with embedded technology use only two digits to define the applicable year and may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in failures or miscalculations causing disruptions of normal business activities and operations. The Company has undertaken initiatives and developed processes intended to ensure that its computer systems and other equipment with embedded technology are in a state of Y2K readiness so that such failures and miscalculations can be avoided or their effects mitigated if they occur.

The Company, through the efforts of its information technology, manufacturing, purchasing, engineering, quality assurance and other professionals, has conducted a comprehensive inventory and assessment of software and equipment to determine their state of Y2K readiness. Such professionals determined that it would be necessary to modify, upgrade or replace portions of such software and equipment. The process of modifying and upgrading or replacing such software and equipment has been under way since early 1997. As of December 31, 1998, the Company estimates that approximately 80% of software and equipment essential to the operations of the business, and 75% of all other software and equipment, has been modified, upgraded or replaced and tested to confirm Y2K compliance, based upon the number of items the Company has identified which require remediation. The Company believes that all software and equipment essential to the operations of the business will be made Y2K compliant by early in the third quarter 1999, and all other software and equipment deemed to require modification, upgrading or replacement should be completed by the end of the third quarter 1999.

The Company has also been engaged in communications with its vendors, service providers and other third parties with which it has business relationships to determine the extent to which these third parties are engaged in activities to assure their own Y2K readiness, and to determine the extent to which the Company would be vulnerable to a third party's failure to address its own issues. The Company is continuing the process of determining third party Y2K readiness and as of December 31, 1998 had communicated with all critical suppliers and vendors who supply products and services critical to the operations of the Company's businesses. The Company has utilized questionnaires, telephone interviews, site visits and audits in an effort to assess preparedness of such suppliers and vendors, and, based on the results of these efforts, believes that approximately 30% of such suppliers and vendors were Y2K ready as of December 31, 1998. The Company hopes to be able to complete its assessment of supplier/vendor Y2K readiness by early April, 1999. Alternative supply arrangements or other contingency plans will be considered for those critical suppliers/vendors who are not assessed as being Y2K ready by then.

The Company is developing contingency plans and estimates of the costs of implementing such plans in the event the Company or certain third parties fail to complete their Y2K readiness initiatives on a timely basis. Such contingency plans may include: stockpiling raw materials, increasing inventory levels, qualifying alternate sources of supply, considering alternative power sources, scheduling factory holiday shutdown after the new year, and other similar measures. The Company expects to continue its risk analysis and contingency planning throughout 1999, as additional information regarding Y2K readiness of third parties becomes known.

The Company derives approximately 34% of its consolidated revenues from outside of the United States, primarily Western Europe, the United Kingdom and Canada. The Company is also developing contingency plans and cost estimates of implementing such plans that it believes at this time may be necessary to mitigate the effect of possible business and operating disruptions in other countries resulting from lack of Y2K readiness of third parties in such countries.

The Company anticipates that the "most reasonably likely worst case scenario" associated with the Y2K issue would result from disruptions in its supply chain with respect to materials used in the manufacturing process or other products and services provided by third parties essential to the Company's operations. However, the Company does not believe that any such disruption should have a material effect on the Company's financial condition.

Currently, the Company estimates that the aggregate cost of its Y2K initiatives will total approximately $20 million. As of December 31, 1998, approximately $10.6 million of costs related to its Y2K initiatives have been incurred, approximately 80% of which has been expensed. The Company does not separately track the cost of internal professionals who are involved in its Y2K readiness activities; however such costs are principally related to their payroll costs. The Company does not believe that the costs of these Y2K initiatives should be material to the Company's consolidated financial condition, results of operations, or cash flows. However, a failure by the Company to complete the necessary modifications, upgrades, replacements and testing on a timely basis or to develop and implement appropriate contingency plans could result in lost or delayed sales and revenue. In addition, if third parties, including those in countries outside of the United States, fail to complete their Y2K readiness programs on a timely basis, the Company's results could be negatively affected.

The costs of the Company's Y2K readiness initiatives and the dates on which the Company believes that it and the operating segments will complete such activities are estimates and subject to change. Actual results could differ from those currently anticipated. Specific factors that could cause such differences include, but are not limited to, the availability and cost of personnel trained in Y2K issues; the ability to identify, assess, modify, upgrade, replace and test all relevant software and equipment; the failure of third parties to satisfactorily address their Y2K issues on a timely basis; the failure of countries outside the United States in which the Company conducts business to satisfactorily address Y2K issues; and similar uncertainties.

EURO CONVERSION ISSUE: The Company is addressing issues raised by the conversion to the Euro, such as assessing whether cross-border price transparency will affect price structures for similar products and adapting its information technology systems. The Company's efforts to adapt its systems differ at its various European operations. All operations are able to accommodate Euro-denominated invoicing and purchasing transactions. The Company's European operations are formulating plans to accommodate all Euro-denominated transactions and triangulation conventions by January 1, 2002, and some of these operations have already implemented the utilization of the Euro as a transactional currency. The Company anticipates that its costs in connection with the Euro conversion will not be material. Further, the Company does not anticipate that the conversion from the legacy currencies to the Euro would have a material adverse impact on its consolidated financial condition, results of operations, or cash flows.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including in this Management's Discussion and Analysis of Financial Condition and Results of Operations (most particularly, material presented under "Restructuring and Nonrecurring Items", "Liquidity and Capital Resources", "Market Risk Exposures", and "Risks and Uncertainties"), that are not historical facts, constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Company and its businesses to be materially different from that expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; political, social and economic conditions and local regulations in the countries in which the Company conducts its businesses; government regulations and compliance therewith; demographic changes; sales and revenues mix; pricing levels; changes in sales and revenues to, or the identity of, significant customers; changes in technology; industry capacity and production rates; ability of outside third parties to comply with their commitments; competition; capacity constraints; availability of raw materials and adequate labor; availability of appropriate professional expertise; availability of liquidity sufficient to meet the Company's needs; the ability to adapt to changes resulting from acquisitions and divestitures and to effect cost reduction programs and various other factors referenced in this Management's Discussion and Analysis.

Our Connectors & Switches business could be affected by the economic conditions in foreign markets, both those in which we currently participate, and those that we are trying to enter; the level of defense funding by domestic and foreign governments; and the cyclical nature of the industry.

Our Defense Products & Services business could be affected by factors including the level of defense funding by domestic and foreign governments; our ability to receive contract awards; and our ability to develop and market products and services for customers outside of traditional markets.

Our Pumps & Complementary Products business could be affected by factors including global economic conditions; governmental funding levels; international demand for fluid management products; the ability to successfully expand into new geographic markets; weather conditions; and continued demand for replacement parts.

Our Specialty Products business could be affected by the cyclical nature of the transportation industries; strikes at major auto producers; and international demand for fluid management products.

The Company assumes no obligation to update forward-looking statements to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 7A is provided under the caption "Market Risk Exposures" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedule herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10 with respect to directors is incorporated herein by reference to the definitive proxy statement involving the election of directors filed or to be filed by ITT Industries with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K Annual Report.

The information called for by Item 10 with respect to executive officers is set forth above in Part I under the caption "Executive Officers of ITT Industries."

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as a part of this report:

1. See Index to Consolidated Financial Statements and Schedule appearing on page F-1 for a list of the financial statements and schedule filed as a part of this report.

2. See Exhibit Index appearing on pages II-2, II-3 and II-4 for a list of the exhibits filed or incorporated herein as a part of this report.

(b) On October 13, 1998, ITT Industries, Inc. filed a Form 8-K Current Report to report the closing of the sales of its automotive Brake and Chassis business and its automotive Electrical Systems business.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

ITT INDUSTRIES, INC. AND SUBSIDIARIES

REPORT OF MANAGEMENT

The management of ITT Industries, Inc. is responsible for the preparation and integrity of the information contained in the consolidated financial statements and other sections of this document. The consolidated financial statements are prepared in accordance with generally accepted accounting principles and, where necessary, include amounts that are based on management's informed judgments and estimates. Other information herein is consistent with the consolidated financial statements.

ITT Industries' consolidated financial statements are audited by Arthur Andersen LLP, independent public accountants, whose appointment is ratified by the shareholders. Management has made ITT Industries' financial records and related data available to Arthur Andersen LLP, and believes that the representations made to the independent public accountants are valid and complete.

ITT Industries' system of internal controls is a major element in management's responsibility to assure that the consolidated financial statements present fairly the Company's financial condition. The system includes both accounting controls and the internal auditing program, which are designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly recorded and executed in accordance with management's authorization, and that fraudulent financial reporting is prevented or detected.

ITT Industries' internal controls provide for the careful selection and training of personnel and for appropriate divisions of responsibility. The controls are documented in written codes of conduct, policies, and procedures that are communicated to ITT Industries' employees. Management continually monitors the system of internal controls for compliance. In addition, based upon management's assessment of risk, both operational and financial, special reviews are performed by contracted auditors to periodically test the effectiveness of selected controls. The independent public accountants also evaluate internal controls and perform tests of procedures and accounting records to enable them to express their opinion on ITT Industries' consolidated financial statements. They also make recommendations for improving internal controls, policies, and practices. Management takes appropriate action in response to each recommendation.

The Audit Committee of the Board of Directors, composed of non-employee directors, meets periodically with management and with the independent public accountants and contracted auditors to evaluate the effectiveness of the work performed by them in discharging their respective responsibilities.

/s/ TRAVIS ENGEN

\- --

Travis Engen
Chairman and
Chief Executive

/s/ HEIDI KUNZ

\- --

Heidi Kunz
Executive Vice President and
Chief Financial Officer

ITT INDUSTRIES, INC AND SUBSIDIARIES
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of ITT Industries, Inc.:

We have audited the consolidated financial statements of ITT Industries, Inc. (an Indiana corporation) and subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, as described in the accompanying Index to Consolidated Financial Statements and Schedule. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ITT Industries, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 1997, the Company changed its method of accounting for reengineering costs incurred in connection with the development and installation of software for internal use in accordance with the Emerging Issues Task Force Issue No. 97-13.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Consolidated Financial Statements and Schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

STAMFORD, CONNECTICUT
JANUARY 27, 1999

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Sales and revenues	$4,492.7	$4,207.6	$3,744.5
Costs of sales and revenues	3,165.9	2,982.7	2,690.4
Selling, general and administrative expenses	730.0	663.7	564.1
Research, development and engineering expenses	267.6	266.6	266.3
Restructuring and nonrecurring items	399.4	137.8	--
Other operating expenses (income)	4.4	15.5	(22.3)
Total costs and expenses	4,567.3	4,066.3	3,498.5
Operating income (loss)	(74.6)	141.3	246.0
Interest expense	(125.8)	(133.2)	(169.0)
Interest income	43.4	17.5	32.7
Miscellaneous income (expense)	(3.0)	(6.1)	1.0
Income (loss) from continuing operations before income tax expense	(160.0)	19.5	110.7
Income tax (expense) benefit	62.4	(7.6)	(44.3)
Income (loss) from continuing operations	(97.6)	11.9	66.4
Discontinued operations:			
Operating income, net of tax of $53.1, $65.1 and $104.1	83.2	101.8	156.2
Gain on sales of ITT Automotive, net of tax of $835.0	1,546.9	--	--
Cumulative effect of accounting change, net of tax benefit of $3.6	--	(5.6)	--
Net income	$1,532.5	$ 108.1	$ 222.6
EARNINGS (LOSS) PER SHARE			
Income (loss) from continuing operations			
Basic	$ (.86)	$ .10	$ .56
Diluted	$ (.86)	$ .10	$ .55
Discontinued operations			
Basic	$ 14.41	$ .86	$ 1.33
Diluted	$ 14.41	$ .84	$ 1.30
Cumulative effect of accounting change			
Basic	--	(.05)	--
Diluted	--	(.05)	--
Net income			
Basic	$ 13.55	$ .91	$ 1.89
Diluted	$ 13.55	$ .89	$ 1.85
AVERAGE COMMON SHARES -- BASIC	113.1	118.4	117.9
AVERAGE COMMON SHARES -- DILUTED	113.1	121.0	120.4

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN MILLIONS)

	YEAR ENDED DECEMBER 31, 1998		
	PRETAX INCOME (EXPENSE)	TAX (EXPENSE) BENEFIT	AFTER-TAX AMOUNT
Net income			$1,532.5
Other income (loss):			
Foreign currency translation:			
Adjustments arising during period	$ 18.0	$ 3.0	21.0
Reclassifications included in net income	(182.7)	(22.1)	(204.8)
Unrealized gain (loss) on investment securities	(2.1)	--	(2.1)
Total other income (loss)	$(166.8)	$(19.1)	(185.9)
COMPREHENSIVE INCOME			$1,346.6

	YEAR ENDED DECEMBER 31, 1997		
	PRETAX INCOME (EXPENSE)	TAX (EXPENSE) BENEFIT	AFTER-TAX AMOUNT
Net income			$108.1
Other income (loss):			
Foreign currency translation:			
Adjustments arising during period	$ 38.3	$(7.5)	30.8
Reclassifications included in net income	(24.1)	(1.1)	(25.2)
Unrealized gain (loss) on investment securities	1.6	--	1.6
Total other income (loss)	$ 15.8	$(8.6)	7.2
COMPREHENSIVE INCOME			$115.3

	YEAR ENDED DECEMBER 31, 1996		
	PRETAX INCOME (EXPENSE)	TAX (EXPENSE) BENEFIT	AFTER-TAX AMOUNT
Net income			$222.6
Other income (loss):			
Foreign currency translation:			
Adjustments arising during period	$6.5	$(6.4)	0.1
Total other income (loss)	$6.5	$(6.4)	0.1
COMPREHENSIVE INCOME			$222.7

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

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

	DECEMBER 31, 1998	DECEMBER 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 880.9	$ 192.2
Receivables, net	842.6	727.1
Inventories, net	578.9	572.4
Other current assets	80.0	82.7
Total current assets	2,382.4	1,574.4
Plant, property and equipment, net	991.6	1,031.2
Deferred income taxes	367.4	295.3
Goodwill, net	865.3	859.6
Other assets	442.1	366.5
Net assets of discontinued operations	--	931.4
	$5,048.8	$5,058.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Commercial paper	$ --	$ 698.4
Accounts payable	396.2	409.3
Accrued expenses	932.9	701.7
Accrued taxes	570.1	143.4
Notes payable and current maturities of long-term debt	251.6	943.0
Total current liabilities	2,150.8	2,895.8
Pension benefits	178.0	165.1
Postretirement benefits other than pensions	241.9	263.9
Long-term debt	515.5	531.2
Other liabilities	662.6	380.1
	3,748.8	4,236.1
Shareholders' Equity:		
Common stock: Authorized -- 200,000,000 shares, $1 par value per share Outstanding -- 95,967,976 shares and 118,445,827 shares	96.0	118.4
Capital surplus	--	397.0
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on investment securities	(0.5)	1.6
Cumulative translation adjustments	(67.0)	116.8
	(67.5)	118.4
Retained earnings	1,271.5	188.5
	1,300.0	822.3
	$5,048.8	$5,058.4

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
OPERATING ACTIVITIES			
Net income	$ 1,532.5	$ 108.1	$ 222.6
Discontinued operations:			
Operating income	(83.2)	(101.8)	(156.2)
Gain on sales of ITT Automotive	(1,546.9)	--	--
Cumulative effect of accounting change	--	5.6	--
Income (loss) from continuing operations	(97.6)	11.9	66.4
Adjustments to income (loss) from continuing operations:			
Depreciation	157.5	166.9	177.7
Amortization	38.1	30.0	9.6
Nonrecurring charges	430.5	136.7	--
Change in receivables, inventories, accounts payable, and accrued expenses	(137.6)	100.0	(68.1)
Change in accrued and deferred taxes	(136.4)	(43.9)	53.8
Other, net	(66.0)	(3.9)	2.3
Cash from operating activities	188.5	397.7	241.7
INVESTING ACTIVITIES			
Additions to plant, property and equipment	(212.9)	(212.5)	(176.0)
Acquisitions	(79.6)	(1,026.2)	--
Proceeds from sale of assets	3,745.1	21.1	133.4
Other, net	3.9	(0.8)	(0.1)
Cash from (used for) investing activities	3,456.5	(1,218.4)	(42.7)
FINANCING ACTIVITIES			
Short-term debt, net	(1,419.8)	1,058.6	(111.4)
Long-term debt repaid	(61.4)	(259.7)	(66.5)
Long-term debt issued	9.0	1.4	1.1
Repurchase of common stock	(830.8)	(67.8)	(11.4)
Dividends paid	(70.5)	(71.1)	(53.4)
Other, net	39.5	36.0	31.1
Cash from (used for) financing activities	(2,334.0)	697.4	(210.5)
EXCHANGE RATE EFFECTS ON CASH AND CASH EQUIVALENTS	2.4	(10.9)	(12.1)
CASH FROM (USED FOR) DISCONTINUED OPERATIONS	(624.7)	204.5	51.3
Increase in cash and cash equivalents	688.7	70.3	27.7
Cash and cash equivalents -- beginning of year	192.2	121.9	94.2
CASH AND CASH EQUIVALENTS -- END OF YEAR	$ 880.9	$ 192.2	$ 121.9
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 121.8	$ 111.9	$ 158.7
Income taxes	$ 107.1	$ 84.2	$ 24.2

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	SHARES OUTSTANDING			DOLLARS		
	1998	1997	1996	1998	1997	1996
COMMON STOCK						
Beginning balance	118,445,827	118,436,579	117,068,833	$ 118.4	$118.4	$117.1
Stock incentive plans	1,261,854	2,333,062	1,889,878	1.3	2.3	1.8
Repurchases	(1,262,422)	(2,323,814)	(522,132)	(1.3)	(2.3)	(0.5)
Stock repurchase program	(22,477,283)	--	--	(22.4)	--	--
Ending Balance	95,967,976	118,445,827	118,436,579	$ 96.0	$118.4	$118.4
CAPITAL SURPLUS						
Beginning balance				$ 397.0	$418.2	$398.5
Stock incentive plans				28.7	43.3	31.7
Repurchases				(46.9)	(64.5)	(12.0)
Stock repurchase program				(378.8)	--	--
Ending Balance				$ --	$397.0	$418.2
UNREALIZED GAIN (LOSS) ON INVESTMENT SECURITIES, NET OF TAX						
Beginning balance				$ 1.6	$ --	$ --
Unrealized gain (loss)				(2.1)	1.6	--
Ending Balance				$ (0.5)	$ 1.6	$ --
CUMULATIVE TRANSLATION ADJUSTMENTS						
Beginning balance				$ 116.8	$111.2	$111.1
Translation of foreign currency financial statements				21.0	30.8	0.1
Sale of net foreign investments				(204.8)	(25.2)	--
Ending Balance				$ (67.0)	$116.8	$111.2
RETAINED EARNINGS						
Beginning balance				$ 188.5	$151.4	$ --
Net income				1,532.5	108.1	222.6
Common stock dividend declared -- $.60, $.60 and $.60				(68.1)	(71.0)	(71.2)
Stock repurchase program				(381.4)	--	--
Ending Balance				$1,271.5	$188.5	$151.4
TOTAL SHAREHOLDERS' EQUITY				$1,300.0	$822.3	$799.2

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

ITT INDUSTRIES, INC. AND SUBSIDIARIES

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

1. ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES: The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all majority-owned subsidiaries. All significant intercompany transactions have been eliminated.

SALES AND REVENUE RECOGNITION: ITT Industries, Inc. (the "Company") recognizes revenues as services are rendered and recognizes sales as products are shipped to customers. Sales from long-term contracts in the Defense business are recognized on the percentage of completion method, generally based on the ratio of units delivered to total units. Losses on long-term contracts are recognized when events and circumstances indicate that a loss will be incurred.

RESEARCH, DEVELOPMENT AND ENGINEERING: Significant costs are incurred each year in connection with research, development, and engineering ("RD&E") programs that are expected to contribute to future earnings. Such costs are charged to income as incurred, except to the extent recoverable under existing contracts. Approximately 67.4%, 68.4%, and 58.4% of total RD&E costs were expended pursuant to customer contracts for each of the three years ended December 31, 1998, 1997, and 1996, respectively.

CASH AND CASH EQUIVALENTS: The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES: Most inventories are valued at the lower of cost (first-in, first-out or "FIFO") or market. A full absorption procedure is employed using standard cost techniques that are customarily reviewed and adjusted annually. Potential losses from obsolete and slow-moving inventories are provided for when identified. Goulds' domestic inventories are valued using the last-in, first-out ("LIFO") method and represent 12.3% of total 1998 inventories. There would not have been a material difference in the value of inventories if the FIFO method had been used by the Company to value all inventories.

ASSET IMPAIRMENT LOSSES: The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts.

PLANT, PROPERTY AND EQUIPMENT: Plant, property and equipment, including capitalized interest applicable to major project expenditures, are recorded at cost. The Company normally claims the maximum depreciation deduction allowable for tax purposes. In general, for financial reporting purposes, depreciation is provided on a straight-line basis over the useful economic lives of the assets involved as follows: buildings and improvements -- 5 to 40 years, machinery and equipment -- 2 to 10 years, and other -- 5 to 40 years. Gains or losses on sale or retirement of assets are included in income.

GOODWILL: The excess of cost over the fair value of net assets acquired is amortized on a straight-line basis generally over a 40 year period. Accumulated amortization was $50.8 and $40.6 at December 31, 1998 and 1997, respectively.

FOREIGN CURRENCY TRANSLATION: Balance sheet accounts are translated at the exchange rate in effect at each year-end and income accounts are translated at the average rates of exchange prevailing during the year. The national currencies of the foreign companies are generally the functional currencies. (Gains) losses from foreign currency transactions are reported currently in other operating expenses (income) and were $(2.2), $(5.5), and $(3.1) in 1998, 1997, and 1996, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS: The Company has used a variety of derivative financial instruments, including interest rate swaps and foreign currency forward contracts and/or swaps as a means of hedging exposure to interest rate and foreign currency risks. The Company and its subsidiaries are end-users and do not utilize these instruments for speculative purposes. The Company has rigorous standards regarding the financial stability and credit standing of its major counterparties.

Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net payments are recognized as an adjustment to interest. Should the swap be terminated, unrealized gains or losses are deferred and amortized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt instrument.

ENVIRONMENTAL REMEDIATION COSTS: Accruals for environmental matters are recorded on a site by site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. The Company's estimated liability is reduced to reflect the anticipated participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of the relevant costs. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Accruals for environmental liabilities are generally included in the balance sheet as "Other liabilities" at undiscounted amounts and exclude claims for recoveries from insurance companies or other third parties. Recoveries from insurance companies or other third parties are recorded as "Other assets" when it is probable that a claim will be realized.

EARNINGS PER SHARE: Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding and potentially dilutive common shares, which include stock options. However, potential common shares are not included in the computation of any diluted per share amount when a loss from continuing operations exists, even when the Company reports net income.

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS: Certain amounts in the prior years' consolidated financial statements have been reclassified to conform with the current year presentation.

RESTATEMENTS: Prior years' financial statements have been restated to reflect the discontinued status of the ITT Automotive businesses sold in 1998, ITT Automotive businesses sold in previous years, and for the new segment structure resulting from the sales of the ITT Automotive businesses and the implementation of Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information".

2. CHANGES IN ACCOUNTING POLICIES

In January 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 requires the disclosure of comprehensive income, which includes, in addition to net income, other comprehensive income consisting of unrealized gains and losses which bypass the traditional income statement and are recorded directly into a separate section of shareholders' equity on the balance sheet. The components of other comprehensive income for the Company consist of unrealized gains and losses relating to the translation of foreign currency financial statements, hedges of net foreign investments, and certain investment securities.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires companies to formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. This statement shall be effective for all fiscal quarters of all fiscal years beginning after June 15, 1999, which, for the Company, would be the calendar year beginning January 1, 2000. The Company has not yet quantified the impacts of adopting SFAS No. 133 on reported financial results and has not determined the timing of, or method of, adoption. However, given the current level of the Company's derivative and hedging activities, the impact is not expected to be material.

In December 1997, the Company changed its method of accounting for reengineering costs incurred in connection with the development and installation of software for internal use in accordance with Emerging Issues Task Force ("EITF") Issue No. 97-13. EITF Issue No. 97-13 requires that reengineering costs which previously could be deferred and amortized be expensed as incurred and costs previously capitalized be written off in the current year.

3. EARNINGS PER SHARE

A reconciliation of the data used in the calculation of basic and diluted earnings per share computations for income from continuing operations is as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Basic Earnings Per Share			
Income (loss) from continuing operations available to common shareholders	$(97.6)	$ 11.9	$ 66.4
Average common shares outstanding	113.1	118.4	117.9
Basic earnings per share	$ (.86)	$ .10	$ .56
Diluted Earnings Per Share			
Income (loss) from continuing operations available to common shareholders	$(97.6)	$ 11.9	$ 66.4
Average common shares outstanding	113.1	118.4	117.9
Add: Stock options	--(a)	2.6(b)	2.5(b)
Average common shares outstanding on a diluted basis	113.1	121.0	120.4
Diluted earnings per share	$(.86)	$ .10	$ .55

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(a) Stock Options of 3,291,544 at the end of 1998 are not included in the computation of diluted earnings per share because the Company has a loss from continuing operations and inclusion of the options would be antidilutive.

(b) Options to purchase 205,900 and 1,924,300 shares of common stock at $31.94 and $25.38 per share were outstanding at December 31, 1997 and 1996, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the annual average market price of the common shares. These options, which expire in 2007 and 2006, were outstanding at the end of the respective periods.

4. ACQUISITIONS

On June 25, 1998 the Company acquired Rule Industries, Inc. ("Rule")from Kennametal, Inc. for $62.6. The purchase price exceeded the fair value of the net assets acquired by $53.1 and has been recorded as goodwill, which is being amortized over 40 years. Rule manufactures marine products, including submersible pumps, anchors and compasses, and has annual sales of approximately $25. The Company also made three other small acquisitions during 1998: A.G. Johansons Metallfabrik AB, Sinton Engineering Co. Limited and Sinton (UK) Limited for our Specialty Products segment, and The Great American Gumball Company for our Connectors & Switches segment. These acquisitions were accounted for using the purchase method. The results of these businesses and of Rule were not material in relation to the Company's consolidated results of operations.

On May 23, 1997, the Company acquired Goulds Pumps, Incorporated (Goulds) for a purchase price of $865.2. Complementing the Company's existing pump businesses, Goulds has been a leader in the manufacture and marketing of high quality pumps for residential, chemical, sewage and drainage, pulp and paper, agricultural, mining, and a variety of other applications. The acquisition was funded with short-term borrowings and was accounted for using the purchase method. The purchase price was allocated to the assets acquired and the liabilities assumed. The excess of the purchase price, plus assumed liabilities of $442, over the fair value of assets acquired was $688 and has been recorded as goodwill which is being amortized generally over a period of 40 years. The operating results of Goulds have been included in the consolidated income statements from the date of acquisition. The following unaudited pro forma financial information presents results as if the acquisition had occurred at the beginning of the respective periods.

	YEARS ENDED DECEMBER 31, (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	
	1997	1996
Net sales	$4,509.8	$4,518.9
Net income	97.0	204.8
Earnings per share -- Basic	.82	1.74
Earnings per share -- Diluted	.80	1.70

These pro forma results have been prepared for comparative purposes only and include certain adjustments such as additional depreciation expense as a result of a step-up in the basis of fixed assets, additional amortization expense as a result of goodwill arising from the purchase, and increased interest expense on acquisition debt. The pro forma results are not necessarily indicative of the results of operations which actually would have resulted had the purchase been in effect at the beginning of the respective periods or of future results.

On December 30, 1997, the Company acquired Kaman Sciences Corporation (renamed ITT Systems & Sciences Corporation) for a purchase price of approximately $135. ITT Systems & Sciences Corporation supplies the government with high technology services in information systems. The acquisition was funded with short-term borrowings and was accounted for using the purchase method. The purchase price, plus assumed liabilities of $23, exceeded the fair value of assets acquired by approximately $111, which is being amortized over a 40 year period and has been recorded as goodwill.

During 1997, the Company also acquired several other businesses at a net cost of $103.7. The results of operations of these businesses and of ITT Systems & Sciences Corporation were not material in relation to the Company's consolidated results of operations.

5. RESTRUCTURING AND NONRECURRING ITEMS

During 1998, the Company recorded restructuring and other nonrecurring items of $20.1 in the first quarter, $10.7 in the second quarter, and $368.6 in the fourth quarter. The majority of these charges relate to the structural cost reduction program which was announced by the Company on December 2, 1998. In anticipation of a relatively flat economic environment, the Company has undertaken a program to reduce the structural cost of doing business and to increase leverage when historical growth trends resume. The actions taken affect all four segments and include rationalization of operating locations, consolidation of sales and distribution facilities, workforce reductions and product pruning. These actions also include write-downs of businesses to be sold and an increase in reserves for environmental exposures.

Restructuring and nonrecurring items for the year ended December 31, 1998, are detailed in the table below.

	RESTRUCTURING	WRITE-OFFS	OTHER	TOTAL
Connectors & Switches	$ 61.2	$ 41.2	$ --	$102.4
Defense Products & Services	20.5	49.1	--	69.6
Pumps & Complementary Products	94.7	52.9	--	147.6
Specialty Products	4.2	1.5	3.3	9.0
Corporate and Other	5.0	35.6	30.2	70.8
Total	$185.6	$180.3	$33.5	$399.4

The projected aggregate cash impact to complete these actions is approximately $188.8. The projected aggregate future cash savings for the period 1999-2003 are approximately $364.2. The projected aggregate future non-cash savings for the same period are approximately $78.1. The projected future cash savings consist of lower facility operating costs and lower salary and wage expenditures. The projected future non-cash savings consist of lower depreciation and goodwill amortization. All of the actions contemplated by the plan are expected to be completed within approximately one year. As of December 31, 1998, approximately $8.4 of the planned cash expenditures have been incurred. Except for environmental remediation costs, which will extend over many years, the majority of the remaining cash expenditures will be incurred in 1999.

The restructuring activities to be undertaken involve the closure of facilities, sales offices and distribution centers worldwide; facility consolidations; the discontinuance of product lines; and reductions in workforce to reduce costs and improve profitability. In Connectors & Switches, several labor intensive operations in Europe are to be consolidated into a low wage facility in Eastern Europe and other site consolidations will occur to eliminate duplication of processes and to relocate to lower cost areas. Defense Products & Services expects to exit two facilities in the United States. In Pumps & Complementary Products, twenty facilities, including distribution centers, sales offices and manufacturing locations, are being closed and eight product lines are being discontinued. Costs which are not directly related to exit activities and which are expected to benefit future periods, such as costs to relocate and train employees, will be expensed as incurred. Estimated severance costs included in restructuring are $92.5. The Company expects to reduce its workforce by an aggregate of 2,422 persons. As of December 31, 1998, aggregate headcount reductions were 425 persons.

Asset write-offs have been taken when current events and circumstances indicate that asset values may be impaired using the criteria of SFAS No. 121. Write-offs in Connectors & Switches relate to assets which have become idle or are expected to be taken out of service, because sales volumes have not materialized, and to assets which are deemed to be impaired because their net book values exceeded the estimated future cash flows to be generated by those assets. The majority of the idle assets have no value because of their specialized nature or because of their poor condition and have been written off. The impaired assets have been written down to estimated fair values. Write-offs also include certain capitalized software costs which have no future utility since the business has chosen to implement a new software platform and goodwill in the amount of $6.6 related to two products for which a substantial decline in sales over the next few years is anticipated. Write-offs in Defense Products & Services represent the write-down to fair value of net assets which are expected to be sold in 1999. Estimates of fair values were developed internally based upon anticipated future cash flows to be generated.

Pumps & Complementary Products undertook a review of certain of its operations where current events and circumstances indicate that asset values may be impaired. It was determined that goodwill of $22.5 related to operations in Venezuela and Mexico had no value, and that assets of the Richter business were overvalued by approximately $9.1. Also included in this charge are write-offs of $11.1 related to information systems which will no longer be used due to migrations to new information system platforms and other asset write-downs of $10.2. At Corporate, the Company has written down to fair value the net assets of three non-core businesses expected to be divested by the end of 1999. Estimated fair values were developed internally based upon preliminary discussions with potential buyers.

Other at Corporate of $30.2 includes a charge of $44.2, net of expected future recoveries, for anticipated costs to remediate certain environmental sites, and gains on the sale of two non-core businesses. Additional environmental charges of $3.3 were recorded in Specialty Products.

During 1997, the Company recorded restructuring and nonrecurring charges of $137.8. Most of this charge was recorded in the third quarter, when the Company took several actions to strengthen its operating performance and improve operating efficiencies. The 1997 restructuring charges break down across the business segments as follows: Pumps & Complementary Products $44.1; Specialty Products $12.9; and Corporate and Other $80.8. The charge included $64.7 for the write-down to fair value of the net assets of two non-core businesses expected to be divested and which have since been sold, $57.0 for asset write-offs and severance costs associated with the closure and consolidation of facilities and related workforce reductions of 25 persons, $15.0 to increase environmental reserves, and a $1.1 loss on the sale of a non-core business. The projected cash to complete these actions was $36.4. All cash expenditures contemplated by the charges, except for some minor litigation issues and ongoing environmental remediation efforts, were incurred by the end of 1998.

At December 31, 1998 and 1997, reserve balances for restructuring activities were $138.4 and $22.2, respectively.

6. DISCONTINUED OPERATIONS

On September 28, 1998, the Company closed the sale of its automotive Electrical Systems business to Valeo, SA of France for approximately $1,700. This transaction followed the sale of the Company's Brake and Chassis unit to Continental AG of Germany for approximately $1,930 completed on September 25, 1998. As a result of the sales, these two units, as well as several other small previously sold automotive units, have been accounted for as discontinued operations.

The revenues and expenses of the discontinued automotive operations have been removed from the consolidated income statements for all periods presented, with the income from discontinued operations, net of tax, reflected below income from continuing operations. The assets and liabilities of the discontinued automotive operations have been reclassified to net assets of discontinued operations in the consolidated balance sheet as of December 31, 1997. The cash used for the operations of the discontinued automotive operations in the consolidated statements of cash flows is reflected in "Cash from (Used for) Discontinued Operations".

The consolidated balance sheet as of December 31, 1998 reflects accrued taxes of $460.7 resulting from the gain on the sale of the discontinued automotive operations. Management expects the majority of the taxes to be paid by the end of 1999.

Revenues of the discontinued automotive operations for the nine months ended September 30, 1998 were $3,030.4. Revenues of the discontinued automotive operations for the years ended December 31, 1997 and 1996 were $4,627.1 and $5,031.6, respectively.

In 1998, the Company reported operating income, net of tax, from discontinued operations of $83.2. This amount included $101.7 of after-

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

tax income from the Company's discontinued automotive operations, partially offset by $18.5 of after-tax expense for adjustments of reserves relating to ITT Financial, which was reflected as a discontinued operation starting in 1994 and the majority of which was sold in 1995.

See Note 19 "Commitments and Contingencies" for further information regarding various claims and legal actions relating to dispositions of businesses, including the dispositions of most of the Company's automotive businesses referred to herein.

7. MISCELLANEOUS INCOME (EXPENSE)

Miscellaneous income (expense) includes the following:

	1998	1997	1996
Earnings (losses) of companies on an equity basis	$(1.1)	$(2.1)	$0.8
Other income (expense)	(1.9)	(4.0)	0.2
	$(3.0)	$(6.1)	$1.0

8. INCOME TAXES

Income tax data from continuing operations is as follows:

	1998	1997	1996
Pretax income (loss)			
U.S.	$(142.0)	$ (4.0)	$ 49.3
Foreign	(18.0)	23.5	61.4
	$(160.0)	$ 19.5	$110.7
(Provision) benefit for income tax			
Current			
U.S. federal	$ 14.8	$(36.6)	$(30.6)
State and local	(7.3)	(2.9)	(2.9)
Foreign	15.7	(38.7)	(18.5)
	23.2	(78.2)	(52.0)
Deferred			
U.S. federal	48.0	40.3	13.4
State and local	(0.1)	0.7	0.3
Foreign	(8.7)	29.6	(6.0)
	39.2	70.6	7.7
Total income tax (expense) benefit	$ 62.4	$ (7.6)	$(44.3)

A reconciliation of the tax (provision) benefit at the U.S. statutory rate to the effective income tax (expense) benefit rate as reported is as follows:

	1998	1997	1996
Tax (provision) benefit at U.S. statutory rate	35.0%	(35.0)%	(35.0)%
Foreign tax rate differential	2.0	(4.8)	(2.8)
Taxes on repatriation of foreign earnings	5.7	(4.9)	(7.4)
State income taxes, net of federal benefit	(3.0)	(7.2)	(1.5)
Goodwill	(5.3)	(19.0)	(0.3)
Research & expenditures credit	3.9	18.7	0.8
Tax audit issues	--	--	7.7
Tax benefit of foreign sales corporation	0.8	7.9	--
Other	(0.1)	5.3	(1.5)
Effective income tax (expense) benefit rate	39.0%	(39.0)%	(40.0)%

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred income taxes are established for all temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and for tax purposes.

Deferred tax assets (liabilities), for which no valuation allowances have been provided, include the following:

	DECEMBER 31,	
	1998	1997
Employee benefits	$ 26.9	$ 83.4
Accelerated depreciation	(92.8)	(57.2)
Reserves	357.8	144.4
Long-term contracts	7.7	11.9
Uniform capitalization	11.3	14.1
Loss carryforward	--	39.5
Other	31.7	28.6
	$342.6	$264.7

No provision was made for U.S. taxes payable on accumulated undistributed foreign earnings of approximately $361.0, since these amounts are permanently reinvested.

Shareholders' equity at December 31, 1998 and 1997 reflects tax benefits related to the exercise of stock options of approximately $4.5 and $7.9, respectively.

9. RECEIVABLES, NET

Receivables consist of the following:

	DECEMBER 31,	
	1998	1997
Trade	$753.5	$719.3
Accrued for completed work	22.3	26.8
Other	89.5	--
Less -- reserves	(22.7)	(19.0)
	$842.6	$727.1

10. INVENTORIES, NET

Inventories consist of the following:

	DECEMBER 31,	
	1998	1997
Finished goods	$ 206.2	$ 275.0
Work in process	511.6	379.3
Raw materials	209.8	219.0
Less -- reserves	(115.0)	(67.2)
-- progress payments	(233.7)	(233.7)
	$ 578.9	$ 572.4

11. OTHER CURRENT ASSETS

At December 31, 1998 and 1997, other current assets consist primarily of advance payments on contracts and prepaid expenses.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

12. PLANT, PROPERTY AND EQUIPMENT, NET

Plant, property and equipment consist of the following:

	DECEMBER 31, 1998	DECEMBER 31, 1997
Land and improvements	$ 51.5	$ 61.1
Buildings and improvements	346.7	366.3
Machinery and equipment	1,295.8	1,277.0
Construction work in progress	103.9	95.8
Other	509.1	489.1
	2,307.0	2,289.3
Less accumulated depreciation and amortization	(1,315.4)	(1,258.1)
	$ 991.6	$ 1,031.2

13. OTHER ASSETS

At December 31, 1998 and 1997, other assets consist primarily of prepaid pension and employee benefit plan costs, equity investments, and expected recoveries from third parties in relation to environmental and other claims.

14. LEASES AND RENTALS

Rental expenses under operating leases were $45.3, $55.0 and $49.4 for 1998, 1997 and 1996, respectively. Future minimum operating lease payments under long-term operating leases as of December 31, 1998 are shown below. Future commitments under capital leases are not significant.

1999	$ 48.5
2000	37.6
2001	28.5
2002	19.7
2003	18.8
2004 and thereafter	71.8
Total minimum lease payments	$224.9

15. DEBT

Debt consists of the following:

	DECEMBER 31, 1998	DECEMBER 31, 1997
Commercial paper	$ --	$ 698.4
Bank loans and other short-term	$ 201.6	$ 895.5
Long-term	561.1	574.5
Capital lease obligations	4.4	4.2
	767.1	1,474.2
Less -- current maturities	(251.6)	(943.0)
Long-term debt	$ 515.5	$ 531.2

The weighted average interest rate for bank loans and other short-term borrowings was 3.61% and 4.98% at December 31, 1998 and 1997, respectively. The fair value of the Company's bank loans and other short-term loans approximate carrying value. The estimated fair value of long-term debt at December 31, 1998 and 1997 was $626.8 and $653.7, respectively, based on discounted cash flows using the Company's incremental borrowing rates for similar maturities.

The Company maintains a revolving credit agreement which expires in November, 2000 with 61 domestic and foreign banks providing aggregate commitments of $1.5 billion. These commitments were unused at December 31, 1998. The interest rate for borrowings under these agreements is generally based on the London Interbank Offered Rate (LIBOR), plus a spread which reflects the Company's debt rating. The provisions of these agreements require the Company to maintain certain financial ratios and restrict indebtedness. Commitment fees on these revolving credit agreements range from .060% to .150% of the total commitment, based on the Company's current debt ratings.

Long-term debt and capital lease maturities and interest rate percentages as of December 31, 1998 were:

	BELOW 6.0	6.0-6.99	7.0-7.99	8.0-8.99	9.0-9.99	OVER 10.0	TOTAL
1999	$ 5.6	$ 8.4	$ 5.1	$ 0.1	$ --	$30.8	$ 50.0
2000	7.6	0.3	6.9	0.2	--	--	15.0
2001	1.0	58.9	0.7	13.8	18.9	--	93.3
2002	0.9	3.9	0.7	0.2	--	--	5.7
2003	0.2	0.2	0.7	13.7	--	--	14.8
Thereafter	46.1	31.9	289.5	28.6	32.8	--	428.9
Total --1998	$61.4	$103.6	$303.6	$56.6	$51.7	$30.8	$607.7
Total -- 1997	$58.9	$102.0	$310.4	$79.2	$49.3	$25.8	$625.6

The above balances as of December 31, 1998 and 1997 include amortizable debt discounts of $42.2 and $46.9, respectively. Assets pledged to secure indebtedness (including mortgage loans) amount to approximately $53.4 as of December 31, 1998.

16. FINANCIAL INSTRUMENTS

The Company uses a variety of derivative financial instruments, including interest rate swaps, foreign currency forward contracts and/or swaps, and on a limited basis, commodity collar contracts, as a means of hedging exposure to interest rates, foreign currency, and commodity price risks.

The Company's credit risk associated with these derivative contracts is generally limited to the unrealized gain on those contracts with a positive fair market value, reduced by the effects of master netting agreements, should any counterparty fail to perform as contracted. The counterparties to the Company's derivative contracts consist of a number of major international financial institutions. The Company continually monitors the credit quality of these financial institutions and does not expect non-performance by any counterparty.

FINANCING STRATEGIES AND INTEREST RATE RISK MANAGEMENT: The Company maintains a global debt portfolio to fund its operations. The Company and its subsidiaries at times use interest rate and cross currency interest rate swaps to manage the Company's debt portfolio, the related financing costs, and interest rate structure.

At December 31, 1998 and 1997, the Company had interest rate swaps outstanding with notional values totaling DM 150 million. These swaps were designed to manage the interest exposure of the Company's short-term debt. During 1997, the Company effectively terminated interest rate swaps with notional values totaling DM 260 million and original maturities ranging from 1998 to 2000 by entering into offsetting swaps with identical terms and maturities. These swaps and related counterswaps were accounted for at fair market value at the time of termination. Related gains and losses were recorded in income because such swaps no longer were deemed effective as hedges of the Company's underlying Deutsche Mark debt. The outstanding DM 150 million interest rate swap agreements maturing in the year 2000 require the Company to pay interest at fixed rates averaging 6.96% and receive interest at floating rates based on the Frankfurt Interbank Offered Rate which averaged 3.25% on December 31, 1998.

At December 31, 1997, the Company held cross currency interest rate swap agreements, with notional values totaling approximately $212. These swaps were terminated on August 17, 1998.

FOREIGN CURRENCY RISK MANAGEMENT: The Company and its subsidiaries have significant foreign operations and conduct business in various foreign currencies. The Company and its subsidiaries may periodically hedge transactions in currencies other than their own functional currency and non-functional currency cash flows and obligations, including intercompany financings. Changes in the spot rate of debt instruments designated as hedges of the net investment in a foreign subsidiary are reflected in the cumulative translation adjustment component of shareholders' equity. The Company regularly monitors its foreign currency exposures and ensures that hedge contract amounts do not exceed the amounts of the underlying exposures.

At December 31, 1998, the Company held foreign currency forward and swap contracts with notional amounts totaling approximately $460 to hedge foreign currency exposures. The Company's most significant foreign currency exposures are in the Deutsche Mark, Belgian Franc, and Swedish Krona. The majority of these contracts mature as of March 31, 1999.

COMMODITY PRICE RISK MANAGEMENT: The Company has utilized commodity derivatives, on a limited basis, to hedge its anticipated purchases of non-ferrous metals used in the production of certain pump products. As of December 31, 1997, the Company held two zero cost collars with a total notional amount of $3.5, with a weighted average ceiling of $2,500 (in whole dollars) per metric ton and with a weighted average floor of $2,034 (in whole dollars) per metric ton. These contracts matured in 1998. At December 31, 1998, the Company did not have any commodity derivatives.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS: The fair values of the Company's derivative financial instruments are as follows:

	(PAYABLE)/RECEIVABLE			
	DEC. 31, 1998		DEC. 31, 1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Interest rate swaps	$(3.7)	$(8.5)	$ (6.1)	$(11.5)
Cross currency interest rate swaps	$ --	$ --	$ 38.7	$ 44.1
Currency forwards/swaps	$(1.9)	$(2.1)	$ 4.8	$ (0.3)
Commodity collars	$ --	$ --	$ --	$ (0.3)

The following method and assumptions were used to estimate the fair value of these derivative financial instruments:

CURRENCY AND COMMODITY CONTRACTS AND INTEREST RATE SWAP AGREEMENTS: The fair value of commodity contracts and currency and interest rate swap agreements is estimated based on quotes from the market makers of these instruments and represents the estimated amounts that the Company would expect to receive or pay to terminate the agreements at the reporting date.

FOREIGN CURRENCY EXCHANGE CONTRACTS: The fair values associated with the foreign currency contracts has been estimated by valuing the net position of the contracts using the applicable spot rates and forward rates as of the reporting date.

17. EMPLOYEE BENEFIT PLANS

PENSION PLANS: The Company and its subsidiaries sponsor numerous defined benefit pension plans. The Company funds employee pension benefits, except in some countries outside the U.S. where funding is not required. The plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments and real estate. In addition to Company sponsored pension plans, certain employees of the Company participate in multi-employer pension plans sponsored by local or national unions. The Company's contribution to such plans amounted to $1.1, $3.9, and $3.9 for the years ended 1998, 1997, and 1996, respectively.

POSTRETIREMENT HEALTH AND LIFE: The Company and its subsidiaries provide health care and life insurance benefits for certain eligible retired employees. The Company has prefunded a portion of the health care and life insurance obligations, where such prefunding can be accomplished on a tax effective basis. The plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments, and real estate.

INVESTMENT AND SAVINGS PLANS: The Company sponsors numerous defined contribution savings plans which allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. Several of the plans require the Company to match a percentage of the employee contributions up to certain limits. Matching contributions charged to income amounted to $17.9, $14.6 and $13.9 for the years ended 1998, 1997 and 1996, respectively.

The first table below contains a reconciliation of the changes in the benefit obligations, the changes in plan assets, and the weighted average assumptions for the periods ending December 31, 1998 and 1997, respectively. The second table below contains the components of net periodic benefit cost for the years ended 1998, 1997, and 1996, respectively.

	PENSION		OTHER BENEFITS	
	1998	1997	1998	1997
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$3,055.5	$2,719.7	$ 423.0	$ 363.3
Service cost	58.4	54.2	4.8	5.0
Interest cost	215.4	211.5	29.5	28.7
Amendments made during the year	(25.3)	0.3	--	--
Actuarial loss	206.3	177.6	23.6	16.5
Obligations of acquired companies (transferred to others)	32.4	118.5	(4.8)	40.0
Benefits paid	(205.5)	(204.3)	(33.0)	(30.5)
Effect of currency translation	(3.1)	(22.0)	--	--
Benefit obligation at end of year	$3,334.1	$3,055.5	$ 443.1	$ 423.0
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$3,067.7	$2,595.2	$ 187.5	$ 164.7
Actual return on plan assets	445.3	551.8	20.3	28.5
Assets of acquired companies (transferred to others)	29.6	111.4	--	--
Employer contributions	55.9	17.3	--	--
Employee contributions	1.0	0.9	--	--
Benefits paid	(206.0)	(202.3)	(4.0)	(5.7)
Effect of currency translation	(4.9)	(6.6)	--	--
Fair value of plan assets at end of year	$3,388.6	$3,067.7	$ 203.8	$ 187.5
Funded status	$ 54.5	$ 12.2	$(239.3)	$(235.5)
Unrecognized net transition (asset)	(11.3)	(15.3)	--	--
Unrecognized net actuarial (gain) loss	(66.2)	(84.8)	22.6	1.5
Unrecognized prior service cost	53.3	88.7	(25.2)	(29.9)
Prepaid (accrued) benefit cost recognized in the balance sheet	$ 30.3	$ 0.8	$(241.9)	$(263.9)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31,				
Discount rate	6.70%	7.25%	6.75%	7.25%
Expected return on plan assets	9.63%	9.73%	9.75%	9.75%
Rate of future compensation increase	4.91%	5.01%	5.00%	5.00%

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	PENSION			OTHER BENEFITS		
	1998	1997	1996	1998	1997	1996
COMPONENTS OF NET PERIODIC BENEFIT COST						
Service cost	$ 58.4	$ 54.2	$ 51.0	$ 4.8	$ 5.0	$ 4.0
Interest cost	215.4	211.5	195.6	29.5	28.7	27.9
Expected return on plan assets	(252.4)	(230.8)	(208.5)	(18.1)	(15.5)	(14.1)
Amortization of transitional obligation (asset)	(5.9)	(5.9)	(5.8)	--	--	--
Amortization of net actuarial (gain) loss	6.4	7.4	19.0	(1.3)	(1.4)	0.1
Amortization of prior service cost	10.7	11.4	12.2	(4.7)	(4.7)	(4.7)
Net periodic benefit cost	$ 32.6	$ 47.8	$ 63.5	$ 10.2	$ 12.1	$ 13.2

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 7.8% for 1998, decreasing ratably to 6.0% in the year 2001. Increasing the table of health care trend rates by one percent per year would have the effect of increasing the benefit obligation by $25.2 and the aggregate service and interest cost components by $2.1; a decrease of one percent in the trend rate would reduce the benefit obligation by $22.1 and the aggregate service and interest cost components by $1.8. To the extent that actual experience differs from the inherent assumptions, the effect will be amortized over the average future service of the covered active employees.

18. SHAREHOLDERS' EQUITY

CAPITAL STOCK: The Company has authority to issue an aggregate of 250,000,000 shares of capital stock, of which 200,000,000 have been designated as "Common Stock" having a par value of $1 per share and 50,000,000 have been designated as "Preferred Stock" not having any par or stated value. Of the shares of Preferred Stock, 300,000 shares have initially been designated as "Series A Participating Cumulative Preferred Stock" (the "Series A Stock"). Such Series A Stock is issuable pursuant to the provisions of a Rights Agreement dated as of November 1, 1995 between the Company and The Bank of New York, as Rights Agent (the "Rights Agreement"). Capitalized terms herein not otherwise defined are as defined in the Rights Agreement.

The rights issued pursuant to the Rights Agreement (the "Rights") are currently attached to, and trade with, the Common Stock. The Rights Agreement provides, among other things, that if any person acquires more than 15% of the outstanding Common Stock, the Rights will entitle the holders other than the Acquiring Person (or its Affiliates or Associates) to purchase Series A Stock at a significant discount to its market value. Rights beneficially owned by the Acquiring Person, including one of its Affiliates or Associates, become null and void and nontransferable. Rights generally are exercisable at any time after the Distribution Date and at or prior to the earlier of the 10th anniversary of the date of the Rights Agreement or the Redemption Date. The Company may, subject to certain exceptions, redeem the Rights as provided for in the Rights Agreement. Each 1/1,000th of a share of Series A Stock would be entitled to vote and participate in dividends and certain other distributions on an equivalent basis with one share of Common Stock. Under certain circumstances specified in the Rights Agreement, the Rights become nonredeemable for a period of time and the Rights Agreement may not be amended during such period.

As of December 31, 1998 and 1997, 49,180,032 shares and 26,702,181 shares of Common Stock were held in treasury, respectively.

STOCK INCENTIVE PLANS: The Company's stock option incentive plans provide for the awarding of options on common shares to employees, exercisable over ten-year periods. Certain options become exercisable upon the attainment of specified market price appreciation of the Company's common shares or at nine years after the date of grant. Other options become exercisable upon the earlier of the attainment of specified market price appreciation of the Company's common shares or over a three-year period commencing with the date of grant. The remaining options become exercisable over a three-year period commencing with the date of grant. The exercise price per share is the fair market value on the date each option is granted. In 1998 and 1997, the Company made shares available for the exercise of stock options by purchasing shares in the open market. During 1996, the Company made shares available from shares held by the Company in treasury and from purchasing shares in the open market.

A summary of the status of the Company's stock option incentive plans as of December 31, 1998, 1997, and 1996, and changes during the years then ended is presented below (shares in thousands):

	1998		1997		1996	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	11,457	$19.31	11,764	$17.53	11,619	$15.76
Granted	2,108	31.18	2,367	25.60	2,114	25.32
Exercised	(1,255)	19.62	(2,324)	16.21	(1,879)	15.08
Canceled or expired	(135)	28.11	(350)	22.44	(90)	24.11
Outstanding at end of year	12,175	$21.24	11,457	$19.31	11,764	$17.53
Options exercisable at year-end	10,347	$19.47	10,573	$18.92	7,817	$15.14
Weighted-average fair value of options granted during the year		$11.68		$ 8.53		$ 6.87

The Company accounts for these plans pursuant to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", under which no compensation cost has been recognized. Had compensation cost for these plans been determined based on the fair value at the grant dates consistent with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	1998	1997	1996
Net income			
As reported	$1,532.5	$108.1	$222.6
Pro forma	1,520.1	99.0	214.8
Basic earnings per share			
As reported	$ 13.55	$ .91	$ 1.89
Pro forma	13.44	.84	1.82
Diluted earnings per share			
As reported	$ 13.55	$ .89	$ 1.85
Pro forma	13.44	.82	1.78

Because the method of accounting prescribed by SFAS No. 123 is not required to be applied to options granted prior to January 1, 1995, the resulting pro forma effect may not be representative of that expected in future years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted-average assumptions for grants in 1998, 1997, and 1996: dividend yield of 2.14%, 2.35%, and 2.40%, respectively; expected volatility of 38%, 31%, and 23%, respectively; expected life of six years; and risk-free interest rate of 5.66%, 6.45%, and 6.15%, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes information about the Company's stock options at December 31, 1998 (shares in thousands):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
$ 8.31 -- 9.89	1,098	2.4 years	$ 8.84	1,098	$ 8.84
13.78 -- 17.91	3,452	5.3 years	15.73	3,452	15.73
20.32 -- 28.38	5,424	7.2 years	23.19	5,423	23.19
31.13 -- 37.50	2,201	9.0 years	31.25	374	31.27
	12,175			10,347	

As of December 31, 1998, 3,275,000 shares were available for future grants. Effective January 1, 1999, option shares available for future grants increased to 5,452,000 as a result of the annual limitation formula established in the ITT Industries, Inc. 1994 Incentive Stock Plan. The incentive stock plan also provides for awarding restricted stock subject to a restriction period in which the stock cannot be sold, exchanged, or pledged. During 1998, pursuant to the ITT Industries, Inc. 1996 Restricted Stock Plan for Non-Employee Directors, the Company awarded 10,688 restricted shares with five-year restriction periods in payment of the annual retainer for such directors.

19. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are involved in various claims and other legal actions including those related to government contracts, environmental issues, dispositions of businesses, and other matters. Some of these claims and other actions include claims for substantial amounts. Reserves have been established where the outcome is probable and can be reasonably estimated. While the ultimate results of these legal actions and related claims cannot be determined, the Company does not expect that they will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. As of December 31, 1998, the Company or its subsidiaries are responsible, or are alleged to be responsible for environmental investigation and remediation at sites in North America and Europe. The Company has received notice that it is considered a potentially responsible party (PRP) at a number of those sites by the United States Environmental Protection Agency (EPA) and/or a similar state agency under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund) or its state equivalent. In many of these proceedings, the Company's liability is considered de minimis. In Glendale, California, the Company is involved in an EPA proceeding relating to the San Fernando Valley aquifer. The Company is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. Currently, the Company is involved with the PRPs in funding the cleanup required by the EPA. The Company has filed a suit against its insurers for recovery of the costs it has incurred in connection with this and other environmental matters.

The Company has accrued for environmental remediation costs associated with identified sites consistent with the policy set forth in Note 1 "Accounting Policies". In management's opinion, the total amounts accrued and related receivables are appropriately based on existing facts and circumstances. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such problems, the selection of alternative remedies, and changes in cleanup standards. In the event that future remediation expenditures are in excess of amounts accrued, management does not anticipate that they will have a material adverse effect on the consolidated financial position, results of operations, or liquidity of the Company.

20. BUSINESS SEGMENT INFORMATION

	CONNECTORS & SWITCHES	DEFENSE PRODUCTS & SERVICES	PUMPS & COMPLEMENTARY PRODUCTS	SPECIALTY PRODUCTS	DISPOSITIONS, OTHER & ELIMINATIONS(B)	CORPORATE	TOTAL
1998							
Sales and revenues	$ 527.9	$1,293.4	$1,770.0	$849.3	$ 52.1	$ --	$4,492.7
Operating income (loss):							
Before restructuring and nonrecurring items	52.7	97.9	145.5	90.9	5.4	(67.6)	324.8
Restructuring and nonrecurring items	(102.4)	(69.6)	(147.6)	(9.0)	31.0	(101.8)	(399.4)
After restructuring and nonrecurring items	(49.7)	28.3	(2.1)	81.9	36.4	(169.4)	(74.6)
Earnings of companies on an equity basis	(0.3)	(1.6)	0.5	0.3	--	--	(1.1)
Total segment profit	(50.0)	26.7	(1.6)	82.2	36.4	(169.4)	(75.7)
Net interest expense							(82.4)
Miscellaneous income (expense)(a)							(1.9)
Income (loss) from continuing operations before income taxes							$ (160.0)
Long-lived assets	128.3	122.8	347.3	206.8	156.5	29.9	991.6
Investment in companies on an equity basis	0.1	13.2	11.9	5.1	--	0.5	30.8
Total assets	333.1	644.8	1,741.1	588.3	252.6	1,488.9	5,048.8
Gross plant additions	39.2	26.4	75.1	53.5	5.1	13.6	212.9
Depreciation	33.9	25.3	56.6	34.3	5.3	2.1	157.5
Amortization	1.0	3.1	20.6	7.3	6.1	--	38.1
1997							
Sales and revenues	$ 537.7	$1,095.7	$1,460.2	$823.2	$ 290.8	$ --	$4,207.6
Operating income (loss):							
Before restructuring and nonrecurring items	41.9	81.4	130.2	89.6	(4.1)	(59.9)	279.1
Restructuring and nonrecurring items	--	--	(44.1)	(12.9)	(65.8)	(15.0)	(137.8)
After restructuring and nonrecurring items	41.9	81.4	86.1	76.7	(69.9)	(74.9)	141.3
Earnings of companies on an equity basis	(0.5)	(2.5)	1.0	(0.1)	--	--	(2.1)
Total segment profit	41.4	78.9	87.1	76.6	(69.9)	(74.9)	139.2
Net interest expense							(115.7)
Miscellaneous income (expense)(a)							(4.0)
Income (loss) from continuing operations before income taxes							$ 19.5
Long-lived assets	135.1	121.5	355.0	219.2	172.6	27.8	1,031.2
Investment in companies on an equity basis	0.5	13.2	14.4	4.7	--	1.1	33.9
Total assets	323.6	585.1	1,818.7	504.7	1,274.5	551.8	5,058.4
Gross plant additions	31.8	35.6	53.9	53.7	30.5	7.0	212.5
Depreciation	33.6	24.7	44.3	32.4	29.8	2.1	166.9
Amortization	1.5	0.3	16.1	10.1	2.0	--	30.0

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	CONNECTORS & SWITCHES	DEFENSE PRODUCTS & SERVICES	PUMPS & COMPLEMENTARY PRODUCTS	SPECIALTY PRODUCTS	DISPOSITIONS, OTHER & ELIMINATIONS(B)	CORPORATE	TOTAL
1996							
Sales and revenues	$ 501.3	$1,011.9	$1,018.1	$780.9	$ 432.3	$ --	$3,744.5
Operating income (loss):							
Before restructuring and nonrecurring items	34.0	73.2	91.5	96.0	4.9	(53.6)	246.0
Restructuring and nonrecurring items	--	--	--	--	--	--	--
After restructuring and nonrecurring items	34.0	73.2	91.5	96.0	4.9	(53.6)	246.0
Earnings of companies on an equity basis	(0.3)	(1.9)	1.9	1.1	--	--	0.8
Total segment profit	33.7	71.3	93.4	97.1	4.9	(53.6)	246.8
Net interest expense							(136.3)
Miscellaneous income (expense)(a)							0.2
Income (loss) from continuing operations before income taxes							$ 110.7
Long-lived assets	145.2	102.5	168.9	201.3	333.9	22.6	974.4
Investment in companies on an equity basis	3.3	8.6	7.6	5.5	--	--	25.0
Total assets	360.2	412.9	627.6	463.5	1,568.8	543.9	3,976.9
Gross plant additions	31.8	22.2	35.6	32.5	50.5	3.4	176.0
Depreciation	31.4	27.3	30.7	30.2	56.0	2.1	177.7
Amortization	0.6	0.3	4.1	7.0	(2.4)	--	9.6

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(a) Excludes earnings of companies on an equity basis

(b) Includes net assets from discontinued operations 1997 -- $931.4, 1996 -- $1,047.3

	SALES AND REVENUES			LONG-LIVED ASSETS		
	1998	1997	1996	1998	1997	1996
GEOGRAPHICAL INFORMATION						
United States	$2,570.4	$2,377.3	$2,047.1	$639.0	$ 679.1	$509.9
Western Europe	1,227.8	1,229.6	1,167.2	312.3	308.2	436.9
Asia Pacific	280.5	260.2	269.7	22.6	25.6	10.9
Other	414.0	340.5	260.5	17.7	18.3	16.7
Total Segments	$4,492.7	$4,207.6	$3,744.5	$991.6	$1,031.2	$974.4

	1998	1997	1996
SALES AND REVENUES BY PRODUCT CATEGORY			
Pumps & Complementary Products	$1,767.8	$1,457.3	$1,015.8
Defense Products	765.7	720.1	676.7
Connectors & Switches	577.7	591.7	550.3
Defense Services	527.7	375.6	335.2
Fluid Handling	362.2	366.0	355.9
Brakes	150.6	146.9	126.2
Engineered Valves	116.5	108.7	105.7
Shock Absorbers	91.5	85.6	85.8
Marine Products	87.8	76.9	73.0
Measuring Devices	17.3	78.6	72.7
Semiconductors	--	162.3	254.8
Other	27.9	37.9	92.4
Total	$4,492.7	$4,207.6	$3,744.5

Combined Defense Products & Services had sales and revenues from the United States government of $1,008.6, $925.2 and $869.9 for 1998, 1997, and 1996, respectively. Apart from the United States government, no other government or commercial customer accounted for 10% or more of sales and revenues for the Company.

CONNECTORS & SWITCHES: This business, formerly included within the "Defense & Electronics" segment, consists of the Company's products marketed under the Cannon(R) brand. These products include connectors, switches and cabling used in telecommunications, computing, aerospace and industrial applications as well as network services. The Connectors & Switches segment represents about 12% of the Company's sales and revenues and 16% of its operating income before restructuring and nonrecurring items.

DEFENSE PRODUCTS & SERVICES: The businesses in this segment are those that directly serve the military and government agencies with products and services. These include air traffic control systems, jamming devices that guard military planes against radar guided missiles, digital combat radios, night vision devices and satellite instruments. Approximately 33% of the sales and revenues in this segment are generated through contracts for technical and support services which the Company provides for the military and other government agencies. Approximately 78%, 85% and 86% of 1998, 1997, and 1996 Defense Products & Services sales and revenues, respectively, were to the U.S. government. The Defense Products & Services segment, represents about 29% of the Company's sales and revenues and 30% of its operating income before restructuring and nonrecurring items.

PUMPS & COMPLEMENTARY PRODUCTS: This segment contains the Company's pump businesses, including brands such as Flygt(R), Goulds(R), Bell & Gossett(R), A-C Pump(R), Lowara(R) and Vogel(R), making the Company the world's largest pump producer. Businesses within this segment also supply mixers, heat exchangers and related products with brands such as McDonnell & Miller(R) and ITT Standard(R) brand names in addition to those mentioned above. This segment represents approximately 39% of the Company's sales and revenues and approximately 45% of its operating income before restructuring and nonrecurring items.

SPECIALTY PRODUCTS: Businesses in the Specialty Products segment produce engineered valves and switches for industrial and aerospace applications, products for the marine and leisure markets, fluid handling materials such as stainless steel and flexible tubing for various industrial markets, and specialty shock absorbers and brake friction materials for the transportation industry. The Specialty Products segment accounts for approximately 19% of the Company's sales and revenues and approximately 28% of its operating income before restructuring and nonrecurring items.

DISPOSITIONS AND OTHER: This includes the operating results and assets of units other than "Discontinued Operations", including ITT Community Development Corporation, ITT Semiconductors, other non-core businesses, and other businesses which have been sold.

CORPORATE: This primarily includes the operating results, and assets of corporate headquarters.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

21. QUARTERLY RESULTS FOR 1998 AND 1997

	THREE MONTHS ENDED				
	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	YEAR
	IN MILLIONS, EXCEPT PER SHARE AMOUNTS; (UNAUDITED)				
1998					
Sales and revenues	$1,099.2	$1,125.3	$1,048.0	$1,220.2	$4,492.7
Costs of sales and revenues(a)	848.8	850.5	798.5	935.7	3,433.5
Income (loss) from continuing operations(b)	8.0	30.2	26.9	(162.7)	(97.6)
Net income (loss)	55.6	69.3	1,588.8	(181.2)	1,532.5
Income (loss) from continuing operations per share					
-- Basic	$ .07	$ .25	$ .23	$ (1.59)	$ (.86)
-- Diluted	$ .07	$ .25	$ .23	$ (1.59)	$ (.86)
Net income (loss) per share					
-- Basic(c)	$ .47	$ .59	$ 13.82	$ (1.77)	$ 13.55
-- Diluted(c)	$ .46	$ .57	$ 13.45	$ (1.77)	$ 13.55
Common stock information					
Price range: High	$ 38.94	$ 38.44	$ 38.13	$ 40.88	$ 40.88
Low	$ 28.13	$ 32.88	$ 29.50	$ 30.69	$ 28.13
Close	$ 38.06	$ 37.38	$ 33.88	$ 39.75	$ 39.75
Dividends per share	$ .15	$ .15	$ .15	$ .15	$ .60
1997					
Sales and revenues	$ 928.9	$1,020.7	$1,077.4	$1,180.6	$4,207.6
Costs of sales and revenues(a)	734.1	792.4	836.6	886.2	3,249.3
Income (loss) from continuing operations(d)	10.5	28.6	(65.4)	38.2	11.9
Cumulative effect of accounting change	--	--	--	(5.6)	(5.6)
Net income (loss)	44.3	82.6	(91.1)	72.3	108.1
Income (loss) from continuing operations per share					
-- Basic	$ .09	$ .24	$ (.55)	$ .32	$ .10
-- Diluted	$ .09	$ .24	$ (.55)	$ .32	$ .10
Net income (loss) per share					
-- Basic	$ .37	$ .70	$ (.77)	$ .61	$ .91
-- Diluted	$ .37	$ .69	$ (.77)	$ .60	$ .89
Common stock information					
Price range: High	$ 26.38	$ 27.75	$ 33.69	$ 33.38	$ 33.69
Low	$ 22.38	$ 22.13	$ 25.00	$ 28.75	$ 22.13
Close	$ 22.38	$ 25.75	$ 33.19	$ 31.38	$ 31.38
Dividends per share	$ .15	$ .15	$ .15	$ .15	$ .60

(a) Includes research, development, and engineering expenses.

(b) Income from continuing operations in 1998 for the quarters ended March 31, June 30, and Dec. 31, include charges of $12.3, $6.5, and $224.8 after-tax, for restructuring and nonrecurring items as described in Note 5.

(c) Quarterly and full year earnings per share amounts were calculated independently based on the average common shares and potentially dilutive shares applicable to each period. Because of the repurchase of common stock in 1998, the sum of the four quarters does not equal the calculation for the full year 1998.

(d) Income from continuing operations in 1997 for the quarters ended June 30 and Sept. 30, include charges of $0.7 and $83.3, after-tax, for restructuring and nonrecurring items as described in Note 5.

The above table reflects the range of market prices of the Company's common stock for 1998 and 1997. The prices are as reported in the consolidated transaction reporting system of the New York Stock Exchange, the principal market in which the Company's common stock is traded, under the symbol "IIN". The Company's common stock is listed on the following exchanges: Frankfurt, London, Midwest, New York, Pacific, and Paris.

During the period from January 1, 1999 through February 28, 1999, the high and low reported market prices of the Company's common stock were $40.88 and $37.50. The Company declared dividends of $.15 per common share in the first quarter of 1999. There were approximately 52,371 holders of record of the Company's common stock on February 28, 1999.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

	BALANCE AT JANUARY 1	CHARGED TO COSTS AND EXPENSES	TRANSLATION ADJUSTMENT	WRITE-OFF/ PAYMENTS OTHER	BALANCE AT DECEMBER 31
YEAR ENDED DECEMBER 31, 1998					
Trade Receivables -- Allowance for doubtful accounts	$ 19.0	$ 9.5	$ 0.2	$ (6.0)	$ 22.7
Restructuring	22.2	185.6		(69.4)	138.4
YEAR ENDED DECEMBER 31, 1997					
Trade Receivables -- Allowance for doubtful accounts	$ 14.6	$ 7.9	$ (0.4)	$ (3.1)	$ 19.0
Restructuring	--	57.0		(34.8)	22.2
YEAR ENDED DECEMBER 31, 1996					
Trade Receivables -- Allowance for doubtful accounts	$ 15.7	$ 2.1	$ (0.3)	$ (2.9)	$ 14.6

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 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, AND BY THE UNDERSIGNED IN THE CAPACITY INDICATED.

ITT INDUSTRIES, INC.

By /s/ EDWARD W. WILLIAMS

EDWARD W. WILLIAMS
VICE PRESIDENT AND CONTROLLER
(PRINCIPAL ACCOUNTING OFFICER)

March 29, 1999

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ TRAVIS ENGEN TRAVIS ENGEN (PRINCIPAL EXECUTIVE OFFICER)	Chairman and Chief Executive and Director	March 9, 1999
/s/ HEIDI KUNZ HEIDI KUNZ (PRINCIPAL FINANCIAL OFFICER)	Executive Vice President and Chief Financial Officer	March 9, 1999
/s/ RAND V. ARASKOG RAND V. ARASKOG	Director	March 9, 1999
/s/ ROBERT A. BURNETT ROBERT A. BURNETT	Director	March 9, 1999
/s/ CURTIS J. CRAWFORD CURTIS J. CRAWFORD	Director	March 9, 1999
/s/ S. PARKER GILBERT S. PARKER GILBERT	Director	March 9, 1999
/s/ CHRISTINA A. GOLD CHRISTINA A. GOLD	Director	March 9, 1999
/s/ EDWARD C. MEYER EDWARD C. MEYER	Director	March 9, 1999
/s/ SIDNEY TAUREL SIDNEY TAUREL	Director	March 9, 1999

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
3		
	(a) ITT Industries, Inc.'s Restated Articles of Incorporation...........	Incorporated by reference to Exhibit 3(i) to ITT Industries' Form 10-Q for the quarterly period ended June 30, 1997 (CIK No. 216228, File No. 1-5627).
	(b) Form of Rights Agreement between ITT Indiana, Inc. and The Bank of New York, as Rights Agent...............	Incorporated by reference to Exhibit 1 to ITT Industries' Form 8-A dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
	(c) ITT Industries, Inc.'s By-laws, as amended.............................	Filed herewith.
4	Instruments defining the rights of security holders, including indentures.............	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries upon request of the Commission.
9	Voting Trust Agreement.....................	None.
10	Material contracts	
	(a) ITT Industries 1997 Long-Term Incentive Plan......................	Incorporated by reference to Appendix II to ITT Industries' Proxy Statement dated March 26, 1997 (CIK No. 216228, File No. 1-5627).
	(b) ITT Industries 1997 Annual Incentive Plan for Executive Officers.........	Incorporated by reference to Appendix I to ITT Industries' Proxy Statement dated March 26, 1997 (CIK No. 216228, File No. 1-5627).
	(c) Form of Travis Engen's employment agreement...........................	Incorporated by reference to Exhibit 10.16 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
	(d) Amendment to Employment Agreement between ITT Industries and Travis Engen...............................	Incorporated by reference to Exhibit 10(e) to ITT Industries' Form 8-K Current Report dated June 5, 1997 (CIK No. 216228, File No. 1-5627).
	(e) Form of group life insurance plan for non-employee members of the Board of Directors...........................	Incorporated by reference to exhibits to ITT Delaware's Form 10-K for the fiscal year ended December 31, 1983 (CIK No. 216228, File No. 1-5627).
	(f) ITT Industries, Inc. 1986 Incentive Stock Plan................................	Incorporated by reference to ITT Delaware's Registration Statement on Form S-8 (Registration No. 33-5412) (CIK No. 216228, File No. 1-5627).

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(g)	Form of indemnification agreement with directors	Incorporated by reference to Exhibit 10(h) to ITT Industries' Form 10-K for the fiscal year ended December 31, 1996 (CIK No. 216228, File No. 1-5627).
(h)	ITT Industries, Inc. Senior Executive Severance Pay Plan	Incorporated by reference to Exhibit 10.15 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(i)	ITT Industries Special Senior Executive Severance Pay Plan	Incorporated by reference to Exhibit 10(j) to ITT Industries' Form 10-K for the fiscal year ended December 31, 1996 (CIK No. 216228, File No. 1-5627).
(j)	1994 ITT Industries, Inc. Incentive Stock Plan	Incorporated by reference to Appendix A to ITT Delaware's Proxy Statement dated March 28, 1994 (CIK No. 216228, File No. 1-5627).
(k)	ITT Industries, Inc. 1996 Restricted Stock Plan for Non-Employee Directors, as amended	Filed herewith.
(l)	Distribution Agreement among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.	Incorporated by reference to Exhibit 10.1 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(m)	Intellectual Property License Agreement between and among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.	Incorporated by reference to Exhibit 10.2 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(n)	Tax Allocation Agreement among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.	Incorporated by reference to Exhibit 10.3 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(o)	Employee Benefit Services and Liability Agreement among ITT Corporation, ITT Destinations, Inc. and ITT Hartford Group, Inc.	Incorporated by reference to Exhibit 10.7 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).
(p)	Five-year Competitive Advance and Revolving Credit Facility Agreement dated as of November 10, 1995	Incorporated by reference to Exhibit 10.9 to ITT Industries' Form 8-B dated December 20, 1995 (CIK No. 216228, File No. 1-5627).

EXHIBIT NUMBER	DESCRIPTION	LOCATION
	(q) Trade Name and Trademark License Agreement...........................	Incorporated by reference to Exhibit 10(r) to ITT Industries' Form 8-K Current Report dated June 5, 1997 (CIK No. 216228, File No. 1-5627).
	(r) ITT Industries Enhanced Severance Pay Plan................................	Incorporated by reference to Exhibit 10(s) to ITT Industries' Form 8-K Current Report dated June 5, 1997 (CIK No. 216228, File No. 1-5627).
	(s) Agreement with Valeo SA with respect to the sale of the Automotive Electrical Systems Business.........	Incorporated by reference to Exhibit 10(b) to ITT Industries' Form 10-Q Quarterly Report for the quarterly period ended June 30, 1998 (CIK No. 216228, File No. 1-5627).
	(t) Agreement with Continental AG with respect to the sale of the Automotive Brakes and Chassis Business............................	Incorporated by reference to Exhibit 2.1 to ITT Industries' Form 8-K Current Report dated October 13, 1998 (CIK No. 216228, File No. 1-5627).
11	Statement re computation of per share earnings................................	Not required to be filed.
12	Statement re computation of ratios.........	Filed herewith.
13	Annual report to security holders, Form 10-Q or quarterly report to security holders.................................	Not required to be filed.
16	Letter re change in certifying accountant................................	None.
18	Letter re change in accounting principles................................	None.
21	Subsidiaries of the Registrant............	Filed herewith.
22	Published report regarding matters submitted to vote of security holders....	Not required to be filed.
23	Consent of Arthur Andersen LLP............	Filed herewith.
24	Power of attorney..........................	None.
27	Financial data schedule....................	Filed herewith.
99	Additional exhibits........................	None.

EXHIBIT 3(C)

LOGO

BY-LAWS

OF

ITT INDUSTRIES, INC.

BY-LAWS

OF

ITT INDUSTRIES, INC.

1. SHAREHOLDERS.

1.1 Place of Shareholders' Meetings. All meetings of the shareholders of the Corporation shall be held at such place or places, within or outside the state of Indiana, as may be fixed by the Corporation's Board of Directors (the "Board", and each member thereof a "Director") from time to time or as shall be specified in the respective notices thereof.

1.2 Day and Time of Annual Meetings of Shareholders. An annual meeting of shareholders shall be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Failure to hold an annual meeting of shareholders at such designated time shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Corporation.

1.3 Purposes of Annual Meetings. (a) At each annual meeting, the shareholders shall elect the members of the Board for the succeeding term. At any such annual meeting any business properly brought before the meeting may be transacted.

(b) To be properly brought before an annual meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board, (ii) otherwise properly brought before the meeting by or at the direction of the Board or (iii) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given written notice thereof, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not less than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not later than 120 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made. Any such notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend either the Articles of Incorporation or By-laws of the Corporation, the language of the proposed amendment, (ii) the name and address of the shareholder proposing such business, (iii) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, (iv) any material interest of the shareholder in such business and (v) if the shareholder intends to solicit proxies in support of such shareholder's proposal, a representation to that effect. The foregoing notice requirements shall be deemed satisfied by a shareholder if the shareholder has notified the Corporation of his or her intention to present a proposal at an annual meeting and such shareholder's proposal has been included in a proxy statement that has been prepared by management of the Corporation to solicit proxies for such annual meeting; provided, however, that, if such shareholder does not appear or send a qualified representative to present such proposal at such annual meeting, the Corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. No business shall be conducted at an annual meeting of shareholders except in accordance with this Section 1.3(b), and the chairman of any annual meeting of shareholders may refuse to permit any business to be brought before an annual meeting without compliance with the foregoing procedures or if the shareholder solicits proxies in support of such shareholder's proposal without such shareholder having made the representation required by clause (v) of the preceding sentence.

1.4 Special Meetings of Shareholders. Except as otherwise expressly required by applicable law, special meetings of the shareholders or of any class or series entitled to vote may be called for any purpose or purposes by the Chairman or by a majority vote of the entire Board, to be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Only such business as is specified in the notice of any special meeting of the shareholders shall come before such meeting.

1.5 Notice of Meetings of Shareholders. Except as otherwise expressly required or permitted by applicable law, not less than ten days nor more than sixty days before the date of every shareholders' meeting the Secretary shall give to each shareholder of record entitled to vote at such meeting written notice stating the place, day and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as provided in Section 1.6(d) or as otherwise expressly required by applicable law, notice of any adjourned meeting of shareholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken. Any notice, if mailed, shall be deemed to be given when deposited in the United States mail, postage prepaid, addressed to the shareholder at the address for notices to such shareholder as it appears on the records of the Corporation.

1.6 Quorum of Shareholders. (a) Unless otherwise expressly required by applicable law, at any meeting of the shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of votes thereat shall constitute a quorum. Shares of the Corporation's stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in an election of the directors of such other corporation is held by the Corporation, shall neither be counted for the purpose of determining the presence of a quorum nor entitled to vote at any meeting of the shareholders.

(b) At any meeting of the shareholders at which a quorum shall be present, a majority of those present in person or by proxy may adjourn the meeting from time to time without notice other than announcement at the meeting. In the absence of a quorum, the officer presiding thereat shall have power to adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting other than announcement at the meeting shall not be required to be given, except as provided in Section 1.6(d) below and except where expressly required by applicable law.

(c) At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting originally called, but only those shareholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board.

(d) If a new date, time and place of an adjourned meeting is not announced at the original meeting before adjournment, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in the manner specified in Section 1.6(a) to each shareholder of record entitled to vote at the meeting.

1.7 Chairman and Secretary of Meeting. The Chairman or, in his or her absence, another officer of the Corporation designated by the Chairman, shall preside at meetings of the shareholders. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary, an Assistant Secretary shall so act, or if neither is present, then the presiding officer may appoint a person to act as secretary of the meeting.

1.8 Voting by Shareholders. (a) Except as otherwise expressly required by applicable law, at every meeting of the shareholders each shareholder shall be entitled to the number of votes specified in the Articles of Incorporation, in person or by proxy, for each share of stock standing in his or her name on the books of the Corporation on the date fixed pursuant to the provisions of Section 5.6 of these By-laws as the record date for the determination of the shareholders who shall be entitled to receive notice of and to vote at such meeting.

(b) When a quorum is present at any meeting of the shareholders, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless express provision of law or the Articles of Incorporation require a greater number of affirmative votes.

(c) Except as required by applicable law, the vote at any meeting of shareholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot, each ballot shall be signed by the shareholder voting, or by his or her proxy, if there be such proxy, and shall state the number of shares voted.

1.9 Proxies. Any shareholder entitled to vote at any meeting of shareholders may vote either in person or by proxy. A shareholder may authorize a person or persons to act for the shareholder as proxy by (i) the shareholder or the shareholder's designated officer, director, employee or agent executing a writing by signing it or by causing the shareholder's signature or the signature of the designated officer, director, employee or agent of the shareholder to be affixed to the writing by any reasonable means, including by facsimile signature; (ii) the shareholder transmitting or authorizing the transmission of an electronic submission which may be by any electronic means, including data and voice telephonic communications and computer network to (a) the person who will be the holder of the proxy; (b) a proxy solicitation firm; or (c) a proxy support service organization or similar agency authorized by the person who will be the holder of the proxy to receive the electronic submission, which electronic submission must either contain or be accompanied by information from which it can be determined that the electronic submission was transmitted by or authorized by the shareholder; or (iii) any other method allowed by law.

1.10 Inspectors. (a) The election of Directors and any other vote by ballot at any meeting of the shareholders shall be supervised by at least two inspectors. Such inspectors may be appointed by the Chairman before or at the meeting. If the Chairman shall not have so appointed such inspectors or if one or both inspectors so appointed shall refuse to serve or shall not be present, such appointment shall be made by the officer presiding at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

(b) The inspectors shall (i) ascertain the number of shares of the Corporation outstanding and the voting power of each, (ii) determine the shares represented at any meeting of shareholders and the validity of the proxies and ballots, (iii) count all proxies and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares represented at the meeting, and their count of all proxies and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties.

1.11 List of Shareholders. (a) At least five business days before every meeting of shareholders, the Corporation shall cause to be prepared and made a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order by voting group, if any, and showing the address of each shareholder and the number of shares registered in the name of each shareholder.

(b) During ordinary business hours for a period of at least five business days prior to the meeting, such list shall be open to examination by any shareholder for any purpose germane to the meeting, either at the Corporation's principal office or a place identified in the meeting notice in the city where the meeting will be held.

(c) The list shall also be produced and kept at the time and place of the meeting, and it may be inspected during the meeting by any shareholder or the shareholder's agent or attorney authorized in writing.

(d) The stock ledger shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by this Section 1.11 or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

1.12 Confidential Voting. (a) Proxies and ballots that identify the votes of specific shareholders shall be kept in confidence by the tabulators and the inspectors of election unless (i) there is an opposing solicitation with respect to the election or removal of Directors, (ii) disclosure is required by applicable law, (iii) a shareholder expressly requests or otherwise authorizes disclosure, or (iv) the Corporation concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes.

(b) The tabulators and inspectors of election and any authorized agents or other persons engaged in the receipt, count and tabulation of proxies and ballots shall be advised of this By-law and instructed to comply herewith.

(c) The inspectors of election shall certify, to the best of their knowledge based on due inquiry, that proxies and ballots have been kept in confidence as required by this Section 1.12.

2. DIRECTORS.

2.1 Powers of Directors. The business and affairs of the Corporation shall be managed by or under the direction of the Board, which may exercise all the powers of the Corporation except such as are by applicable law, the Articles of Incorporation or these By-laws required to be exercised or performed by the shareholders.

2.2 Number, Method of Election, Terms of Office of Directors. The number of Directors which shall constitute the whole Board shall be such as from time to time shall be determined by resolution adopted by a majority of the entire Board, but the number shall not be less than three nor more than twenty-five, provided that the tenure of a Director shall not be affected by any decrease in the number of Directors so made by the Board. Each Director shall hold office until the next annual meeting of shareholders and until his or her successor is elected and qualified or until his or her earlier death, retirement, resignation or removal. Directors need not be shareholders of the Corporation or citizens of the United States of America.

Nominations of persons for election as Directors may be made by the Board or by any shareholder who is a shareholder of record at the time of giving of the notice of nomination provided for in this Section 2.2 and who is entitled to vote for the election of Directors. Any shareholder of record entitled to vote for the election of Directors at a meeting may nominate a person or persons for election as Directors only if written notice of such shareholder's intent to make such nomination is given in accordance with the procedures for bringing business before the meeting set forth in Section 1.3(b) of these By-Laws, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not later than (i) with respect to an election to be held at an annual meeting of shareholders, not less than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not later than 120 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of Directors, not later than 120 calendar days prior to such special meeting or 10 calendar days following the date on which public announcement of the date of the special meeting is first made and of the nominees to be elected at such meeting. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the Board; (e) the consent of each nominee to serve as a Director if so elected and (f) if the shareholder intends to solicit proxies in support of such shareholder's nominee(s), a representation to that effect. The chairman of any meeting of shareholders to elect Directors and the Board may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure or if the shareholder solicits proxies in support of such shareholder's nominee(s) without such shareholder having made the representation required by (f) of the preceding sentence.

At each meeting of the shareholders for the election of Directors at which a quorum is present, the persons receiving the greatest number of votes, up to the number of Directors to be elected, shall be the Directors.

2.3 Vacancies on Board. (a) Any Director may resign from office at any time by delivering a written resignation to the Chairman or the Secretary. The resignation will take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

(b) Any vacancy and any newly created Directorship resulting from any increase in the authorized number of Directors may be filled by vote of a majority of the Directors then in office, though less than a quorum, and any Director so chosen shall hold office until the next annual election of Directors by the shareholders and until a successor is duly elected and qualified or until his or her earlier death, retirement, resignation or removal. If there are no Directors in office, then an election of Directors may be held in the manner provided by applicable law.

2.4 Meetings of the Board. (a) The Board may hold its meetings, both regular and special, either within or outside the state of Indiana, at such places as from time to time may be determined by the Board or as may be designated in the respective notices or waivers of notice thereof.

(b) Regular meetings of the Board shall be held at such times and at such places as from time to time shall be determined by the Board.

(c) The first meeting of each newly elected Board shall be held as soon as practicable after the annual meeting of the shareholders and shall be for the election of officers and the transaction of such other business as may come before it.

(d) Special meetings of the Board shall be held whenever called by direction of the Chairman or at the request of Directors constituting one-third of the number of Directors then in office.

(e) Members of the Board or any Committee of the Board may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

(f) The Secretary shall give notice to each Director of any meeting of the Board by mailing the same at least two days before the meeting or by telegraphing or delivering the same not later than the day before the meeting. Such notice need not include a statement of the business to be transacted at, or the purpose of, any such meeting. Any and all business may be transacted at any meeting of the Board. No notice of any adjourned meeting need be given. No notice to or waiver by any Director shall be required with respect to any meeting at which the Director is present.

2.5 Quorum and Action. Except as otherwise expressly required by applicable law, the Articles of Incorporation or these By-laws, at any meeting of the Board, the presence of at least one-third of the entire Board shall constitute a quorum for the transaction of business; but if there shall be less than a quorum at any meeting of the Board, a majority of those present may adjourn the meeting from time to time. Unless otherwise provided by applicable law, the Articles of Incorporation or these By-laws, the vote of a majority of the Directors present (and not abstaining) at any meeting at which a quorum is present shall be necessary for the approval and adoption of any resolution or the approval of any act of the Board.

2.6 Presiding Officer and Secretary of Meeting. The Chairman or, in the absence of the Chairman, a member of the Board selected by the members present, shall preside at meetings of the Board. The Secretary shall act as secretary of the meeting, but in the Secretary's absence the presiding officer may appoint a secretary of the meeting.

2.7 Action by Consent without Meeting. Any action required or permitted to be taken at any meeting of the Board or of any Committee thereof may be taken without a meeting if all members of the Board or Committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of their proceedings.

2.8 Standing Committees. By resolution adopted by a majority of the entire Board, the Board shall elect, from among its members, individuals to serve on the Standing Committees established by this Section 2.8. Each Standing Committee shall be comprised of such number of Directors, not less than three, as shall be elected to such Committee, provided that no officer or employee of the Corporation shall be eligible to serve on the Audit, Compensation and Personnel or Nominating Committees. Each Committee shall keep a record of all its proceedings and report the same to the Board. One-third of the members of a Committee, but not less than two, shall constitute a quorum, and the act of a majority of the members of a Committee present at any meeting at which a quorum is present shall be the act of the Committee. Each Standing Committee shall meet at the call of its chairman or any two of its members. The chairmen of the various Committees shall preside, when present, at all meetings of such Committees, and shall have such powers and perform such duties as the Board may from time to time prescribe. The Standing Committees of the Board, and functions of each, are as follows:

(a) Compensation and Personnel Committee. The Compensation and Personnel Committee shall exercise the power of oversight of the compensation and benefits of the employees of the Corporation, and shall be charged with evaluating management performance, and establishing executive compensation. This Committee shall have access to its own independent outside compensation counsel and shall consist of a majority of independent directors. For purposes of this Section 2.8(a), "independent director" shall mean a Director who: (i) has not been employed by the Corporation in an executive capacity within the past five years; (ii) is not, and is not affiliated with a company or firm that is, an advisor or consultant to the Corporation; (iii) is not affiliated with a significant customer or supplier of the Corporation; (iv) has no personal services contract(s) with the Corporation; (v) is not affiliated with a tax-exempt entity that receives significant contributions from the Corporation; and (vi) is not a familial relative of any person described by Clauses (i) through (v). This By-law shall not be amended or repealed except by a majority of the voting power of the shareholders present in person or by proxy and entitled to vote at any meeting at which a quorum is present.

(b) Audit Committee. The Audit Committee shall recommend the selection of independent auditors for the Corporation, confirm the scope of audits to be performed by such auditors, review audit results and internal accounting and control procedures and policies, review the fees paid to the Corporation's independent auditors, and review and recommend approval of the audited financial statements of the Corporation and the annual reports to shareholders. The Audit Committee shall also review expense accounts of senior executives.

(c) Capital Committee. The Capital Committee shall have the responsibility for maximizing the effective use of the assets of the Corporation and its subsidiaries and reviewing capital expenditures and appropriations.

(d) Corporate Responsibility Committee. The Corporate Responsibility Committee shall review and define social responsibilities and shall review and consider major claims and litigation and legal, regulatory, intellectual property and related governmental policy matters affecting the Corporation and its subsidiaries. The Corporate Responsibility Committee shall also review and approve management policies and programs relating to compliance with legal and regulatory requirements and business ethics.

(e) Nominating Committee. The Nominating Committee shall make recommendations as to the organization, size and composition of the Board and Committees thereof, propose nominees for election to the Board and the Committees thereof, and consider the qualifications, compensation and retirement of Directors.

2.9 Other Committees. By resolution passed by a majority of the entire Board, the Board may also appoint from among its members such other Committees, Standing or otherwise, as it may from time to time deem desirable and may delegate to such Committees such powers of the Board as it may consider appropriate, consistent with applicable law, the Articles of Incorporation and these By-laws.

2.10 Limitations on Committees. (a) Notwithstanding any other provision of these By-laws, and except as otherwise expressly required by applicable law, no Standing Committee created by Section 2.8, nor any other committee hereafter established, may:

(1) authorize dividends or other distributions, except a committee may authorize or approve a reacquisition of shares if done according to a formula or method prescribed by the Board of Directors;

(2) approve or propose to shareholders action that is required to be approved by shareholders;

(3) fill vacancies on the Board of Directors or on any of its committees;

(4) except as permitted under Section 2.10(a)(7) below, amend the Corporation's Articles of Incorporation under IC 23-1-38-2;

(5) adopt, amend, repeal or waive provisions of these By-laws;

(6) approve a plan of merger not requiring shareholder approval; or

(7) authorize or approve the issuance or sale or a contract for sale of shares, or determine the designation and relative rights, preferences, and limitations of a class or series of shares, except the Board of Directors may authorize a committee (or an executive officer of the Corporation designated by the Board of Directors) to take action described in this Section 2.10(a)(7) within limits prescribed by the Board of Directors.

(b) Except to the extent inconsistent with the resolutions creating a Standing Committee, Sections 2.2 to 2.7 and Section 10 of these By-laws, which govern meetings, action without meetings, notice and waiver of notice, quorum and voting requirements and telephone participation in meetings of the Board of Directors, apply to each committee and its members as well.

2.11 Compensation of Directors. Unless otherwise restricted by the Articles of Incorporation or these By-laws, Directors shall receive for their services on the Board or any Committee thereof such compensation and benefits, including the granting of options, together with expenses, if any, as the Board may from time to time determine. The Directors may be paid a fixed sum for attendance at each meeting of the Board or Committee thereof and/or a stated annual sum as a Director, together with expenses, if any, of attendance at each meeting of the Board or Committee thereof. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

2.12 Independent Directors. (a) Independence of Nominees for Election as Directors at the Annual Meeting. The persons nominated by the Board for election as Directors at any annual meeting of the shareholders of the Corporation shall include a sufficient number of persons who have been, on the date of their nomination, determined by the Board to be eligible to be classified as independent directors such that if all such nominees are elected, the majority of all Directors holding office would be independent directors.

(b) Directors Elected to Fill Vacancies on the Board. If the Board elects Directors between annual meetings of shareholders to fill vacancies or newly created Directorships, the majority of all Directors holding office immediately after such elections shall be independent directors.

(c) Definition of Independent Director. For purposes of this Section 2.12, "independent director" shall mean a Director who: (i) has not been employed by the Corporation in an executive capacity within the past five years; (ii) is not, and is not affiliated with a company or a firm that is, an adviser or consultant to the Corporation; (iii) is not affiliated with a significant customer or supplier of the Corporation; (iv) has no personal services contract(s) with the Corporation; (v) is not affiliated with a tax-exempt entity that receives significant contributions from the Corporation; (vi) is not a familial relative of any person described by Clauses (i) through (v); and (vii) is free of any other relationship which would interfere with the exercise of independent judgment by such Director.

3. OFFICERS.

3.1 Officers, Titles, Elections, Terms. (a) The Board may from time to time elect a Chairman, a Vice Chairman, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Chief Financial Officer, a Controller, a Treasurer, a Secretary, a General Counsel, one or more Assistant Controllers, one or more Assistant Treasurers, one or more Assistant Secretaries, and one or more Associate or Assistant General Counsels, to serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election and until their successors are elected and qualified or until their earlier death, retirement, resignation or removal.

(b) The Board may elect or appoint at any time such other officers or agents with such duties as it may deem necessary or desirable. Such other officers or agents shall serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election or appointment and, in the case of such other officers, until their successors are elected and qualified or until their earlier death, retirement, resignation or removal. Each such officer or agent shall have such authority and shall perform such duties as may be provided herein or as the Board may prescribe. The Board may from time to time authorize any officer or agent to appoint and remove any other such officer or agent and to prescribe such person's authority and duties.

(c) No person may be elected or appointed an officer who is not a citizen of the United States of America if such election or appointment is prohibited by applicable law or regulation.

(d) Any vacancy in any office may be filled for the unexpired portion of the term by the Board. Each officer elected or appointed during the year shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until his or her successor is elected or appointed and qualified or until his or her earlier death, retirement, resignation or removal.

(e) Any officer or agent elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the entire Board.

(f) Any officer may resign from office at any time. Such resignation shall be made in writing and given to the President or the Secretary. Any such resignation shall take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

3.2 General Powers of Officers. Except as may be otherwise provided by applicable law or in Article 6 or Article 7 of these By-laws, the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the General Counsel, the Controller, the Treasurer and the Secretary, or any of them, may (i) execute and deliver in the name of the Corporation, in the name of any Division of the Corporation or in both names any agreement, contract, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any Division of the Corporation, including without limitation agreements or contracts with any government or governmental department, agency or instrumentality, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, instrument, power of attorney or other document.

3.3 Powers and Duties of the Chairman. The Chairman shall be the Chief Executive of the Corporation and shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board, the Chairman shall manage and direct the business and affairs of the Corporation and shall communicate to the Board and any Committee thereof reports, proposals and recommendations for their respective consideration or action. He or she may do and perform all acts on behalf of the Corporation and shall preside at meetings of the Board and the shareholders.

3.4 Powers and Duties of a Vice Chairman. A Vice Chairman shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.5 Powers and Duties of the President. The President shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.6 Powers and Duties of Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.7 Powers and Duties of the Chief Financial Officer. The Chief Financial Officer shall have such powers and perform such duties as the Board, the Chairman or any Vice Chairman may from time to time prescribe or as may be prescribed in these By-laws. The Chief Financial Officer shall cause to be prepared and maintained (i) a stock ledger containing the names and addresses of all shareholders and the number of shares of each class and series held by each and (ii) the list of shareholders for each meeting of the shareholders as required by Section 1.11 of these By-laws. The Chief Financial Officer shall be responsible for the custody of all stock books and of all unissued stock certificates.

3.8 Powers and Duties of the Controller and Assistant Controllers. (a) The Controller shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Controller shall prepare and render such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chairman may require, and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Controller.

(b) Each Assistant Controller shall perform such duties as from time to time may be assigned by the Controller or by the Board. In the event of the absence, incapacity or inability to act of the Controller, then any Assistant Controller may perform any of the duties and may exercise any of the powers of the Controller.

3.9 Powers and Duties of the Treasurer and Assistant Treasurers. (a) The Treasurer shall have the care and custody of all the funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer.

(b) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer (i) may sign all receipts and vouchers for payments made to the Corporation, (ii) shall render a statement of the cash account of the Corporation to the Board as often as it shall require the same; and (iii) shall enter regularly in books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Treasurer. Each Assistant Treasurer shall perform such duties as may from time to time be assigned by the Treasurer or by the Board. In the event of the absence, incapacity or inability to act of the Treasurer, then any Assistant Treasurer may perform any of the duties and may exercise any of the powers of the Treasurer.

3.10 Powers and Duties of the Secretary and Assistant Secretaries. (a) The Secretary shall keep the minutes of all proceedings of the shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these By-laws and as required by applicable law. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation to such contracts, instruments and other documents requiring the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Secretary.

(b) Each Assistant Secretary shall perform such duties as may from time to time be assigned by the Secretary or by the Board. In the event of the absence, incapacity or inability to act of the Secretary, then any Assistant Secretary may perform any of the duties and may exercise any of the powers of the Secretary.

4. INDEMNIFICATION.

4.1(a) Right to Indemnification. The Corporation, to the fullest extent permitted by applicable law as then in effect, shall indemnify any person who is or was a Director or officer of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was a Director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan) (a "Covered Entity"), against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Director or officer of the Corporation with respect to a Proceeding that was commenced by such Director or officer prior to a Change in Control (as defined in Section 4.4(e)(i) of this Article 4). Any Director or officer of the Corporation entitled to indemnification as provided in this Section 4.1(a) is hereinafter called an "Indemnitee". Any right of an Indemnitee to indemnification shall be a contract right and shall include the right to receive, prior to the conclusion of any Proceeding, payment of any expenses incurred by the Indemnitee in connection with such Proceeding, consistent with the provisions of applicable law as then in effect and the other provisions of this Article 4.

(b) Effect of Amendments. Neither the amendment or repeal of, nor the adoption of a provision inconsistent with, any provision of this Article 4 (including, without limitation, this Section 4.1(b)) shall adversely affect the rights of any Director or officer under this Article 4 (i) with respect to any Proceeding commenced or threatened prior to such amendment, repeal or adoption of an inconsistent provision or (ii) after the occurrence of a Change in Control, with respect to any Proceeding arising out of any action or omission occurring prior to such amendment, repeal or adoption of an inconsistent provision, in either case without the written consent of such Director or officer.

4.2 Insurance, Contracts and Funding. The Corporation may purchase and maintain insurance to protect itself and any indemnified person against any expenses, judgments, fines and amounts paid in settlement as specified in Section 4.1(a) or Section 4.5 of this Article 4 or incurred by any indemnified person in connection with any Proceeding referred to in such Sections, to the fullest extent permitted by applicable law as then in effect. The Corporation may enter into contracts with any Director, officer, employee or agent of the Corporation or any director, officer, employee, fiduciary or agent of any Covered Entity in furtherance of the provisions of this Article 4 and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article 4.

4.3 Indemnification; Not Exclusive Right. The right of indemnification provided in this Article 4 shall not be exclusive of any other rights to which any indemnified person may otherwise be entitled, and the provisions of this Article 4 shall inure to the benefit of the heirs and legal representatives of any indemnified person under this Article 4 and shall be applicable to Proceedings commenced or continuing after the adoption of this Article 4, whether arising from acts or omissions occurring before or after such adoption.

4.4 Advancement of Expenses; Procedures; Presumptions and Effect of Certain Proceedings; Remedies. In furtherance, but not in limitation, of the foregoing provisions, the following procedures, presumptions and remedies shall apply with respect to the advancement of expenses and the right to indemnification under this Article 4:

(a) Advancement of Expenses. All reasonable expenses incurred by or on behalf of the Indemnitee in connection with any Proceeding shall be advanced to the Indemnitee by the Corporation within 20 days after the receipt by the Corporation of a statement or statements from the Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Any such statement or statements shall reasonably evidence the expenses incurred by the Indemnitee and shall include any written affirmation or undertaking required by applicable law in effect at the time of such advance.

(b) Procedures for Determination of Entitlement to Indemnification. (i) To obtain indemnification under this Article 4, an Indemnitee shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Indemnitee and reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification (the "Supporting Documentation"). The determination of the Indemnitee's entitlement to indemnification shall be made not later than 60 days after receipt by the Corporation of the written request for indemnification together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that the Indemnitee has requested indemnification.

(ii) The Indemnitee's entitlement to indemnification under this Article 4 shall be determined in one of the following ways: (A) by a majority vote of the Disinterested Directors (as hereinafter defined), if they constitute a quorum of the Board; (B) by a written opinion of Independent Counsel as hereinafter defined) if (x) a Change in Control (as hereinafter defined) shall have occurred and the Indemnitee so requests or (y) a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, a majority of such Disinterested Directors so directs; (C) by the shareholders of the Corporation (but only if a majority of the Disinterested Directors, if they constitute a quorum of the Board, presents the issue of entitlement to indemnification to the shareholders for their determination); or (D) as provided in Section 4.4(c) of this Article 4.

(iii) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 4.4(b)(ii), a majority of the Disinterested Directors shall select the Independent Counsel, but only an Independent Counsel to which the Indemnitee does not reasonably object; provided, however, that if a Change in Control shall have occurred, the Indemnitee shall select such Independent Counsel, but only an Independent Counsel to which a majority of the Disinterested Directors does not reasonably object.

(c) Presumptions and Effect of Certain Proceedings. Except as otherwise expressly provided in this Article 4, if a Change in Control shall have occurred, the Indemnitee shall be presumed to be entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control) upon submission of a request for indemnification together with the Supporting Documentation in accordance with Section 4.4(b) of this Article 4, and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. In any event, if the person or persons empowered under Section 4.4(b) of this Article 4 to determine entitlement to indemnification shall not have been appointed or shall not have made a determination within 60 days after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Indemnitee shall be deemed to be, and shall be, entitled to indemnification unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. The termination of any Proceeding described in Section 4.1 of this Article 4, or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, adversely affect the right of the Indemnitee to indemnification or create a presumption that the Indemnitee did not act in good faith and in a manner which the Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(d) Remedies of Indemnitee. (i) In the event that a determination is made pursuant to Section 4.4(b) of this Article 4 that the Indemnitee is not entitled to indemnification under this Article 4, (A) the Indemnitee shall be entitled to seek an adjudication of his or her entitlement to such indemnification either, at the Indemnitee's sole option, in (x) an appropriate court of the state of Indiana or any other court of competent jurisdiction or (y) an arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association; (B) any such judicial proceeding or arbitration shall be de novo and the Indemnitee shall not be prejudiced by reason of such adverse determination; and (C) if a Change in Control shall have occurred, in any such judicial proceeding or arbitration the Corporation shall have the burden of proving that the Indemnitee is not entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control).

(ii) If a determination shall have been made or deemed to have been made, pursuant to Section 4.4(b) or (c) of this Article 4, that the Indemnitee is entitled to indemnification, the Corporation shall be obligated to pay the amounts constituting such indemnification within five days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. In the event that (x) advancement of expenses is not timely made pursuant to Section 4.4(a) of this Article 4 or (y) payment of indemnification is not made within five days after a determination of entitlement to indemnification has been made or deemed to have been made pursuant to Section 4.4(b) or (c) of this Article 4, the Indemnitee shall be entitled to seek judicial enforcement of the Corporation's obligation to pay to the Indemnitee such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the state of Indiana or any other court of competent jurisdiction, contesting the right of the Indemnitee to receive indemnification hereunder due to the occurrence of an event described in Subclause (A) or (B) of this Clause (ii) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(iii) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 4.4(d) that the procedures and presumptions of this Article 4 are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Article 4.

(iv) In the event that the Indemnitee, pursuant to this Section 4.4(d), seeks a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of, this Article 4, the Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any expenses actually and reasonably incurred by the Indemnitee if the Indemnitee prevails in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Indemnitee in connection with such judicial adjudication or arbitration shall be prorated accordingly.

(e) Definitions. For purposes of this Article 4:

(i) "Change in Control" means a change in control of the Corporation of a nature that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of

Regulation 14A (or any amendment or successor provision thereto) promulgated under the Securities Exchange Act of 1934 (the "Act"), whether or not the Corporation is then subject to such reporting requirement; provided that, without limitation, such a change in control shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Corporation representing 20% or more of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in an election of Directors without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such acquisition; (B) the Corporation is a party to any merger or consolidation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Corporation's common stock would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of the Corporation's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, (C) there is a sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation, or liquidation or dissolution of the Corporation; (D) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter; or (E) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (including for this purpose any new Director whose election or nomination for election by the shareholders was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board.

(ii) "Disinterested Director" means a Director who is not or was not a party to the proceeding in respect of which indemnification is sought by the Indemnitee.

(iii) "Independent Counsel" means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent: (a) the Corporation or the Indemnitee in any matter material to either such party or (b) any other party to the Proceeding giving rise to a claim for indemnification under this Article 4. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under applicable standards of professional conduct, would have a conflict of interest in representing either the Corporation or the Indemnitee in an action to determine the Indemnitee's rights under this Article 4.

4.5 Indemnification of Employees and Agents. Notwithstanding any other provision of this Article 4, the Corporation, to the fullest extent permitted by applicable law as then in effect, may indemnify any person other than a Director or officer of the Corporation who is or was an employee or agent of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed Proceeding by reasons of the fact that such person is or was an employee or agent of the Corporation or, at the request of the Corporation, a director, officer, employee, fiduciary or agent of a Covered Entity against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. The Corporation may also advance expenses incurred by such employee, fiduciary or agent in connection with any such Proceeding, consistent with the provisions of applicable law as then in effect.

4.6 Severability. If any of this Article 4 shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

5. CAPITAL STOCK.

5.1 Stock Certificates. (a) Every holder of stock in the Corporation shall be entitled to have a certificate, which shall state on its face the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom the certificate was issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon his written request and without charge, a summary of the designations, relative rights, preferences, and limitations applicable to each class and the variations in rights, preferences, and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series), which certificate shall otherwise be in such form as the Board shall prescribe and as provided in Section 5.1(d). Each such certificate shall be signed by, or in the name of, the Corporation by the Chairman or any Vice Chairman or the President or any Vice President, and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary.

(b) If such certificate is countersigned by a transfer agent other than the Corporation or its employee, or by a registrar other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles, and, if permitted by applicable law, any other signature on the certificate may be a facsimile.

(c) In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer at the date of issue.

(d) Certificates of stock shall be issued in such form not inconsistent with the Articles of Incorporation. They shall be numbered and registered in the order in which they are issued. No certificate shall be issued until fully paid.

(e) All certificates surrendered to the Corporation shall be cancelled (other than treasury shares) with the date of cancellation and shall be retained by or under the control of the Chief Financial Officer, together with the powers of attorney to transfer and the assignments of the shares represented by such certificates, for such period of time as such officer shall designate.

5.2 Record Ownership. A record of the name of the person, firm or corporation and address of such holder of each certificate, the number of shares of each class and series represented thereby and the date of issue thereof shall be made on the Corporation's books. The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in any share on the part of any person, whether or not it shall have express or other notice thereof, except as required by applicable law.

5.3 Transfer of Record Ownership. Transfers of stock shall be made on the books of the Corporation only by direction of the person named in the certificate or such person's attorney, lawfully constituted in writing, and only upon the surrender of the certificate therefor and a written assignment of the shares evidenced thereby. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer if, when the certificates are presented to the Corporation for transfer, both the transferor and transferee request the Corporation to do so.

5.4 Lost, Stolen or Destroyed Certificates. Certificates representing shares of the stock of the Corporation shall be issued in place of any certificate alleged to have been lost, stolen or destroyed in such manner and on such terms and conditions as the Board from time to time may authorize in accordance with applicable law.

5.5 Transfer Agent; Registrar; Rules Respecting Certificates. The Corporation shall maintain one or more transfer offices or agencies where stock of the Corporation shall be transferable. The Corporation shall also maintain one or more registry offices where such stock shall be registered. The Board may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of stock certificates in accordance with applicable law.

5.6 Fixing Record Date for Determination of Shareholders of Record. (a) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to notice of, or to vote at, any meeting of the shareholders or any adjournment thereof, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty days nor less than ten days before the date of a meeting of the shareholders. If no record date is fixed by the Board, the record date for determining the shareholders entitled to notice of or to vote at a shareholders' meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting and shall fix a new record date if such adjourned meeting is more than 120 days after the date of the original meeting.

(b) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or in order to make a determination of the shareholders for the purpose of any other lawful action, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty calendar days prior to such action. If no record date is fixed by the Board, the record date for determining the shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

6. SECURITIES HELD BY THE CORPORATION.

6.1 Voting. Unless the Board shall otherwise order, the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the Controller, the Treasurer or the Secretary shall have full power and authority, on behalf of the Corporation, (i) to attend, act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock and at such meeting to exercise any or all rights and powers incident to the ownership of such stock, and to execute on behalf of the Corporation a proxy or proxies empowering another or others to act as aforesaid, and (ii) to delegate to any employee or agent such power and authority.

6.2 General Authorization to Transfer Securities Held by the Corporation. (a) Any of the following officers, to wit: the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the Controller, the Treasurer, any Assistant Controller, any Assistant Treasurer, and each of them, hereby is authorized and empowered (i) to transfer, convert, endorse, sell, assign, set over and deliver any and all shares of stock, bonds, debentures, notes, subscription warrants, stock purchase warrants, evidences of indebtedness, or other securities now or hereafter standing in the name of or owned by the Corporation and to make, execute and deliver any and all written instruments of assignment and transfer necessary or proper to effectuate the authority hereby conferred, and (ii) to delegate to any employee or agent such power and authority.

(b) Whenever there shall be annexed to any instrument of assignment and transfer executed pursuant to and in accordance with the foregoing Section 6.2(a), a certificate of the Secretary or any Assistant Secretary in office at the date of such certificate setting forth the provisions hereof, stating that they are in full force and effect, setting forth the names of persons who are then officers of the corporation, and certifying as to the employees or agents, if any, to whom any such power and authority have been delegated, all persons to whom such instrument and annexed certificate shall thereafter come shall be entitled, without further inquiry or investigation and regardless of the date of such certificate, to assume and to act in reliance upon the assumption that (i) the shares of stock or other securities named in such instrument were theretofore duly and properly transferred, endorsed, sold, assigned, set over and delivered by the Corporation, and (ii) with respect to such securities, the authority of these provisions of these By-laws and of such officers, employees and agents is still in full force and effect.

7. DEPOSITARIES AND SIGNATORIES.

7.1 Depositaries. The Chairman, any Vice Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositaries for the funds of the Corporation deposited in its name or that of a Division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositaries and signatories, with the same force and effect as if each such depositary and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board; and each depositary designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation or of a Division of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of the Division or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depositary, or from time to time the fact of any change in any depositary or in the signatories with respect thereto.

7.2 Signatories. Unless otherwise designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, each of whom is authorized to execute any of such items individually, all notes, drafts, checks, acceptances, orders for the payment of money and all other negotiable instruments obligating the Corporation for the payment of money, including any form of guaranty by the Corporation with respect to any such item entered into by any direct or indirect subsidiary of the Corporation, shall be (a) signed by any Assistant Treasurer and (b) countersigned by the Controller or any Assistant Controller, or (c) either signed or countersigned by any Executive Vice President, any Senior Vice President or any Vice President in lieu of either the officers designated in Clause (a) or the officers designated in Clause (b) of this Section 7.2.

8. SEAL.

The seal of the Corporation shall be in such form and shall have such content as the Board shall from time to time determine.

9. FISCAL YEAR.

The fiscal year of the Corporation shall end on December 31 in each year, or on such other date as the Board shall determine.

10. WAIVER OF OR DISPENSING WITH NOTICE.

(a) Whenever any notice of the time, place or purpose of any meeting of the shareholders is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice, signed by a shareholder entitled to notice of a shareholders' meeting, whether by telegraph, cable or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. The waiver must be included in the minutes or filed with the corporate records. Attendance of a shareholder in person or by proxy at a shareholders' meeting shall constitute a waiver of notice to such shareholder of such meeting, except when (i) the shareholder attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened, or (ii) the shareholder objects to consideration of a particular matter at the meeting at the time such matter is presented because it is not within the purpose or purposes described in the meeting notice.

(b) Whenever any notice of the time or place of any meeting of the Board or Committee of the Board is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice signed by a Director, whether by telegraph, cable or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. Unless the Director is deemed to have waived notice by attending the meeting, the waiver must be in writing, signed by the Director entitled to the notice and filed with the minutes or corporate records. Attendance of a Director at a meeting shall constitute a waiver of notice to such Director of such meeting, unless the Director at the beginning of the meeting (or promptly upon the Director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

(c) No notice need be given to any person with whom communication is made unlawful by any law of the United States or any rule, regulation, proclamation or executive order issued under any such law.

11. POLITICAL NONPARTISANSHIP OF THE CORPORATION.

The Corporation shall not make, directly or indirectly, any contributions or expenditures in connection with the election of any candidate for federal, state or local political office, or any committee campaigning for such a candidate, except to the extent necessary to permit in the United States the expenditure of corporate assets for the payment of expenses for establishing, registering and administering any political action committee and of soliciting contributions thereto, all as may be authorized by federal or state laws.

12. AMENDMENT OF BY-LAWS.

Except as otherwise provided in Section 2.8(a) of these By-laws, these By-laws, or any of them, may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the Board at any regular or special meeting of the Board, if such supplement, amendment, repeal or adoption is approved by a majority of the entire Board. These By-laws, or any of them, may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the shareholders at any regular or special meeting of the shareholders at which a quorum is present, if such supplement, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in an election of directors.

13. OFFICES AND AGENT.

(a) Registered Office and Agent. The registered office of the Corporation in the State of Indiana shall be One North Capitol Avenue, Suite 1180, Indianapolis, Indiana 46204. The name of the registered agent is The Corporation Trust Company. Such registered agent has a business office identical with such registered office.

(b) Other Offices. The Corporation may also have offices at other places, either within or outside the State of Indiana, as the Board of Directors may from time to time determine or as the business of the Corporation may require.

CERTIFICATION

I hereby certify that the foregoing is a true and complete copy of the By-laws of ITT Industries, Inc., an Indiana corporation, as in effect on the date hereof.

WITNESS my hand and the seal of the Corporation.

Dated: , 19 .

Assistant Secretary

ADOPTED
2/9/99

EXHIBIT 10(K)

ITT INDUSTRIES, INC. 1996 RESTRICTED STOCK PLAN FOR NON-EMPLOYEE DIRECTORS

ARTICLE I -- PLAN ADMINISTRATION AND ELIGIBILITY

1.1 PURPOSE

The purpose of the ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors (the "Plan") is to attract and retain persons of ability as Directors of ITT Industries, Inc. (the "Company") and to provide them with a closer identity with the interests of the Company's stockholders by paying the Annual Retainer in common stock of the Company.

1.2 ADMINISTRATION

The Plan shall be administered by the Compensation and Personnel Committee of the Board of Directors (hereinafter referred to as the "Committee"). The Committee shall have the responsibility of interpreting the Plan and establishing and amending such rules and regulations necessary or appropriate for the administration of the Plan. All interpretations of the Plan or any Restricted Stock awards issued under it shall be final and binding upon all persons having an interest in the Plan. No member of the Committee shall be liable for any action or determination taken or made in good faith with respect to this Plan or any award granted hereunder.

1.3 ELIGIBILITY

Directors of the Company who are not employees of the Company or any of its subsidiaries shall be eligible to participate in the Plan.

1.4 STOCK SUBJECT TO THE PLAN

(a) The maximum number of shares which may be granted under the Plan shall be 100,000 shares of common stock of the Company (the "Stock").

(b) If any Restricted Stock is forfeited by a Director in accordance with the provisions of Section 2.2(c), such shares of Restricted Stock shall be restored to the total number of shares available for grant pursuant to the Plan.

(c) Upon the grant of a Restricted Stock award the Company may distribute newly issued shares or treasury shares.

ARTICLE II -- RESTRICTED STOCK

2.1 RESTRICTED STOCK AWARDS

Restricted Stock awards shall be made automatically on the date of the Annual Meeting of Stockholders, to each Director elected at the meeting or continuing in office following the meeting. The award shall equal the number of whole shares arrived at by dividing the Annual Retainer that is in effect for the calendar year within which the award date falls, by the Fair Market Value of the Company's common stock. Fractional shares shall be paid in cash.

(a) "Annual Retainer" shall mean the amount that is payable to a Director for service on the Board of Directors during the calendar year. Annual Retainer shall not include fees paid for attendance at any Board or Committee meeting.

(b) "Fair Market Value" shall mean the average of the high and low prices per share of the Company's common stock on the date of the Annual Meeting, as reported by the New York Stock Exchange Composite Tape.

2.2 TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS

(a) Written Agreement -- Each Restricted Stock award shall be evidenced by a written agreement delivered to the Director in such form as the Committee shall prescribe. Such agreement shall include the restrictions described under Section 2.2(c) and any other restrictions and conditions on the shares as the Committee deems appropriate.

(b) Shares held in Escrow -- The Restricted Stock subject to such award shall be registered in the name of the Director and held in escrow by the Committee until the restrictions on such shares lapse as described below.

(c) Restrictions -- Restricted Stock granted to a Director may not be sold, assigned, transferred, pledged or otherwise disposed of, except by will or the laws of descent and distribution, prior to the earliest of the following dates:

(1) The fifth anniversary of the date of grant.

(2) Retirement from the Board at age 72.

(3) "Change in Control" of the Company. A "Change in Control" shall be deemed to have occurred if:

(i) a report on Schedule 13D shall be filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 (the "Act") disclosing that any person (within the meaning of Section 13(d) of the Act), other than the Company or a subsidiary of the Company or any employee benefit plan sponsored by the Company or a subsidiary of the Company, is the beneficial owner directly or indirectly of twenty percent or more of the outstanding Stock of the Company;

(ii) any person (within the meaning of Section 13(d) of the Act), other than the Company or a subsidiary of the Company or any employee benefit plan sponsored by the Company or a subsidiary of the Company, shall purchase shares pursuant to a tender offer or exchange offer to acquire any Stock of the Company (or securities convertible into Stock) for cash, securities or any other consideration, provided that after consummation of the offer, the person in question is the beneficial owner (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of fifteen percent or more of the outstanding Stock of the Company (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of rights to acquire Stock);

(iii) the stockholders of the Company shall approve (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Stock of the Company would be converted into cash, securities or other property, other than a merger of the Company in which holders of Stock of the Company immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger as immediately before, or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; or

(iv) there shall have been a change in a majority of the members of the Board within a 12-month period unless the election or nomination for election by the Company's stockholders of each new Director during such 12-month period was approved by the vote of two-thirds of the Directors then still in office who were Directors at the beginning of such 12-month period.

(4) Death of the Director.

(5) Disability of the Director.

(6) Termination of service from the Board on account of (i) a physical or mental condition that, in the opinion of a qualified physician, is expected to impede the Director's ability to fulfill his or her principal duties for a period of at least three months; (ii) the relocation of the Director's principal place of business to a location that increases the time required for such

Director to travel to the Company's headquarters by more than 50%; (iii) the acceptance by the Director of a position (other than an honorary position) in the government of the United States, any State or any municipality or any subdivision thereof or any organization performing any quasi-governmental function; or (iv) any circumstances which, in the opinion of outside counsel to the Company, would (or could reasonably be expected to) conflict with applicable law or any written policy of the Company.

(7) Notwithstanding Section 2.2(c)(2) hereof, retirement from the Board at or after attaining age 65, provided that such Director was a member of the Board of Directors of the Company's corporate predecessor, ITT Corporation, a Delaware corporation, on December 18, 1995 and served as a Director of the Company thereafter.

(d) Dividends and Voting Rights -- The Director shall, subject to Section 2.2(c), possess all incidents of ownership of the shares of Restricted Stock including the right to receive dividends with respect to such shares and to vote such shares.

(e) The Company shall deliver to the Director, or the beneficiary of such Director, if applicable, all of the shares of stock that were awarded to the Director as Restricted Stock, within 30 days following the lapse of restrictions as described under Section 2.2(c). If the Director discontinues serving on the Board prior to the date upon which restrictions lapse as described under Section 2.2(c), such Director's Restricted Stock will be forfeited by the Director and transferred to and reacquired by the Company at no cost to the Company.

ARTICLE III -- GENERAL PROVISIONS

3.1 AUTHORITY

Appropriate officers of the Company designated by the Committee are authorized to execute Restricted Stock agreements, and amendments thereto, in the name of the Company, as directed from time to time by the Committee.

3.2 ADJUSTMENTS IN THE EVENT OF CHANGE IN COMMON STOCK OF THE COMPANY

In the event of any reorganization, merger, recapitalization, consolidation, liquidation, stock dividend, stock split, reclassification, combination of shares, rights offering, split-up, or extraordinary dividend (including a spin-off) or divestiture, or any other change in the corporate structure or shares, the number and kind of shares which thereafter may be granted under the Plan and the number of shares of Restricted Stock awarded pursuant to Section 2.1 with respect to which all restrictions have not lapsed, shall be appropriately adjusted consistent with such change in such manner as the Board in its discretion may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Directors participating in the Plan. Any fractional shares resulting from such adjustments shall be eliminated.

3.3 RIGHTS OF DIRECTORS

The Plan shall not be deemed to create any obligation on the part of the Board to nominate any Director for reelection by the Company's stockholders or to retain any Director at any particular rate of compensation. The Company shall not be obligated to issue Stock pursuant to an award of Restricted Stock for which the restrictions hereunder have lapsed if such issuance would constitute a violation of any applicable law. Except as provided herein, no Director shall have any rights as a stockholder with respect to any shares of Restricted Stock awarded to him.

3.4 BENEFICIARY

A Director may file with the Committee a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, amend or revoke such designation. In the event of the death of a Director, his beneficiary shall have the right to receive the shares of Restricted Stock awarded pursuant to the Plan. If no designated beneficiary survives the Director, the executor or administrator of the Director's estate shall be deemed to be the Director's beneficiary.

3.5 LAWS AND REGULATIONS

The Committee shall have the right to condition any issuance of shares to any Director hereunder on such Director's undertaking in writing to comply with such restrictions on the subsequent disposition of such shares as the Committee shall deem necessary or advisable as a result of any applicable law or regulation. The Committee may postpone the delivery of stock following the lapse of restrictions with respect to awards of Restricted Stock for such time as the Committee in its discretion may deem necessary, in order to permit the Company with reasonable diligence (i) to effect or maintain registration of the Plan, or the shares issuable upon the lapse of certain restrictions respecting awards of Restricted Stock, under the Securities Act of 1933 or the securities laws of any applicable jurisdiction, or (ii) to determine that such shares and the Plan are exempt from such registration; the Company shall not be obligated by virtue of any Restricted Stock agreement or any provision of the Plan to recognize the lapse of certain restrictions respecting awards of Restricted Stock or issue shares in violation of said Act or of the law of the government having jurisdiction thereof.

3.6 AMENDMENT, SUSPENSION AND DISCONTINUANCE OF THE PLAN

The Board may from time to time amend, suspend or discontinue the Plan, provided that the Board may not, without the approval of the holders of a majority of the outstanding shares entitled to vote, take any action which would cause the Plan to no longer comply with Rule 16b-3 under the Act, or any successor rule or other regulatory requirement.

No amendment, suspension or discontinuance of the Plan shall impair a Director's right under a Restricted Stock award previously granted to him without his consent.

3.7 GOVERNING LAW

This Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of New York.

3.8 EFFECTIVE DATE AND DURATION OF THE PLAN

This Plan shall be effective upon the Distribution Date (as defined in the Proxy Statement of ITT Corporation dated August 30, 1995) subject to the approval of the Plan by the stockholders of ITT Corporation, and shall terminate on December 31, 2005, provided that grants of Restricted Stock made prior to the termination of the Plan may vest following such termination in accordance with their terms.

As Amended
3/9/99

EXHIBIT 12

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CALCULATION OF RATIO OF EARNINGS TO TOTAL FIXED CHARGES AND CALCULATION OF EARNINGS TO TOTAL FIXED CHARGES AND PREFERRED DIVIDEND REQUIREMENTS
(IN MILLIONS)

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
Earnings:					
Income (loss) from continuing operations	$ (97.6)	$ 11.9	$ 66.4	$(130.7)	$ 36.9
Add (deduct):					
Adjustment for distributions in excess of (less than) undistributed equity earnings and losses(a)	1.1	2.1	(0.8)	(0.7)	--
Income taxes (benefits)	(62.4)	7.6	44.3	(46.6)	39.8
	(158.9)	21.6	109.9	(178.0)	76.7
Fixed Charges:					
Interest and other financial charges	125.8	133.2	169.0	175.2	115.2
Interest factor attributable to rentals(b)	15.1	17.7	15.8	16.0	13.4
	140.9	150.9	184.8	191.2	128.6
Earnings, as adjusted, from continuing operations	$ (18.0)	$172.5	$294.7	$ 13.2	$205.3
Fixed Charges:					
Fixed charges above	$ 140.9	$150.9	$184.8	$ 191.2	$128.6
Interest capitalized	--	1.1	1.1	2.9	6.8
Total fixed charges	140.9	152.0	185.9	194.1	135.4
Dividends on preferred stock (pre-income tax basis)(c)	--	--	--	23.4	47.5
Total fixed charges and preferred dividend requirements	$ 140.9	$152.0	$185.9	$ 217.5	$182.9
Ratios:					
Earnings, as adjusted, from continuing operations to total fixed charges(d)	--	1.13	1.59	--	1.52
Earnings, as adjusted, from continuing operations to total fixed charges and preferred dividend requirements(d)	--	1.13	1.59	--	1.12

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Notes:

a) The adjustment for distributions in excess of (less than) undistributed equity earnings and losses represents the adjustment to income for companies in which at least 20% but less than 50% equity is owned.

b) One-third of rental expense is deemed to be representative of the interest factor in rental expense.

c) The dividend requirements on preferred stock have been determined by adding to the total preferred dividends an allowance for income taxes, calculated at the effective income tax rate.

d) No ratios are shown for those periods in which earnings were insufficient to cover fixed charges and combined fixed charges and preferred stock dividends. As a result of the net loss incurred for the year ended December 31, 1998, earnings were inadequate to cover fixed charges and preferred stock dividends by $158.9 million. As a result of the net loss incurred for the year ended December 31, 1995, earnings were inadequate to cover fixed charges and combined fixed charges and preferred stock dividends by $180.9 million and $204.3 million, respectively.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Set forth below are the names of subsidiaries, divisions and related organizations of ITT Industries, Inc., the respective jurisdiction in which each was organized (in the case of subsidiaries), and the name under which each does business (if other than the name of the entity itself).

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
ITT Industries, Inc.	Indiana	
Pumps and Complementary Products		
Goulds Pumps, Incorporated	Delaware	Goulds
ITT Fluid Technology Division	N/A	
ITT Fluid Technology International	Delaware	
ITT Fluid Handling Division	N/A	
ITT Flygt AB	Sweden	Flygt
ITT Flygt Corporation	Delaware	Flygt
ITT Flygt Limited	Australia	Flygt
ITT Flygt Pumpen GmbH	Germany	Flygt
ITT Flygt (Shenyang) Pumps Ltd	China	Flygt
ITT Flygt Werk GmbH	Germany	Flygt
ITT FTC Manufacturing Division	N/A	
ITT Grindex Pump Division	N/A	
ITT Richter Chemie-Technik GmbH	Germany	Richter
Lowara S.p.A.	Italy	Lowara
Pumpenfabrik Ernst Vogel GmbH	Austria	Vogel
Water Pollution Control Corp.	Delaware	Sanitaire
Defense Products & Services		
GaAsTEK	N/A	
Gilcron Corporation	Delaware	
ITT Aerospace/Communications Division	N/A	
ITT Arctic Services, Inc.	Delaware	
ITT Avionics Division	N/A	
ITT Avionics Systems International, Inc.	Delaware	
ITT DCD Saudi Arabia, Inc.	Delaware	
ITT Defence Ltd.	England	
ITT Defense	N/A	
ITT Defense International, Inc.	Delaware	
ITT Federal Services Corporation	Delaware	
ITT Gilfillan	N/A	
ITT Gilfillan Inc.	Delaware	
ITT Night Vision	N/A	
ITT Systems Division	N/A	
ITT Systems & Sciences Corporation	Delaware	
Connectors & Switches		
CableCom Electronics (Shenzhen)Co., Ltd.	China	
CableCom International Limited	Hong Kong	
The Great American Gumball Company	California	ITT Cannon Santa Clara
ITT Cannon Division	N/A	ITT Cannon/MobileCom and ITT Cannon RF Products
ITT Cannon GmbH	Germany	

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
ITT Cannon (Hong Kong) Limited.................	Hong Kong	
ITT Cannon International, Inc.	Delaware	ITT Cannon/Network Systems & Services
ITT Cannon Italy S.p.A.	Italy	
ITT Cannon, Ltd.	Japan	
ITT Cannon Mexico, Inc.	Delaware	
ITT Cannon de Mexico S.A. de C.V.	Mexico	
ITT Cannon (Zhenjiang) Electronics Ltd.	China	
ITT Composants et Instruments S.A.	France	
ITT Datacommunications Ltd.	England	
ITT Schadow, Inc...............................	Minnesota	ITT Cannon Switch Products and ITT Cannon Schadow
Rudolf Schadow GmbH............................	Germany	
Sealectro International, Inc.	New York	
Specialty Products		
A.G. Johansons Metallfabrik AB.................	Sweden	
Hisan, Inc.	Michigan	
ITT Aerospace Controls Division................	N/A	
ITT AES Enterprises, Inc.......................	Delaware	
ITT Automotive Enterprises, Inc................	Delaware	
ITT Automotive Europe GmbH & Co. KG............	Germany	
ITT Automotive, Inc............................	Delaware	
ITT Engineered Valves Division.................	N/A	
ITT Fulton Rohr GmbH & Co. KG..................	Germany	
ITT Industries Fluid Handling Do Brasil Limitada....................................	Brazil	
ITT Industries Italia SRL......................	Italy	
ITT Jabsco Division............................	N/A	Jabsco
Jabsco GmbH....................................	Germany	
Koni BV..	The Netherlands	Koni
Koni France SARL...............................	France	Koni
Rule Industries, Inc.	Massachusetts	Rule
Sinton Engineering Co. Limited.................	England	Sinton
Sinton (UK) Limited............................	England	Sinton
Other		
Carbon Industries, Inc.	West Virginia	Carbon
Computer Equipment & Leasing Corporation.......	Wisconsin	
International Standard Electric Corporation....	Delaware	
ITT Automotive Europe Beteiligungs GmbH........	Germany	
ITT Benefits Management, Inc...................	Delaware	
ITT Canada Limited.............................	Canada	
ITT Community Development Corporation..........	Delaware	
ITT Delaware Investments, Inc.	Delaware	
ITT Gesellschaft fur Beteiligungen mbH.........	Germany	
ITT Industriebeteiligungsgesellschaft mbH......	Germany	
ITT Industries (China) Investment Company, Limited.....................................	China	
ITT Industries Limited.........................	England	
ITT Industries NV..............................	Belgium	
ITT Industries of Canada, Ltd.	Canada	

NAME	JURISDICTION IN WHICH ORGANIZED	NAME UNDER WHICH DOING BUSINESS
ITT Manufacturing Enterprises, Inc.	Delaware	
ITT Remediation Management, Inc................	Delaware	
ITT Resource Development Corporation...........	Delaware	
ITT South Florida Development Corporation......	Florida	
ITT Transportation Distribution Services Division.....................................	N/A	
Palm Coast, Inc................................	Florida	
Winifrede Railroad Corporation.................	West Virginia	

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Note: The names of certain subsidiaries have been omitted since, considered in the aggregate, they would not constitute a "significant subsidiary" as of the end of the year covered by this report.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To ITT Industries, Inc.:

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on (i) Form S-3 (File No. 33-45756) and (ii) Form S-8 (File Nos. 33-53771, 333-1109, 333-64161, and 333-66293).

ARTHUR ANDERSEN LLP

Stamford, Connecticut
March 26, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1998 FINANCIAL STATEMENTS INCLUDED IN FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR
DEC-31-1998
DEC-31-1998
881
0
865
23
579
2,382
2,307
1,315
5,049
2,151
516
0
0
96
1,204
5,049
4,493
4,493
3,166
3,434
1,134
10
126
(160)
(62)
(98)
1,630
0
0
1,533
13.55
13.55

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1997 FINANCIAL STATEMENTS INCLUDED IN FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR
DEC-31-1997
DEC-31-1997
192
0
746
19
572
1,574
2,289
1,258
5,058
2,896
531
0
0
118
704
5,058
4,208
4,208
2,983
3,249
817
8
133
20
8
12
102
0
(6)
108
.91
.89

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM THE RESTATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1996.

1,000,000

YEAR
DEC-31-1996
DEC-31-1996
122
0
584
15
530
1,299
2,487
1,512
3,977
1,792
582
0
0
118
681
3,977
3,745
3,745
2,690
2,957
542
2
169
111
44
66
156
0
0
223
1.89
1.85