

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-5672

ITT INDUSTRIES, INC.

INCORPORATED IN THE STATE OF INDIANA

13-5158950
(I.R.S. Employer
Identification Number)

4 WEST RED OAK LANE, WHITE PLAINS, NY 10604
(Principal Executive Office)

TELEPHONE NUMBER: (914) 641-2000

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

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

As of July 31, 2004, there were outstanding 92,277,513 shares of common
stock (\$1 par value per share) of the registrant.

ITT INDUSTRIES, INC.

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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted within the United States have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures herein are adequate to make the information presented not misleading. Certain amounts in the prior periods' consolidated condensed financial statements have been reclassified to conform to the current period presentation. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2003 Annual Report on Form 10-K.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED INCOME STATEMENTS
(IN MILLIONS, EXCEPT PER SHARE)
(UNAUDITED)

	THREE MONTHS ENDED 30, 2003	SIX MONTHS ENDED 2003	JUNE 30, 2003	JUNE 30, 2004
Sales and revenues.....	\$1,652.5	\$1,438.2	\$3,168.4	\$2,734.6
Costs of sales and revenues.....	2,086.1	1,796.0	1,079.0	949.6
Selling, general, and administrative expenses.....	237.6	198.6	467.8	398.9
Research, development, and engineering expenses.....	166.7	142.6	311.6	272.2
Restructuring and asset impairment charges.....	14.3	5.9	19.0	16.3
Total costs and expenses.....	1,296.7	2,884.5	2,483.4	1,497.6
Operating income.....	141.5	283.9	251.2	154.9
Interest expense (income), net.....	5.4	5.8	6.5	(9.3)
Miscellaneous expense, net.....	3.1	2.1	6.7	2.8
Income from continuing operations before income taxes.....	146.4	133.6	270.7	257.7
Income tax expense.....	41.5	69.9	78.9	33.7
Income from continuing operations.....	104.9	63.7	191.8	224.0
Discontinued operations: Income (loss) from discontinued operations, including tax income (expense) of \$0.3, \$(0.2), \$(0.1) and \$(0.2).....	0.1	7.8		(0.7)
Net income.....	\$ 112.0	\$ 99.9	\$ 200.9	\$ 186.6

THREE MONTHS ENDED SIX MONTHS ENDED JUNE 30, JUNE
 30, ----- 2004
 2003 2004 2003 -----

EARNINGS PER SHARE: Income from continuing
 operations:

Basic.....
 \$ 1.22 \$ 1.00 \$ 2.18 \$ 1.94

Diluted.....
 \$ 1.19 \$ 0.98 \$ 2.13 \$ 1.90 Discontinued
 operations:

Basic.....
 \$ (0.01) \$ 0.08 \$ -- \$ 0.08

Diluted.....
 \$ (0.01) \$ 0.08 \$ -- \$ 0.08 Net income:

Basic.....
 \$ 1.21 \$ 1.08 \$ 2.18 \$ 2.02

Diluted.....
 \$ 1.18 \$ 1.06 \$ 2.13 \$ 1.98 Cash dividends
 declared per common share..... \$ 0.17 \$

0.16 \$ 0.34 \$ 0.32 Average Common Shares --
 Basic..... 92.4 92.0 92.3 92.0

Average Common Shares --
 Diluted..... 94.5 94.0 94.5 93.9

The accompanying notes to consolidated condensed financial statements are an
 integral part of the above income statements.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS
(IN MILLIONS, EXCEPT FOR SHARES AND PER SHARE)
(UNAUDITED)

JUNE 30,	DECEMBER 31,	2004	2003	-----	-----
--- ASSETS					
Current Assets: Cash and cash equivalents..... \$ 219.5					
\$ 414.2 Receivables,					
net.....				1,213.9	
974.6 Inventories,					
net.....				632.3	
578.5 Deferred income					
taxes.....				68.1	68.2
Other current					
assets.....				80.7	
70.0 ----- Total current					
assets.....				2,214.5	2,105.5
----- Plant, property and equipment,					
net.....				862.1	893.3
Deferred income taxes.....					
375.7 373.3 Goodwill,					
net.....					
1,793.7 1,629.1 Other intangible assets,					
net.....				154.1	74.8
Other assets.....					
925.3 861.6 ----- Total non-current					
assets.....				4,110.9	3,832.1
----- Total					
assets.....					
\$6,325.4	\$5,937.6	=====	=====	LIABILITIES AND	
SHAREHOLDERS' EQUITY					
Current Liabilities: Accounts payable..... \$					
733.8 \$ 635.3 Accrued					
expenses.....					
651.6 653.4 Accrued					
taxes.....					
271.9 251.9 Notes payable and current maturities of					
long-term debt.... 359.7 141.5 Other current					
liabilities.....				2.4	4.5
----- Total current					
liabilities.....				2,019.4	1,686.6
----- Pension					
benefits.....					
1,186.1 1,187.6 Postretirement benefits other than					
pensions..... 217.1 216.2 Long-term					
debt.....					
440.5 460.9 Other					
liabilities.....					
533.0 538.6 ----- Total non-current					
liabilities.....				2,376.7	2,403.3
----- Total					
liabilities.....				4,396.1	
4,089.9 Shareholders' Equity: Cumulative Preferred					
Stock: Authorized 50,000,000 shares, No par value,					
none issued..... -- --					
Common stock: Authorized 200,000,000 shares, \$1 par					
value per share Outstanding: 92,277,513 shares and					
92,271,319					
shares.....					
92.3 92.3 Retained					
earnings.....					
2,402.1 2,277.1 Accumulated other comprehensive loss:					
Unrealized loss on investment securities and cash					
flow					
hedges.....					
(0.8) (0.6) Unrealized loss on minimum pension					
liability..... (602.2) (602.2) Cumulative					
translation adjustments..... 37.9					
81.1 ----- Total accumulated other					
comprehensive loss.....				(565.1)	(521.7)
----- Total shareholders'					
equity.....				1,929.3	1,847.7
----- Total liabilities and shareholders'					
equity.....				\$6,325.4	\$5,937.6
=====					

- -----
The accompanying notes to consolidated condensed financial statements are an integral part of the above balance sheets.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

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

SIX MONTHS ENDED JUNE 30,	-----	2004	2003	---

	OPERATING ACTIVITIES			
Net				
income.....				
	\$ 200.9	\$ 186.6		Income from discontinued
operations.....	(0.1)	(7.8)		
	Income from continuing			
operations.....	200.8	178.8		
Adjustments to income from continuing operations:				
Depreciation and				
amortization.....	97.1	93.4		
Restructuring and asset impairment				
charges.....	19.0	16.3		Payments for
restructuring.....	(17.8)			
	(10.2)			Change in
receivables.....	(195.9)			
	(132.4)			Change in
inventories.....	(37.8)			
(8.4)				Change in accounts payable and accrued
expenses.....	66.5	(3.2)		Change in accrued and
deferred taxes.....	37.6	49.8		Change in
other current and non-current assets.....	(104.8)			
	(214.6)			Change in non-current
liabilities.....	(9.1)	(8.9)		Other,
net.....	1.9			
	6.0			Net cash -- operating
activities.....	57.5	(33.4)		
-----	INVESTING ACTIVITIES			
Additions to plant,				
property, and equipment.....	(63.5)	(57.7)		
Acquisitions, net of cash				
acquired.....	(257.3)	(42.5)		
Proceeds from sale of assets and				
businesses.....	4.7	9.5		Other,
net.....	0.3			
	0.1			Net cash -- investing
activities.....	(315.8)	(90.6)		
-----	FINANCING ACTIVITIES			
Short-term debt,				
net.....	199.6	181.1		
Long-term debt				
repaid.....	(36.2)			
	(17.0)			Long-term debt
issued.....	0.9	0.3		
Repurchase of common				
stock.....	(114.7)	(16.8)		
Proceeds from issuance of common				
stock.....	56.4	19.9		Dividends
paid.....	(30.5)			
	(28.5)			Other,
net.....				
(0.1)	0.1			Net cash -- financing
activities.....	75.4	139.1		
-----	EXCHANGE RATE EFFECTS ON CASH AND CASH			
EQUIVALENTS.....	(7.6)	8.9		NET CASH -- DISCONTINUED
OPERATIONS.....	(4.2)	9.8		
-----	Net change in cash and cash			
equivalents.....	(194.7)	33.8		Cash and
cash equivalents -- beginning of period.....	414.2			
202.2				CASH AND CASH EQUIVALENTS -- END OF
PERIOD.....	\$ 219.5	\$ 236.0		=====
				=====
				SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: Cash
				paid during the period for:
Interest.....				
	\$ 21.5	\$ 22.9		Income
taxes.....				
	32.3	\$ 29.1		=====

The accompanying notes to consolidated condensed financial statements are an integral part of the above cash flow statements.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

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

1) RECEIVABLES, NET

Net receivables consist of the following:

	JUNE 30, 2004	DECEMBER 31, 2003	
Trade.....			-----
	\$1,145.1	\$936.3	
Other.....			
	97.6	67.4	Less: allowance for doubtful accounts and cash discounts.... (28.8) (29.1) -----
			\$1,213.9 \$974.6
			=====

2) INVENTORIES, NET

Net inventories consist of the following:

	JUNE 30, 2004	DECEMBER 31, 2003	
Finished goods.....			-----
	172.9	\$159.4	Work in process.....
			273.8 182.4 Raw materials.....
	287.6	312.8	Less: progress payments..... (102.0)
	(76.1)		-----
			\$ 632.3 \$578.5 =====

3) PLANT, PROPERTY AND EQUIPMENT, NET

Net plant, property and equipment consist of the following:

	JUNE 30, 2004	DECEMBER 31, 2003	
Land and improvements.....			-----
	58.8	\$ 60.5	Buildings and improvements.....
			461.8 465.2 Machinery and equipment.....
	1,618.1		1,618.9 Furniture, fixtures and office equipment.....
			248.0 250.1 Construction work in progress.....
			73.1 68.2 Other.....
	55.2	45.1	-----
			2,515.8 2,507.2 Less: accumulated depreciation and amortization.....
	(1,653.7)	(1,613.9)	-----
			\$ 862.1 \$ 893.3
			=====

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
 (IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

4) SALES AND REVENUES AND COSTS OF SALES AND REVENUES

Sales and revenues and costs of sales and revenues consist of the following:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2004		JUNE 30, 2003	
	2004	2003	2004	2003
	----- Product			
sales.....	\$1,373.9	\$1,215.6	\$2,626.7	\$2,312.9
	----- Service			
revenues.....	278.6	222.6	541.7	421.7
	----- Total sales and revenues.....			
	\$1,652.5	\$1,438.2	\$3,168.4	\$2,734.6
	=====			
	----- Costs of product			
sales.....	\$ 798.1	\$1,700.7	\$1,506.8	\$ 884.2
	----- Costs of service revenues.....			
	194.8	151.5	385.4	289.2
	----- Total costs of sales and revenues.....			
	\$1,079.0	\$ 949.6	\$2,086.1	\$1,796.0
	=====			

The Defense Electronics & Services segment comprises \$249.3 and \$484.4 of total service revenues for the three and six months ended June 30, 2004, respectively, and \$169.8 and \$331.7 of total costs of service revenues, respectively, during the same period. The Fluid Technology segment comprises the remaining balances of service revenues and costs of service revenues.

The Defense Electronics & Services segment comprises \$201.3 and \$379.8 of total service revenues for the three and six months ended June 30, 2003, respectively, and \$132.1 and \$250.4 of total costs of service revenues, respectively, during the same period. The Fluid Technology segment comprises the remaining balances of service revenues and costs of service revenues.

5) COMPREHENSIVE INCOME

	PRETAX TAX INCOME (EXPENSE) NET-OF-TAX (EXPENSE)	
	BENEFIT AMOUNT	
	Three Months Ended June 30, 2004 Net	
income.....	\$112.0	
	----- Other comprehensive income (loss): Foreign currency translation adjustments.....	
	\$(5.3)	\$ -- (5.3)
	----- Unrealized gain (loss) on investment securities and cash flow hedges.....	
	(0.5)	0.2 (0.3)
	----- Other comprehensive income (loss).....	
	\$(5.8)	\$0.2 (5.6)
	----- Comprehensive income.....	
		\$106.4
	=====	

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

PRETAX TAX INCOME (EXPENSE) NET-OF-TAX (EXPENSE)
BENEFIT AMOUNT ----- Three
Months Ended June 30, 2003 Net

income.....
\$ 99.9 Other comprehensive income (loss): Foreign
currency translation adjustments.....
\$55.0 \$ -- 55.0 Unrealized gain (loss) on investment
securities and cash flow
hedges..... 1.4
(0.5) 0.9 ----- Other comprehensive income
(loss)..... \$56.4 \$(0.5) 55.9 -----
Comprehensive
income..... \$155.8
=====

PRETAX TAX INCOME (EXPENSE) NET-OF-TAX (EXPENSE)
BENEFIT AMOUNT ----- Six
Months Ended June 30, 2004 Net

income.....
\$200.9 Other comprehensive income (loss): Foreign
currency translation adjustments.....
\$(43.2) \$ -- (43.2) Unrealized gain (loss) on
investment securities and cash flow
hedges.....
(0.3) 0.1 (0.2) ----- Other comprehensive
income (loss)..... \$(43.5) \$0.1 (43.4)
----- Comprehensive
income..... \$157.5
=====

PRETAX TAX INCOME (EXPENSE) NET-OF-TAX (EXPENSE)
BENEFIT AMOUNT ----- Six
Months Ended June 30, 2003 Net

income.....
\$186.6 Other comprehensive income (loss): Foreign
currency translation adjustments.....
\$77.2 \$ -- 77.2 Unrealized gain (loss) on investment
securities and cash flow
hedges..... 1.1
(0.4) 0.7 ----- Other comprehensive income
(loss)..... \$78.3 \$(0.4) 77.9 -----
Comprehensive
income..... \$264.5
=====

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

6) EARNINGS PER SHARE

The following is a reconciliation of the shares used in the computation of basic and diluted earnings per share for the three and six months ended June 30, 2004 and 2003:

	THREE MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
Weighted average shares of common stock outstanding used in the computation of basic earnings per share.....	92.4	92.0	92.3	92.0
Common stock equivalents.....	2.2	1.9	2.1	2.0
Shares used in the computation of diluted earnings per share.....	94.5	94.0	94.5	93.9

There were no amounts of outstanding antidilutive common stock options excluded from the computation of diluted earnings per share for the three months and six months ended June 30, 2004.

The amounts of outstanding antidilutive common stock options excluded from the computation of diluted earnings per share for the three months and six months ended June 30, 2003 were 1.9 and 1.7, respectively.

7) STOCK-BASED EMPLOYEE COMPENSATION

At June 30, 2004, the Company has one stock-based employee compensation plan that is issuing new options and restricted shares. The Company also has two stock-based employee compensation plans and two stock-based non-employee directors compensation plans that have options and restricted shares outstanding, but will not be issuing additional stock-based compensation. These plans are described more fully in Note 20, "Shareholders' Equity," within the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Had compensation expense for these plans been determined based on the fair value recognition provisions of Statement of Financial Accounting Standards ("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:

	THREE MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
Net income as reported.....	\$112.0	\$112.0	\$112.0	\$112.0
Deduct: Total stock-based employee compensation expense determined under the fair value based method for awards not reflected in net income -- net of tax.....	\$99.9	\$200.9	\$186.6	\$186.6
Pro forma net income.....	\$99.4	\$182.8	\$184.2	\$184.2
Basic earnings per share As reported.....	\$ 1.21	\$ 1.08	\$ 2.18	\$ 2.02
Pro forma.....	\$ 1.05	\$ 1.08	\$ 1.98	\$ 2.00
Diluted earnings per share As reported.....	\$ 1.18	\$ 1.06	\$ 2.13	\$ 1.98
Pro forma.....	\$ 1.03	\$ 1.06	\$ 1.93	\$ 1.96

- The Fluid Technology segment recorded \$2.4 for the termination of 45 employees, including eight factory workers and 37 office workers. Lease commitments totaling \$0.7 were recognized related to the closure of two facilities (one in Sweden and one in Florida). Asset write-offs and other costs totaling \$0.2 and \$0.1, respectively, were also recognized during the quarter.
- The Motion & Flow Control segment recognized \$2.1 for the termination of 44 employees, including seven factory workers, 32 office workers and five management employees.
- Corporate headquarters recorded \$1.6 for the severance of one management employee.

In addition to the restructuring actions announced during the second quarter, the Motion & Flow Control segment recognized \$0.3 of severance and employee benefit costs related to actions announced during the first quarter of 2003 and the Electronic Components segment recognized \$0.3 of severance and employee benefit costs related to actions announced during the first quarter of 2004 and \$0.1 of outplacement related to actions announced in 2003.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

During the first quarter of 2004, the Company recognized a \$5.3 charge, primarily for the planned severance of 103 employees. The actions by segment are as follows:

- The Fluid Technology segment recorded \$2.7 for the planned termination of 50 employees, including 15 factory workers and 35 office workers. Asset write-offs and other costs totaling \$0.4 and \$0.1, respectively, were also recognized during the quarter.
- The Electronic Components segment recorded \$1.7 of the charge primarily for the planned reduction of 35 employees, including 23 factory workers, 11 office workers and one management employee.
- The Motion & Flow Control segment recognized \$0.2 for the planned termination of 16 employees, including three factory workers and 13 office workers.
- Corporate headquarters recorded \$0.2 for the planned severance of one office worker and one management employee.

2003 RESTRUCTURING ACTIVITIES

During the fourth quarter of 2003 the Company announced actions to reduce operating costs primarily through the reduction of headcount. The new \$15.4 restructuring charge primarily reflects the planned severance of 301 employees. The actions by segment are as follows:

- The Electronic Components segment recorded \$1.5 of the charge for the planned termination of 132 employees, including 113 factory workers, 14 office workers and five management employees.
- The Fluid Technology segment recognized \$12.4 of the charge for the planned severance of 134 employees, including 39 factory workers, 90 office workers and five management employees. Lease and other costs represent \$0.3 of the charge. The segment also recorded a \$0.2 charge associated with the disposal of machinery and equipment.
- The Defense Electronics & Services segment recorded a \$1.0 charge for the planned severance of 35 employees, including seven factory workers, 19 office workers and nine management employees.

In addition to the restructuring actions announced during the fourth quarter, the Motion & Flow Control segment recognized \$0.5 of severance and employee benefit costs related to actions announced during the first quarter and the Electronic Components segment recognized \$0.2 of outplacement related to actions announced earlier in 2003.

During the third quarter of 2003 the Company announced actions to reduce operating costs primarily through the reduction of headcount. The new \$2.6 restructuring charge primarily reflects the planned severance of 72 employees. The actions by segment are as follows:

- The Electronic Components segment recorded \$1.2 of the charge for the planned termination of 40 employees, including 15 factory workers and 25 office workers. The segment also recorded a \$0.1 charge associated with the disposal of machinery and equipment.
- The Fluid Technology segment recognized a \$0.5 charge for the planned severance of 13 factory workers and 14 office workers. Lease and other costs represent \$0.4 of the charge.
- The Motion & Flow Control segment recorded a \$0.4 charge for the planned severance of one management employee and four office workers.

In addition to the restructuring actions announced during the third quarter, the Motion & Flow Control segment recognized \$0.2 of severance and employee benefit costs related to actions announced during the first quarter.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

During the second quarter of 2003 the Company continued its program to reduce structural costs and increase profitability. New restructuring actions totaling \$4.7 were announced during the period. The charge primarily reflected the planned severance of 148 employees and the cancellation of an operating lease. The actions by segment are as follows:

- The Electronic Components segment comprises \$2.7 of the charge and the actions taken at this segment include the planned termination of six management employees, 19 factory workers and 71 office workers.
- The Motion & Flow Control segment recognized \$1.0 for the planned severance of 50 employees, including six management employees, 31 factory workers and 13 office workers. Lease termination fees of \$0.7 and asset disposal costs of \$0.1 were also reflected in the charge.
- At Corporate Headquarters, a charge of \$0.2 was recorded for the planned termination of one management employee and one office worker.

In addition to the restructuring actions announced during the second quarter, the Motion & Flow Control segment recognized \$1.2 of severance and employee benefit costs related to actions announced during the first quarter.

During the first quarter of 2003 the Company recorded a \$9.0 restructuring charge primarily for the planned severance of 465 persons. Severance of \$8.3 represents the majority of the charge. The actions by segment are as follows:

- The Electronic Components segment recorded \$6.8 of the charge for the planned termination of 226 persons, comprised of 101 office workers, 116 factory workers and nine management employees. Idle facility costs of \$0.3 and asset disposal costs of \$0.4 were also reflected in the charge. The actions were prompted by management's projections of continued weakness in certain businesses.
- Corporate Headquarters recorded \$1.1 of the charge for the consolidation of administrative tasks, including the planned termination of two management employees.
- The Motion & Flow Control segment recorded \$0.4 of the charge for the planned termination of 237 employees, comprised of 21 office workers and 216 factory workers. The charge relates to the closure of a manufacturing facility in Arkansas. The actions will be completed during 2003 and 2004 and the total estimated charge of approximately \$2.6 will be recognized ratably over the restructuring period as the terminations become effective. Management deemed the restructuring actions necessary to address the anticipated loss of certain platforms during the second half of 2003.

2003 OTHER ASSET IMPAIRMENTS

During 2003, the Company recorded a \$1.4 asset impairment charge primarily for a technology license that will not be utilized based on management's projections of future market conditions. The applicable assets were written down to their fair values based on management's comparison of projected future discounted cash flows generated by each asset to the applicable asset's carrying value. These impairments were unrelated to the Company's restructuring activities.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
 (IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

The following is a rollforward of the accrued cash restructuring balances for all restructuring plans.

DEFENSE MOTION			
FLUID			
ELECTRONICS &			
FLOW ELECTRONIC			
CORPORATE			
TECHNOLOGY &			
SERVICES			
CONTROL			
COMPONENTS AND			
OTHER TOTAL ---			

Balance			
December 31,			
2003.....			
\$11.3 \$ 0.8 \$			
3.7 \$ 3.5 \$ 0.8			
\$ 20.1 Payments			
for prior			
charges.....			
(8.2) (0.5)			
(2.0) (1.5)			
(0.4) (12.6)			
Reversal of			
prior			
charges.....			
(0.4) -- --			
(0.5) -- (0.9)			
2004			
restructuring			
charges.....			
6.0 -- 2.6 7.8			
1.8 18.2			
Payments for			
2004			
charges.....			
(2.7) -- (0.2)			
(2.3) -- (5.2)			
Other,			
including			
translation.....			
(0.2) (0.1) --			
(0.1) (0.2)			
(0.6) -----			

Balance June			
30,			
2004.....			
\$ 5.8 \$ 0.2 \$			
4.1 \$ 6.9 \$ 2.0			
\$ 19.0 =====			
=====			
=====			
=====			

During the second quarter of 2004, \$0.1 and \$0.2 of restructuring accruals related to 2003 and 2002 restructuring actions, respectively, were reversed into income. The reversals related to the 2003 actions primarily reflect lower than anticipated severance costs on completed actions at the Electronic Components segment. The reversals related to the 2002 actions represent lower than anticipated severance costs on completed actions at the Fluid Technology segment.

During the first quarter of 2004, \$0.2 and \$0.4 of restructuring accruals related to 2003 and 2001 restructuring actions, respectively, were reversed into income. The reversals related to the 2003 actions primarily reflect lower than anticipated severance costs on completed actions due to favorable employee

attrition at the Electronic Components segment. The reversals associated with the 2001 actions represent lower than anticipated closed facility costs.

At December 31, 2003, the accrual balance for restructuring activities was \$20.1. Cash payments of \$17.8 and additional cash charges of \$18.2 were recorded in the first six months of 2004. The accrual balance related to cash charges at June 30, 2004 is \$19.0, which includes \$12.2 for severance and \$6.8 for facility carrying costs and other.

As of December 31, 2003, remaining actions under restructuring activities announced in 2003, 2002 and 2001 were to close one facility and reduce headcount by 208. During the first six months of 2004, the Company reduced headcount by 491 persons related to all plans and experienced employee attrition, leaving a balance of 244 planned reductions. Actions announced during the second quarter of 2004 will be substantially completed by the end of the first quarter of 2005. Actions announced during the first quarter of 2004 were substantially completed by the end of the second quarter of 2004, with 12 headcount reductions remaining. Actions announced during 2003 will be substantially completed by the end of 2004. All of the actions contemplated under the 2002 and 2001 plans were substantially completed in 2003. Closed facility expenditures and severance run-off related to the 2001 plan will continue to be incurred in 2004.

9) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The nature of the Company's business activities necessarily involves the management of various financial and market risks, including those related to changes in interest rates, currency exchange rates, and commodity prices. As discussed more completely in Notes 1, "Accounting Policies", and 18, "Financial Instruments," within the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K, the Company uses derivative financial instruments to mitigate or eliminate certain of those risks.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

At June 30, 2004 and December 31, 2003, the values of the Company's interest rate swaps were \$64.7 and \$81.6, including \$3.6 and \$4.0 of accrued interest, respectively.

A reconciliation of current period changes contained in the accumulated other comprehensive loss component of shareholders' equity is not required as no material activity occurred during the first six months of 2004 and 2003. Additional disclosures required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, are presented below.

HEDGES OF FUTURE CASH FLOWS

At June 30, 2004 the Company had eight foreign currency cash flow hedges outstanding that had declines in value of \$0.1 during 2004. At December 31, 2003 the Company had no foreign currency cash flow hedges outstanding. There were no changes in the forecasted transactions during 2004 regarding their probability of occurring that would require amounts to be reclassified to earnings.

The notional amount of the foreign currency forward contracts utilized to hedge cash flow exposures was \$14.6 at June 30, 2004. The applicable fair value of these contracts at June 30, 2004 was \$(0.1). There were no ineffective portions of changes in fair values of cash flow hedge positions reported in earnings for the six months ended June 30, 2004 and 2003, and no amounts were excluded from the measure of effectiveness reported in earnings during these periods.

HEDGES OF RECOGNIZED ASSETS, LIABILITIES AND FIRM COMMITMENTS

At June 30, 2004 and December 31, 2003, the Company had foreign currency forward contracts with notional amounts of \$81.2 and \$81.1, respectively, to hedge the value of recognized assets, liabilities and firm commitments. The fair value of the 2004 and 2003 contracts were \$0.2 at both June 30, 2004 and December 31, 2003. The ineffective portion of changes in fair values of such hedge positions reported in operating income during the first six months of 2004 and 2003 amounted to \$(0.2) and \$(0.1), respectively. There were no amounts excluded from the measure of effectiveness.

The fair values associated with the foreign currency contracts have been valued using the net position of the contracts and the applicable spot rates and forward rates as of the reporting date.

10) GOODWILL AND OTHER INTANGIBLE ASSETS

The Company follows the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and indefinite-lived intangible assets be tested for impairment on an annual basis, or more frequently if circumstances warrant. Annual goodwill impairment tests were completed in the first quarters of 2004 and 2003 (as of the beginning of the year) and it was determined that no impairment exists.

Changes in the carrying amount of goodwill for the six months ended June 30, 2004, by business segment, are as follows:

DEFENSE MOTION FLUID ELECTRONICS & FLOW ELECTRONIC CORPORATE TECHNOLOGY & SERVICES CONTROL COMPONENTS AND OTHER TOTAL ----- -----					
-- ----- Balance as of December 31, 2003.....	\$809.4				
	\$303.7	\$181.6	\$329.4	\$5.0	
\$1,629.1 Goodwill acquired during the period.....					
179.7 -- -- -- 179.7 Other, including foreign currency translation.....	(16.0)	(0.7)	1.6	(15.1)	---

----- Balance as of June 30, 2004.....	\$973.1	\$303.7			
	\$180.9	\$331.0	\$5.0	\$1,793.7	
=====					=====
=====					

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

Information regarding the Company's other intangible assets follows:

JUNE 30, DECEMBER 31, 2004 2003	-----	-----	
Finite-lived intangibles -- Patents and other.....			\$ 93.5
	\$34.1	Accumulated	
amortization.....			(10.8)
(8.4) Indefinite-lived intangibles -- Brands and trademarks.....			40.0
	17.7	Pension	
related.....			
	31.4	31.4	-----
			----- Net
intangibles.....			
	\$154.1	\$74.8	=====
			=====

Amortization expense related to intangible assets for the six month periods ended June 30, 2004 and 2003 was \$2.4 and \$0.9, respectively. Estimated amortization expense for each of the five succeeding years is \$5.4 per year.

11) DISCONTINUED OPERATIONS

In September of 1998, the Company completed the sales of its automotive Electrical Systems business to Valeo SA for approximately \$1,700 and its Brake and Chassis unit to Continental AG of Germany for approximately \$1,930. These dispositions were treated as discontinued operations. In 1998, the Company received notifications of claims from the buyers of the automotive business requesting post-closing adjustments to the purchase prices under the provisions of the sales agreements. In 1999, those claims were submitted to arbitration. In 2001 and early in 2002, both claims were favorably resolved.

At June 30, 2004, the Company had automotive discontinued operations accruals of \$186.0 that are primarily related to taxes (\$154.1), product recalls (\$7.8), environmental obligations (\$14.2) and employee benefits (\$9.9). In 2004, the Company made immaterial payments of its automotive discontinued operations liabilities. The Company expects that it will cash settle \$154.1 of tax obligations in 2004 or 2005.

12) PENSION AND POSTRETIREMENT MEDICAL BENEFIT EXPENSES

The components of net periodic pension cost consisted of the following:

THREE MONTHS ENDED	SIX MONTHS ENDED	JUNE 30, ENDED		
JUNE 30,	-----	-----		
2004 2003 2004 2003	-----	-----		-----
--- Components of net periodic pension cost:				
Service				
cost.....				
	\$ 20.8	\$ 18.3	\$ 41.6	\$ 36.6
Interest				
cost.....				
66.1	64.1	132.2	128.2	Expected return on plan
				assets.....
				(83.7) (81.8)
	(167.4)	(163.6)	Amortization of transition	
			assets.....	-- 0.1 -- 0.2
			Amortization of prior service	
			cost.....	1.7 1.6 3.4 3.2
			Recognized actuarial	
			loss.....	12.7 6.0
	25.4	12.0	-----	----- Net
				periodic pension
				\$ 17.6 \$
	8.3	\$ 35.2	\$ 16.6	=====
				=====

Net periodic pension cost increased in the first six months of 2004 as a result of the lower discount rate adopted at year-end 2003, higher average foreign exchange rates, lower expected returns on assets as a result

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

of the operation of the asset smoothing method reflecting adverse financial experience in 2002 and 2001 and a higher amortization of actuarial losses.

The Company contributed approximately \$4.7 to its various plans during the second quarter of 2004 and \$106.3 for the first six months of 2004. Additional contributions totaling between \$15.0 and \$20.0 are expected over the balance of 2004.

The components of net periodic postretirement cost consisted of the following:

	THREE MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	ENDED JUNE 30, 2004	ENDED JUNE 30, 2003
Cost of net periodic postretirement cost:				
Service cost	\$ 1.8	\$ 1.7	\$ 3.6	\$ 3.4
Interest cost	9.8	9.7	19.6	19.4
Expected return on plan assets	(9.4)	(7.8)	(4.7)	(3.9)
Amortization of prior service benefit	(2.0)	(1.0)	(1.0)	(2.0)
Recognized actuarial loss	7.8	3.5	3.9	7.0
Net periodic postretirement cost	\$ 9.4	\$ 10.4	\$ 18.8	\$ 20.8

Net periodic postretirement cost decreased in the first six months of 2004 as a result of the higher than expected return on invested assets and lower than expected benefit payments during 2003.

13) COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries from time to time are involved in legal proceedings that are incidental to the operation of their businesses. Some of these proceedings allege damages against the Company relating to environmental liabilities, intellectual property matters, copyright infringement, personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. The Company will continue to vigorously defend itself against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including the Company's assessment of the merits of the particular claim, as well as its current reserves and insurance coverage, the Company does not expect that such legal proceedings will have any material adverse impact on the cash flow, results of operations, or financial condition of the Company on a consolidated basis in the foreseeable future.

ENVIRONMENTAL

The Company has accrued for environmental remediation costs associated with identified sites consistent with the policy set forth in Note 1, "Accounting Policies" in the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K. In management's opinion, the total amount accrued and related receivables are appropriate based on existing facts and circumstances. It is difficult to estimate the total costs of investigation and remediation due to various factors, including incomplete information regarding particular sites and other potentially responsible parties, uncertainty regarding the extent of contamination and the Company's share, if any, of liability for such conditions, the selection of alternative remedies, and changes in clean-up standards. 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 cash flows.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

In the ordinary course of business, and similar to other industrial companies, the Company is subject to extensive and changing federal, state, local, and foreign environmental laws and regulations. The Company has received notice that it is considered a potentially responsible party ("PRP") at a limited number of sites by the United States Environmental Protection Agency ("EPA") and/or a similar state agency under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") or its state equivalent. As of June 30, 2004, the Company is responsible, or is alleged to be responsible, for 104 environmental investigation and remediation sites in various countries. In many of these proceedings, the Company's liability is considered de minimis. At June 30, 2004, the Company calculated a best estimate of \$101.6, which approximates its accrual, related to the cleanup of soil and ground water. The low range estimate for its environmental liabilities is \$77.2 and the high range estimate for those liabilities is \$165.1. On an annual basis the Company spends between \$8.0 and \$11.0 on its environmental remediation liabilities. These estimates, and related accruals, are reviewed periodically and updated for progress of remediation efforts and changes in facts and legal circumstances. Liabilities for environmental expenditures are recorded on an undiscounted basis.

The Company is involved in an environmental proceeding in Glendale, California relating to the San Fernando Valley aquifer. The Company is one of numerous PRPs who are alleged by the EPA to have contributed to the contamination of the aquifer. In January 1999, the EPA filed a complaint in the United States District Court for the Central District of California against the Company and Lockheed Martin Corporation, United States v. ITT Industries, Inc. and Lockheed Martin Corp. CV99-00552 SVW AIJX, to recover costs it incurred in connection with the foregoing. In May 1999, the EPA and the PRPs, including the Company and Lockheed Martin, reached a settlement, embodied in a consent decree, requiring the PRPs to perform additional remedial activities. Pursuant to the settlement, the PRPs, including the Company, have constructed and are operating a water treatment system. The operation of the water treatment system is expected to continue until 2013. ITT and the other PRPs continue to pay their respective allocated costs of the operation of the water treatment system and the Company does not anticipate a default by any of the PRPs which would increase its allocated share of the liability. As of June 30, 2004, the Company's accrual for this liability was \$10.4 representing its best estimate; its low estimate for the liability is \$7.0 and its high estimate is \$15.9.

ITT Corporation operated a facility in Madison County, Florida from 1968 until 1991. In 1995, elevated levels of contaminants were detected at the site. Since then, ITT has completed the investigation of the site in coordination with state and federal environmental authorities and is in the process of evaluating various remedies. A remedy for the site has not yet been selected. Currently, the estimated range for the remediation is between \$5.8 and \$19.7. The Company has accrued \$8.3 for this matter, which approximates its best estimate.

The Company is involved with a number of PRPs regarding property in the City of Bronson, Michigan operated by a former subsidiary of ITT Corporation, Higbie Manufacturing, prior to the time ITT acquired Higbie. The Company and other PRPs are investigating and remediating discharges of industrial waste which occurred in the 1930's. The Company's current estimates for its exposure are between \$6.2 and \$13.9. It has an accrual for this matter of \$9.5 which represents its best estimate of its current liabilities. The Company does not anticipate a default on the part of the other PRPs.

In a suit filed in 1991 by the Company, in the California Superior Court, Los Angeles County, ITT Corporation, et al. v. Pacific Indemnity Corporation et al., against its insurers, the Company is seeking recovery of costs it incurred in connection with its environmental liabilities including the three listed above. Discovery, procedural matters, changes in California law, and various appeals have prolonged this case. Currently, the matter is before the California Court of Appeals from a decision by the California Superior Court dismissing certain claims of the Company. The dismissed claims were claims where the costs incurred

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

were solely due to administrative (versus judicial) actions. A hearing is expected in 2004. In the event the appeal is successful, the Company will pursue the administrative claims against its excess insurers. During the course of the litigation the Company has negotiated settlements with certain defendant insurance companies and is prepared to pursue its legal remedies where reasonable negotiations are not productive. A portion of the recoveries from the insurance settlements have been placed in a trust and are used to reimburse the Company for its environmental costs.

PRODUCT LIABILITY

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

Frequently, the plaintiffs are unable to demonstrate any injury or do not identify any ITT or Goulds product as a source of asbestos exposure. During 2003, ITT and Goulds resolved approximately 2,000 claims through settlement or dismissal. The average amount of settlement per plaintiff has been nominal and substantially all defense and settlement costs have been covered by insurance. Based upon past claims experience, available insurance coverage, and after consultation with counsel, management believes that these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

The Company is involved in two actions, Cannon Electric, Inc. et al. v. Ace Property & Casualty Company et al. Superior Court, County of Los Angeles, CA., Case No. BC 290354, and Pacific Employers Insurance Company et al., v. ITT Industries, Inc., et al., Supreme Court, County of New York, N.Y., Case No. 03600463. The parties in both cases are seeking an appropriate allocation of responsibility for the Company's historic asbestos liability exposure among its insurers. The California action is filed in the same venue where the Company's environmental insurance recovery litigation has been pending since 1991. Both actions have been stayed to allow the parties to negotiate an acceptable allocation arrangement. In April 2004, the Company and Ace Property & Casualty Company entered into an agreement resolving both cases as they relate to Ace Property & Casualty Company. The Company will pursue similar agreements with several of its other insurers. In addition, Utica National, Goulds' historic insurer, filed an action in Oneida County, New York, Utica Mutual Insurance Co. Goulds Pumps, Inc., Case No. 00272103, to allocate the Goulds asbestos liabilities between insurance policies issued by Utica and those issued by others. The parties are currently considering a settlement agreement similar to the Ace agreement. The Company is continuing to receive the benefit of insurance payments during the pendency of these proceedings. The Company believes that these actions will not materially affect the availability of its insurance coverage and will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company is one of several defendants in a suit filed in El Paso, Texas, Bund zur Unterstutzung Radargeschadigter et al. v. ITT Industries et al., Sup. Ct., El Paso, Texas, C.A. No. 2002-4730. This Complaint, filed by both U.S. and German citizens, alleges that ITT and four other major companies failed to warn the plaintiffs of the dangers associated with exposure to x-ray radiation from radar devices. The Complaint also seeks the certification of a class of similarly injured persons. The Company's aviation insurers are contributing to the defense of this matter. Management believes that this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

The Company is involved in a product liability suit filed in Superior Court of New York, Danis v. Rule Industries et al., Sup. Ct. N.Y., C.A. No. 115975-02, seeking damages for injuries sustained in a boat explosion. The suit contains a number of causes of action against various defendants including the boat manufacturer, the marina operator, and individuals working at the marina. As to the Company, the Complaint alleges that a fume detector, manufactured by ITT's subsidiary Rule Industries, Inc. prior to the date the Company acquired Rule, malfunctioned. The Company's insurer is on notice of this matter. Management believes that this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has received demands from U.S. Silica for partial indemnity regarding personal injury actions alleging injury due to silica. In 1985, the Company sold the stock of its subsidiary Pennsylvania Glass Sand to U.S. Silica. As part of that transaction, the Company provided an indemnity to U.S. Silica for silica personal injury suits. That indemnity expires in September 2005. Costs incurred in these matters related to the defense, settlements or judicial awards are allocated between U.S. Silica and the Company. The Company's allocated portion is paid in part by its historic product liability carriers and then shared pursuant to the Distribution Agreement. See "Company History and Certain Relationships" within Part 1, Item 1 of the 2003 Annual Report on Form 10-K for a description of the Distribution Agreement. Management believes that these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

OTHER

The Company has received a Notice of Claim from Rayonier, Inc., a former subsidiary of the Company's predecessor ITT Corporation. This claim stems from the 1994 Distribution Agreement for the spinoff of Rayonier by ITT Corporation and seeks an allocation of proceeds from certain settlements in connection with the Company's environmental insurance recovery litigation. The parties are seeking a resolution of this matter through arbitration. The Company believes the claim is grossly overstated and will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

14) GUARANTEES, INDEMNITIES AND WARRANTIES

GUARANTEES & INDEMNITIES

In September of 1998, the Company completed the sale of its automotive electrical systems business to Valeo SA for approximately \$1,700. As part of the sale, the Company provided Valeo SA with representations and warranties with respect to the operations of the Business, including: Conveyance of Title, Employee Benefits, Tax, Product Liability, Product Recall, Contracts, Environmental, Intellectual Property, etc. The Company also indemnified Valeo SA for losses related to a misrepresentation or breach of the representations and warranties. With a few limited exceptions, the indemnity periods within which Valeo SA may assert new claims have expired. Under the terms of the sales contract, the original maximum potential liability to Valeo SA on an undiscounted basis is \$680. However, because of the lapse of time, or the fact that the parties have resolved certain issues, at June 30, 2004 the Company has an accrual of \$7.8 which is its best estimate of the potential exposure.

In September of 1998, the Company completed the sale of its brake and chassis unit to Continental AG for approximately \$1,930. As part of the sale, the Company provided Continental AG with representations and warranties with respect to the operations of that Business, including: Conveyance of Title, Employee Benefits, Tax, Product Liability, Product Recall, Contracts, Environmental, Intellectual Property, etc. The Company also indemnified Continental AG for losses related to a misrepresentation or breach of the representations and warranties. With a few limited exceptions, the indemnity periods within which Continental AG may assert new claims have expired. Under the terms of the sales contract, the original maximum potential liability to

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
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Continental AG on an undiscounted basis is \$950. However, because of the lapse of time, or the fact that the parties have resolved certain issues, at June 30, 2004 the Company has an accrual of \$14.2 which is its best estimate of the potential exposure.

Since its incorporation in 1920, the Company has acquired and disposed of numerous entities. The related acquisition and disposition agreements contain various representation and warranty clauses and may provide indemnities for a misrepresentation or breach of the representations and warranties by either party. The indemnities address a variety of subjects; the term and monetary amounts of each such indemnity are defined in the specific agreements and may be affected by various conditions and external factors. Many of the indemnities have expired either by operation of law or as a result of the terms of the agreement. The Company does not have a liability recorded for the historic indemnifications and is not aware of any claims or other information that would give rise to material payments under such indemnities. The Company has separately discussed material indemnities provided within the last eight years.

The Company provided three guarantees with respect to its real estate development activities in Flagler County, Florida. Two of these guarantee bonds were issued by the Dunes Community Development District (the District). The bond issuances were used primarily for the construction of infrastructure, such as water and sewage utilities and a bridge. The Company would be required to perform under these guarantees if the District failed to provide interest payments or principal payments due to the bond holders. The maximum amount of the undiscounted future payments on these guarantees equal \$28.9. At June 30, 2004, the Company does not believe that a loss contingency is probable for these guarantees and therefore does not have an accrual recorded in its financial statements. The third guaranty is a performance bond in the amount of \$10.0 in favor of Flagler County, Florida. The Company would be required to perform under this guarantee if certain parties did not satisfy all aspects of the development order, the most significant aspect being the expansion of a bridge. The maximum amount of the undiscounted future payments on the third guarantee equals \$10.0. At June 30, 2004, the Company has an accrual related to the expansion of a bridge in the amount of \$10.0.

In December of 2002, the Company entered into a sales-type lease agreement for its corporate aircraft and then leased the aircraft back under an operating lease agreement. The Company has provided, under the agreement, a residual value guarantee to the counterparty in the amount of \$44.8, which is the maximum amount of undiscounted future payments. The Company would have to make payments under the residual value guarantee only if the fair value of the aircraft was less than the residual value guarantee upon termination of the agreement. At June 30, 2004, the Company does not believe that a loss contingency is probable and therefore does not have an accrual recorded in its financial statements.

PRODUCT WARRANTIES

Accruals for estimated expenses related to warranties are made at the time products are sold or services are rendered. These accruals are established using historical information on the nature, frequency, and average cost of warranty claims. The Company warrants numerous products, the terms of which vary widely. In general, the Company warrants its products against defect and specific nonperformance. In the automotive businesses, liability for product defects could extend beyond the selling price of the product and could be significant if the defect shuts down production or results in a recall. At June 30, 2004, the Company has a product warranty accrual in the amount of \$34.5.

\$(0.6) \$
(9.7)
\$41.1 ----
- ----
- ----
- ----
- ----

15) ACQUISITIONS

During the first six months of 2004, the Company spent \$257.3 primarily for the acquisitions of the following:

- WEDECO AG Water Technology ("WEDECO"), the world's largest manufacturer of UV disinfection and ozone oxidation systems, which are alternatives to chlorine treatment.
- Shanghai Hengtong Purified Water Development Co. Ltd. and Shanghai Hengtong Water Treatment Engineering Co. Ltd. ("Hengtong"), a Shanghai-based producer of reverse-osmosis, membrane and other water treatment systems for the power, pharmaceutical, chemical and manufacturing markets in China.

The excess of the purchase price over the fair value of net assets acquired of \$179.7 was recorded as goodwill.

During the first six months of 2003, the Company spent \$42.5 primarily for the acquisition of the following:

- The VEAM/TEC division of the Northrop Grumman Corporation ("VEAM"). VEAM is a designer and manufacturer of cylinder, filter and fiber optic connectors for the military/aerospace, industrial, transit, entertainment and nuclear markets.
- Uniservice Wellpoint Srl., a manufacturer of high quality diesel and electric powered, vacuum primed centrifugal pumps, along with spear or well point dewatering systems for the rental market and sale.

The excess of the purchase price over the fair value of net assets acquired of \$27.6 was recorded as goodwill.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

16) BUSINESS SEGMENT INFORMATION

Financial information of the Company's business segments for the three months and the six months ended June 30, 2004 and 2003 were as follows:

DEFENSE MOTION & CORPORATE, THREE MONTHS ENDED FLUID ELECTRONICS & FLOW ELECTRONIC ELIMINATIONS & JUNE 30, 2004 TECHNOLOGY SERVICES CONTROL COMPONENTS OTHER TOTAL - ----- ----- -----					
Sales and revenues..... \$	650.9	\$530.7	\$281.3		
	\$191.4	\$ (1.8)	\$1,652.5		
----- ----- -----					
Costs of sales and revenues.....	429.5	315.3	201.4	135.2	
	(2.4)	1,079.0	Selling, general, and administrative expenses.....	127.5	28.0
				25.5	36.4
			20.2	237.6	Research, development, and engineering expenses.....
				15.0	131.6
				10.7	9.4
				--	166.7
			Restructuring and asset impairment charges.....	3.4	--
				2.4	7.2
				1.6	14.6
			Reversal of restructuring charge.....	(0.2)	--
				--	(0.1)
				(0.3)	--
----- ----- -----					
Total costs and expenses... 575.2	474.9				
	240.0	188.1	19.4	1,497.6	
----- ----- -----					
Operating income (expense).....	\$ 75.7	\$ 55.8	\$ 41.3	\$	
	3.3	\$ (21.2)	\$ 154.9		
=====					
=====					
Total assets.....	\$2,437.9	\$924.3	\$740.2		
	\$779.5	\$1,443.5	\$6,325.4		

DEFENSE MOTION & CORPORATE, THREE MONTHS ENDED FLUID ELECTRONICS & FLOW ELECTRONIC ELIMINATIONS & JUNE 30, 2003 TECHNOLOGY SERVICES CONTROL COMPONENTS OTHER TOTAL - ----- ----- -----					
Sales and					

revenues.....	\$			
	570.6	\$452.4	\$262.7	
	\$153.7	\$ (1.2)	\$1,438.2	

Costs of sales and				
revenues.....				
	378.4	272.2	190.1	110.4
	(1.5)	949.6	Selling,	
			general, and	
			administrative	
expenses.....				
	105.6	21.3	23.1	30.2
	18.4	198.6	Research,	
			development, and	
			engineering	
expenses.....	12.5	112.2		
	9.4	8.5	--	142.6
Restructuring and asset				
impairment				
charges.....	--	--	3.0	
	2.7	0.2	5.9	-----

--	----- Total costs			
	and expenses...			496.5
	405.7	225.6	151.8	17.1
	1,296.7	-----	-----	

-----	Operating income			
(expense).....				
	\$ 74.1	\$ 46.7	\$ 37.1	\$
	1.9	\$ (18.3)	\$ 141.5	
=====	=====	=====	=====	=====
=====	=====	=====	=====	=====
Total				
assets.....				
	\$2,006.4	\$893.5	\$709.9	
	\$769.0	\$1,551.5	\$5,930.3	

ITT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)
 (IN MILLIONS, EXCEPT PER SHARE, UNLESS OTHERWISE STATED)

DEFENSE MOTION &
 CORPORATE, SIX MONTHS
 ENDED FLUID ELECTRONICS
 & FLOW ELECTRONIC
 ELIMINATIONS & JUNE 30,
 2004 TECHNOLOGY SERVICES
 CONTROL COMPONENTS OTHER
 TOTAL - -----

Sales and
 revenues.....
 \$1,225.8 \$1,037.2 \$555.3
 \$353.2 \$ (3.1) \$3,168.4

Costs of sales and
 revenues.....
 810.5 629.3 400.0 247.7
 (1.4) 2,086.1 Selling,
 general, and
 administrative
 expenses.....
 251.5 60.7 51.2 69.1
 35.3 467.8 Research,
 development, and
 engineering
 expenses..... 29.0 242.7
 21.1 18.8 -- 311.6
 Restructuring and asset
 impairment
 charges..... 6.6 --
 2.6 8.9 1.8 19.9
 Reversal of
 restructuring
 charge.....
 (0.4) -- -- (0.5) --
 (0.9) -----

----- Total costs and
 expenses... 1,097.2
 932.7 474.9 344.0 35.7
 2,884.5 -----

----- Operating
 income
 (expense).....
 \$ 128.6 \$ 104.5 \$ 80.4 \$
 9.2 \$ (38.8) \$ 283.9
 =====
 =====

Total
 assets.....
 \$2,437.9 \$ 924.3 \$740.2
 \$779.5 \$1,443.5 \$6,325.4

DEFENSE MOTION &
 CORPORATE, SIX MONTHS
 ENDED FLUID ELECTRONICS
 & FLOW ELECTRONIC
 ELIMINATIONS & JUNE 30,
 2003 TECHNOLOGY SERVICES
 CONTROL COMPONENTS OTHER
 TOTAL - -----

Sales and
 revenues.....
 \$1,074.2 \$843.8 \$520.8
 \$298.5 \$ (2.7) \$2,734.6

Costs of sales and			
revenues.....			
712.4 500.6 377.9 208.4			
(3.3) 1,796.0 Selling,			
general, and			
administrative			
expenses.....			
207.0 48.7 46.3 60.1			
36.8 398.9 Research,			
development, and			
engineering			
expenses.....	24.4	213.4	
18.1 16.3 -- 272.2			
Restructuring and asset			
impairment			
charges.....	--	--	3.4
11.6 1.3 16.3 -----			

----- Total			
costs and expenses...			
943.8 762.7 445.7 296.4			
34.8 2,483.4 -----			

--- ----- Operating			
income			
(expense).....			
\$ 130.4 \$ 81.1 \$ 75.1 \$			
2.1 \$ (37.5) \$ 251.2			
=====			
=====			
=====			
----- Total			
assets.....			
\$2,006.4 \$893.5 \$709.9			
\$769.0 \$1,551.5 \$5,930.3			

17) QUARTERLY FINANCIAL PERIODS

The Company's quarterly financial periods end on the Saturday before the last day of the quarter, except for the last quarterly period of the fiscal year, which ends on December 31st. For simplicity of presentation, the quarterly financial statements included herein are presented as ending on the last day of the quarter. The presentation is consistent for all periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

THREE MONTHS

The Company produced strong operating performance in the second quarter of 2004. Revenues grew 14.9% from the comparable prior year quarter. Acquisitions and foreign currency contributed 4.8% of the growth and the remaining 10.1% of the increase was attributable to higher volume in all segments. We believe these results reflect the strength of the Company's portfolio of businesses and the introduction of new products.

Operating income in the second quarter of 2004 was 9.5% higher than the second quarter of 2003. The increase was led by the Defense Electronics & Services segment, which was up 19.5%, and reflects higher volume at all of the operating segments.

Diluted earnings per share were \$1.18 for the second quarter and include the impact of favorable tax rulings of \$0.12, restructuring of \$(0.10) and a \$(0.01) loss from discontinued operations. Diluted earnings per share for the comparable prior year quarter were \$1.06 and include the impact of restructuring of \$(0.04) and discontinued operations of \$0.08.

SIX MONTHS

The Company's revenues grew 15.9% from the comparable prior year. Acquisitions and foreign currency contributed 5.7% of the growth and the remaining 10.2% of the increase was attributable to higher volume in all segments. These results reflect the strength of the Company's portfolio of businesses and the introduction of new products. Based on these results and current/projected market conditions, the Company projects full year 2004 revenue between \$6,450 million and \$6,600 million.

Operating income in the first half of 2004 was 13.0% higher than the first half of 2003. The increase reflects higher volume, partially offset by acquisition integration and start up costs primarily attributable to the acquisition of WEDECO AG Water Technology. Management projects full year 2004 segment operating margin to be between 11.1% and 11.5%.

Diluted earnings per share were \$2.13 for the first six months and include the impact of favorable tax settlements/rulings of \$0.18 and restructuring of \$(0.14). Diluted earnings per share for the comparable prior year period were \$1.98 and include the impact of favorable tax settlements and related interest of \$0.17, restructuring of \$(0.12) and the impact of discontinued operations of \$0.08. Full year 2004 diluted earnings per share are projected to be between \$4.40 and \$4.50.

THREE MONTHS ENDED JUNE 30, 2004 COMPARED WITH THREE MONTHS ENDED JUNE 30,
2003

Sales and revenues for the second quarter of 2004 were \$1,652.5 million, an increase of \$214.3 million, or 14.9%, from the same period in 2003. Costs of sales and revenues of \$1,079.0 million for the second quarter of 2004 increased \$129.4 million, or 13.6%, from the comparable 2003 period. The increases in sales and revenues and costs of sales and revenues are primarily attributable to higher volume in all segments, contributions from acquisitions made by the Fluid Technology segment and the impact of foreign currency translation.

Selling, general and administrative ("SG&A") expenses for the second quarter of 2004 were \$237.6 million, an increase of \$39.0 million, or 19.6%, from the second quarter of 2003. The increase in SG&A expenses was primarily due to increased marketing expense in all segments, including expenses from two first quarter acquisitions, higher general and administrative expenses and other operating expenses. Higher general and administrative costs reflect additional employee benefit costs, the cost of process improvement initiatives, and increased other administrative expenses.

Research, development and engineering ("RD&E") expenses for the second quarter of 2004 increased \$24.1 million, or 16.9%, compared to the second quarter of 2003. The increase is attributable to increased spending in all segments.

During the second quarter of 2004, the Company recorded a \$14.6 million restructuring charge to streamline its operating structure. The charge primarily reflected the planned reduction of 430 persons, the closure of two facilities and lease cancellation costs. Additionally, \$0.3 million of restructuring accruals related to 2003 and 2002 restructuring actions were reversed into income, as management determined that certain cash expenditures would not be incurred. During the second quarter of 2003, the Company recorded a \$5.9 million restructuring charge to reduce operating costs. The charge primarily reflected the planned reduction of 148 persons. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information.

Operating income for the second quarter of 2004 was \$154.9 million, an increase of \$13.4 million, or 9.5%, over the second quarter of 2003. The increase is primarily due to improved sales and revenues at each of the segments offset by increased SG&A and RD&E expenses. Segment operating margin for the second quarter of 2004 was 10.7%, which was 0.4% below the segment operating margin for the comparable 2003 period. The decrease reflects the impact of Fluid Technology acquisitions, which produced operating margins below the segment average and changes in sales mix between segments, partially offset by higher operating margins in the Motion & Flow Control segment, Defense Electronics & Services segment and the Electronic Components segment.

Interest expense was \$5.4 million (net of interest income of \$0.7 million). This was flat with the comparable 2003 period.

Income tax expense was \$33.7 million in the second quarter of 2004, a decrease of \$7.8 million with the comparable prior year period. The decrease is primarily attributable to the impact of a favorable tax ruling.

Income from continuing operations was \$112.7 million, or \$1.19 per diluted share compared to \$92.1 million or \$0.98 per diluted share for the second quarter of 2003. The increase reflects the results discussed above.

During the second quarter of 2004, the Company recognized \$0.7 million of employee benefit costs (net of tax effect) attributable to discontinued operations. During the second quarter of 2003, the Company recognized \$7.8 million of income from discontinued operations. The income relates to the collection of a disputed receivable related to the Company's automotive businesses and the receipt of a tax refund also pertaining to the Company's discontinued businesses. Upon collection, the Company reversed the related valuation allowances, which had been previously established for both assets, resulting in the above mentioned income.

Fluid Technology's sales and revenues and costs of sales and revenues increased \$80.3 million, or 14.1%, and \$51.1 million, or 13.5%, respectively, in the second quarter of 2004 compared to the second quarter of 2003. Higher organic sales in the water/wastewater markets and industrial products businesses, acquisition revenue from the water treatment business and the impact of foreign currency translation were the primary factors for the increases. These items were partially offset by lower sales in the engineered process solutions business. SG&A expenses for the second quarter of 2004 increased \$21.9 million, or 20.7%, compared to 2003, mainly due to increased advertising costs, sales commissions and administrative costs in most businesses, and costs attributable to 2004 acquisitions. During the second quarter of 2004, the segment recorded a \$3.4 million restructuring charge mainly related to a planned reduction in headcount and the closure of two facilities (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information). Operating income for the second quarter of 2004 increased \$1.6 million, or 2.2%, compared to the second quarter of 2003, due to the activities discussed above.

Defense Electronics & Services' sales and revenues and costs of sales and revenues for the second quarter of 2004 increased \$78.3 million, or 17.3%, and \$43.1 million, or 15.8%, respectively, from the comparable prior

year period. The increases are primarily due to higher volume in the night vision, advanced engineering systems and radar businesses. SG&A expenses increased \$6.7 million, or 31.5%, primarily due to increased employee benefit and administrative costs and other operating expenses. RD&E expenses increased \$19.4 million, or 17.3%, due to increased spending in all businesses. Operating income for the second quarter of 2004 was \$55.8 million, an increase of \$9.1 million, or 19.5%, compared to the same quarter in 2003. The increase reflects the results discussed above.

Motion & Flow Control recorded sales and revenues and costs of sales and revenues of \$281.3 million and \$201.4 million, respectively, during the second quarter of 2004, reflecting increases of \$18.6 million, or 7.1%, and \$11.3 million, or 5.9%, from the second quarter of 2003. The increases were mainly due to higher volume in the friction materials and leisure marine businesses and the impact of foreign currency translation, partially offset by scheduled platform rollofts in the fluid handling business. SG&A expenses increased \$2.4 million, or 10.4%, reflecting higher marketing costs and administrative expenses in most businesses. During the second quarters of 2004 and 2003, the segment recorded \$2.4 million and \$3.0 million of restructuring charges, respectively, mainly related to planned reductions in headcount (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information). Operating income of \$41.3 million was \$4.2 million, or 11.3%, higher in the second quarter of 2004, compared to the second quarter of 2003, primarily due to the items mentioned above.

Electronic Components' sales and revenues of \$191.4 million and costs of sales and revenues of \$135.2 million in the second quarter of 2004, increased \$37.7 million, or 24.5%, and \$24.8 million, or 22.5%, respectively, from the comparable prior year period. The increases reflect higher volume in all businesses and the impact of foreign currency translation. SG&A expenses increased \$6.2 million due to increased marketing, employee benefit and administrative expenses. During the second quarter of 2004, the segment recorded a \$7.2 million restructuring charge primarily relating to planned headcount reductions and lease cancellation costs (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information). Operating income for the second quarter of 2004 increased \$1.4 million from the second quarter of 2003. The increase was due to the factors discussed above.

Corporate expenses increased \$2.9 million in the second quarter of 2004, primarily due to higher restructuring costs, (\$1.6 million in 2004 versus \$0.2 million in 2003), (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information) and increased other operating expenses.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2003

Sales and revenues for the first six months of 2004 were \$3,168.4 million, an increase of \$433.8 million, or 15.9%, from the same period in 2003. Costs of sales and revenues of \$2,086.1 million for the first six months of 2004 increased \$290.1 million, or 16.2%, from the comparable 2003 period. The increases in sales and revenues and costs of sales and revenues are primarily attributable to higher volume in all segments, contributions from acquisitions made by the Fluid Technology segment and the impact of foreign currency translation.

Selling, general and administrative ("SG&A") expenses for the first six months of 2004 were \$467.8 million, an increase of \$68.9 million, or 17.3%, from the first six months of 2003. The increase in SG&A expenses was primarily due to increased marketing expense in all segments, including expenses from two first quarter acquisitions, higher general and administrative expenses and other operating expenses. Higher general and administrative costs reflect additional employee benefit costs, the cost of process improvement initiatives, administrative expenses related to the two first quarter acquisitions and increased other administrative expenses.

Research, development and engineering ("RD&E") expenses for the first six months of 2004 increased \$39.4 million, or 14.5%, compared to the first six months of 2003. The increase is attributable to increased spending in all segments.

During the first six months of 2004, the Company recorded a \$19.9 million restructuring charge to streamline its operating structure. The charge primarily reflected the planned reduction of 533 persons, the closure of two facilities and lease cancellation costs. Additionally, \$0.9 million of restructuring accruals related to 2003, 2002 and 2001 restructuring actions were reversed into income, as management determined that certain cash expenditures would not be incurred. During the first six months of 2003, the Company recorded a \$14.9 million restructuring charge to reduce operating costs. The charge primarily reflected the planned reduction of 613 persons. Additionally, in 2003, the Company recorded an asset impairment charge of \$1.4 million primarily to write-off a technology license that will not be utilized in the foreseeable future due to projected market conditions. Refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information.

Operating income for the first six months of 2004 was \$283.9 million, an increase of \$32.7 million, or 13.0%, over the first six months of 2003. The increase is primarily due to improved sales and revenues at each of the segments offset by increased SG&A and RD&E expenses. Segment operating margin for the first six months of 2004 was 10.2%, which was 0.4% below the segment operating margin for the comparable 2003 period. The decrease reflects the impact of Fluid Technology acquisitions, which produced operating margins below the segment average and changes in sales mix between segments, partially offset by higher operating margins in the Defense Electronics & Services segment and the Electronic Components segment.

Interest expense was \$6.5 million (net of interest income of \$6.0 million, of which \$4.3 million relates to a first quarter 2004 tax settlement) for the first six months of 2004. The Company recognized \$9.3 million of interest income during the first six months of 2003. The variance between years is primarily due to interest income of \$22.1 million, related to a 2003 first quarter tax refund, partially offset by lower average debt balances in 2004.

Income tax expense was \$69.9 million in the first six months of 2004, a decrease of \$9.0 million from the comparable prior year period. The decrease is primarily attributable to the impact of a favorable tax ruling.

Income from continuing operations was \$200.8 million, or \$2.13 per diluted share in the first six months of 2004, compared to \$178.8 million or \$1.90 per diluted share for the first six months of 2003. The increase reflects the results discussed above.

During the first half of 2003, the Company recognized \$7.8 million of income from discontinued operations. The income related to the collection of a disputed receivable related to the Company's automotive businesses and the receipt of a tax refund also pertaining to the Company's discontinued businesses. Upon collection, the Company reversed the related valuation allowances, which had been previously established for both assets, resulting in the above mentioned income.

Fluid Technology's sales and revenues and costs of sales and revenues increased \$151.6 million, or 14.1%, and \$98.1 million, or 13.8%, respectively, in the first six months of 2004 compared to the first six months of 2003. Higher organic sales in the water/wastewater markets and industrial products businesses, acquisition revenue from the water treatment business and the impact of foreign currency translation were the primary factors for the increases. These items were partially offset by lower volume in the engineered process solutions business. SG&A expenses for the first six months of 2004 increased \$44.5 million, or 21.5%, compared to 2003, mainly due to increased advertising costs, sales commissions and administrative costs in most businesses, and costs attributable to 2004 acquisitions. During the first six months of 2004, the segment recorded a \$6.6 million restructuring charge mainly related to a planned reduction in headcount and the closure of two facilities (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information). Operating income for the first six months of 2004 was down \$1.8 million, or 1.4%, compared to the first six months of 2003, due to the activities discussed above.

Defense Electronics & Services' sales and revenues and costs of sales and revenues for the first six months of 2004 increased \$193.4 million, or 22.9%, and \$128.7 million, or 25.7%, respectively, from the comparable prior year period. The increases are primarily due to higher volume in all businesses. Additionally, a change in product mix also contributed to the increase in costs of sales and revenues. SG&A expenses increased \$12.0 million, or 24.6%, from the comparable prior year period, primarily due to increased employee benefit and administrative costs and other operating expenses. RD&E expenses increased \$29.3 million, or 13.7%, from the comparable prior year period, due to increased spending in all businesses. Operating income for the first six months of 2004 was \$104.5 million, an increase of \$23.4 million, or 28.9%, compared to the same period in 2003. The increase reflects the results discussed above.

Motion & Flow Control recorded sales and revenues and costs of sales and revenues of \$555.3 million and \$400.0 million, respectively, during the first six months of 2004, reflecting increases of \$34.5 million, or 6.6%, and \$22.1 million, or 5.8%, from the first six months of 2003. The increases were mainly due to higher volume in the friction and leisure marine businesses and the impact of foreign currency translation, partially offset by scheduled platform rollofts in the fluid handling business. SG&A expenses increased \$4.9 million, or 10.6%, from the comparable prior year period, reflecting higher marketing costs and administrative expenses in most businesses and other operating expenses. During the first six months of 2004 and 2003, the segment recorded \$2.6 million and \$3.4 million of restructuring charges, respectively, mainly related to planned reductions in headcount (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information). Operating income of \$80.4 million was \$5.3 million, or 7.1%, higher in the first six months of 2004, compared to the first six months of 2003, primarily due to the items mentioned above.

Electronic Components' sales and revenues of \$353.2 million and costs of sales and revenues of \$247.7 million in the first six months of 2004, increased \$54.7 million, or 18.3%, and \$39.3 million, or 18.9%, respectively, from the comparable prior year period. The increases reflect higher volume in most businesses and the impact of foreign currency translation. SG&A expenses increased \$9.0 million, or 15.0%, from the comparable prior year period, due to increased marketing, employee benefit and administrative expenses. During the first six months of 2004, the segment recorded a \$8.9 million restructuring charge primarily relating to planned headcount reductions and lease cancellation costs. During the first six months of 2003, the segment recorded a \$10.2 million restructuring charge primarily relating to planned headcount reductions and a \$1.4 million asset impairment charge mainly to write-off a license agreement for technology, which will not be utilized in the foreseeable future due to projected market conditions (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information). Operating income for the first six months of 2004 increased \$7.1 million from the first six months of 2003. The increase was due to the factors discussed above.

Corporate expenses increased \$1.3 million in the first six months of 2004, primarily due to higher restructuring costs, (\$1.8 million in 2004 versus \$1.3 million in 2003), (refer to the section entitled "Status of Restructuring and Asset Impairments" and Note 8, "Restructuring and Asset Impairment Charges," in the Notes to Consolidated Condensed Financial Statements for additional information) and higher other operating expenses.

STATUS OF RESTRUCTURING AND ASSET IMPAIRMENTS

2004 RESTRUCTURING ACTIVITIES

During the second quarter of 2004, the Company recognized a \$13.9 million charge, primarily for the planned severance of 430 employees and the recognition of lease cancellation costs. The actions by segment are as follows:

- The Electronic Components segment recorded \$4.5 million of the charge for the recognition of lease cancellation costs. Severance of \$1.2 million was recorded for the reduction of 340 employees. The terminations include 273 factory workers, 64 office workers and three management employees. The segment also recorded a \$1.1 million charge for the disposal of machinery and equipment.

- The Fluid Technology segment recorded \$2.4 million for the termination of 45 employees, including eight factory workers and 37 office workers. Lease commitments totaling \$0.7 million were recognized related to the closure of two facilities (one in Sweden and one in Florida). Asset write-offs and other costs totaling \$0.2 million and \$0.1 million, respectively, were also recognized during the quarter.
- The Motion & Flow Control segment recognized \$2.1 million for the termination of 44 employees, including seven factory workers, 32 office workers and five management employees.
- Corporate headquarters recorded \$1.6 million for the severance of one management employee.

As of June 30, 2004, the Company had made \$0.6 million of payments attributable to the 2004 second quarter restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented, as required, with commercial paper borrowings.

The projected future cash savings from the restructuring actions announced during the second quarter of 2004 are approximately \$4 million during 2004, including \$0.1 million of non-cash savings, and approximately \$39 million between 2005 and 2009, including \$0.8 million of non-cash savings. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses."

In addition to the restructuring actions announced during the second quarter, the Motion & Flow Control segment recognized \$0.3 million of severance and employee benefit costs related to actions announced during the first quarter of 2003 and the Electronic Components segment recognized \$0.3 million of severance and employee benefit costs related to actions announced during the first quarter of 2004 and \$0.1 million of outplacement related to actions announced in 2003.

During the first quarter of 2004, the Company recognized a \$5.3 million charge, primarily for the planned severance of 103 employees. The actions by segment are as follows:

- The Fluid Technology segment recorded \$2.7 million for the planned termination of 50 employees, including 15 factory workers and 35 office workers. Asset write-offs and other costs totaling \$0.4 million and \$0.1 million, respectively, were also recognized during the quarter.
- The Electronic Components segment recorded \$1.7 million of the charge primarily for the planned reduction of 35 employees, including 23 factory workers, 11 office workers and one management employee.
- The Motion & Flow Control segment recognized \$0.2 million for the planned termination of 16 employees, including three factory workers and 13 office workers.
- Corporate headquarters recorded \$0.2 million for the planned severance of one office worker and one management employee.

As of June 30, 2004, the Company had made \$4.6 million of payments attributable to the 2004 first quarter restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented, as required, with commercial paper borrowings.

The projected future cash savings from the restructuring actions announced during the first quarter of 2004 are approximately \$5 million during 2004 and \$28 million between 2005 and 2009, including \$0.5 million in non-cash savings. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses."

The following table displays a rollforward of the restructuring accruals for the 2004 restructuring programs (in millions):

CASH CHARGES -----			
LEASE SEVERANCE COMMITMENTS OTHER TOTAL -----			
	----- Establishment of 2004		
Plans.....	\$12.4	\$5.2	\$ 0.2
	\$17.8		
Payments.....			
	(5.0)	-- (0.2)	(5.2) Other, including
	translation..... (0.3) -- --		
	(0.3)	-----	Balance June 30,
2004.....	\$ 7.1	\$5.2	\$ --
	\$12.3 =====		

2003 RESTRUCTURING ACTIVITIES

During the fourth quarter of 2003 the Company announced actions to reduce operating costs primarily through the reduction of headcount. The new \$15.4 million restructuring charge primarily reflects the planned severance of 301 employees. The actions by segment are as follows:

- The Electronic Components segment recorded \$1.5 million of the charge for the planned termination of 132 employees, including 113 factory workers, 14 office workers and five management employees.
- The Fluid Technology segment recognized \$12.4 million of the charge for the planned severance of 134 employees, including 39 factory workers, 90 office workers and five management employees. Lease and other costs represent \$0.3 million of the charge. The segment also recorded a \$0.2 million charge associated with the disposal of machinery and equipment.
- The Defense Electronics & Services segment recorded a \$1.0 million charge for the planned severance of 35 employees, including seven factory workers, 19 office workers and nine management employees.

The projected future cash savings from the restructuring actions announced during the fourth quarter of 2003 are approximately \$13 million during 2004 and \$53 million between 2005 and 2008. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses".

During the first half of 2004, the Company had made \$8.6 million of payments attributable to the 2003 fourth quarter restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented, as required, with commercial paper borrowings.

In addition to the restructuring actions announced during the fourth quarter of 2003, the Motion & Flow Control segment recognized \$0.5 million of severance and employee benefit costs related to actions announced during the first quarter and the Electronic Components segment recognized \$0.2 million of outplacement related to actions announced earlier in 2003.

During the third quarter of 2003 the Company announced additional actions to reduce operating costs primarily through the reduction of headcount. The new \$2.6 million restructuring charge primarily reflects the planned severance of 72 employees. The actions by segment are as follows:

- The Electronic Components segment recorded \$1.2 million of the charge for the planned termination of 40 employees, including 15 factory workers and 25 office workers. The segment also recorded a \$0.1 million charge associated with the disposal of machinery and equipment.
- The Fluid Technology segment recognized a \$0.5 million charge for the planned severance of 13 factory workers and 14 office workers. Lease and other costs represent \$0.4 million of the charge.
- The Motion & Flow Control segment recorded a \$0.4 million charge for the planned severance of one management employee and four office workers.

The projected future cash savings from the restructuring actions announced during the third quarter of 2003 are approximately \$4 million during 2004 and \$15 million between 2005 and 2008. The savings primarily

represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses."

During the first half of 2004, the Company made \$0.4 million of payments attributable to the 2003 third quarter restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented, as required, with commercial paper borrowings.

In addition to the restructuring actions announced during the third quarter of 2003, the Motion & Flow Control segment recognized \$0.2 million of severance and employee benefit costs related to actions announced during the first quarter of 2003.

During the second quarter of 2003 the Company continued its program to reduce structural costs and increase profitability. New restructuring actions totaling \$4.7 million were announced during the period. The charge primarily reflected the planned severance of 148 employees and the cancellation of an operating lease. The actions by segment are as follows:

- The Electronic Components segment comprises \$2.7 million of the charge and the actions taken at this segment include the planned termination of six management employees, 19 factory workers and 71 office workers.
- The Motion & Flow Control segment recognized \$1.0 million for the planned severance of 50 employees, including six management employees, 31 factory workers and 13 office workers. Lease termination fees of \$0.7 million and asset disposal costs of \$0.1 million were also reflected in the charge.
- At Corporate Headquarters, a charge of \$0.2 million was recorded for the planned termination of one management employee and one office worker.

The projected future cash savings from the restructuring actions announced during the second quarter of 2003 are approximately \$8 million during 2004 and \$31 million between 2005 and 2008. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses."

During the first half of 2004, the Company made \$0.5 million of payments attributable to the 2003 second quarter restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented, as required, with commercial paper borrowings.

In addition to the restructuring actions announced during the second quarter, the Motion & Flow Control segment recognized \$1.2 million of severance and employee benefit costs related to actions announced during the first quarter of 2003.

During the first quarter of 2003 the Company recorded a \$9.0 million restructuring charge primarily for the planned severance of 465 persons. Severance of \$8.3 million represents the majority of the charge. The actions by segment are as follows:

- The Electronic Components segment recorded \$6.8 million of the charge for the planned termination of 226 persons, comprised of 101 office workers, 116 factory workers and nine management employees. Idle facility costs of \$0.3 million and asset disposal costs of \$0.4 million were also reflected in the charge. The actions were prompted by management's projections of continued weakness in certain businesses.
- Corporate Headquarters recorded \$1.1 million of the charge for the consolidation of administrative tasks, including the planned termination of two management employees.
- The Motion & Flow Control segment recorded \$0.4 million of the charge for the planned termination of 237 employees, comprised of 21 office workers and 216 factory workers. The charge relates to the closure of a manufacturing facility in Arkansas. The actions will be completed during 2003 and 2004 and the total estimated charge of approximately \$2.6 million will be recognized ratably over the restructuring period as the terminations become effective. Management deemed the restructuring actions necessary to address the anticipated loss of certain platforms during the second half of 2003.

The projected future cash savings from the restructuring actions announced during the first quarter of 2003 are approximately \$8 million during 2004 and \$38 million between 2005 and 2008. The savings primarily represent lower salary and wage expenditures and will be reflected in "Costs of Sales and Revenues" and "Selling, General and Administrative Expenses."

During the first half of 2004, the Company made \$1.4 million of payments attributable to the 2003 first quarter restructuring actions. Future restructuring expenditures will be funded with cash from operations, supplemented, as required, with commercial paper borrowings.

The following table displays a rollforward of the restructuring accruals for the 2003 restructuring programs (in millions):

CASH CHARGES	-----	-----	-----	-----	-----
LEASE SEVERANCE COMMITMENTS OTHER TOTAL	-----	-----	-----	-----	-----
		----- Establishment of 2003			
Plans.....	\$ 30.6	\$ 1.2	\$ 1.2	\$	
	33.0				
Payments.....	(12.5)	--	(0.9)	(13.4)	
Reversals.....	(3.5)	--	--	(3.5)	
Translation.....	0.2	--	--	0.2	----- Balance
December 31, 2003.....	\$ 14.8				
	\$ 1.2	\$ 0.3	\$ 16.3	=====	=====
Payments.....	(10.6)	(0.2)	(0.1)	(10.9)	
Reversals.....	(0.3)	--	--	(0.3)	Recognition of additional
	charges.....	0.4	--	--	0.4
Translation.....	(0.4)	--	--	(0.4)	----- Balance
June 30, 2004.....	\$ 3.9				
	\$ 1.0	\$ 0.2	\$ 5.1	=====	=====

During the first half of 2004, \$0.3 million of restructuring accruals related to 2003 restructuring actions were reversed into income. The reversals primarily reflect lower than anticipated severance costs on completed actions due to favorable employee attrition at the Electronic Components segment.

During the second half of 2003, \$3.5 million of restructuring accruals related to current year programs were reversed into income as a result of quarterly reviews of the Company's remaining restructuring actions. The reversals primarily reflect lower than anticipated severance costs on completed actions due to favorable employee attrition at the Electronic Components segment. Additionally, certain actions were not completed as they were no longer deemed feasible. The Company also reversed other non-cash charges totaling \$0.2 million.

During the first half of 2004 headcount was reduced by 124 persons and the Company experienced employee attrition, leaving a balance of 65 planned reductions related to the 2003 restructuring plans. In addition, one facility remains to be closed related to the 2003 restructuring plans. Actions announced during 2003 will be substantially completed by the end of 2004.

2003 OTHER ASSET IMPAIRMENTS

During 2003, the Company recorded a \$1.4 million asset impairment charge primarily for the write-off of a technology license that will not be utilized based on management's projections of future market conditions. The applicable assets were written down to their fair values based on management's comparison of projected future discounted cash flows generated by each asset to the applicable asset's carrying value. These impairments were unrelated to the Company's restructuring activities.

DISCONTINUED OPERATIONS

In September of 1998, the Company completed the sales of its automotive Electrical Systems business to Valeo SA for approximately \$1,700 million and its Brake and Chassis unit to Continental AG of Germany for approximately \$1,930 million. These dispositions were treated as discontinued operations. In connection with

the sale of these businesses, the Company established accruals for taxes of \$972.7 million, representation and warranty and contract purchase price adjustments of \$148.8 million, direct costs and other accruals of \$102.0 million and environmental obligations of \$16.1 million.

In 1998 and 1999, the Company received notifications of claims from the buyers of the automotive businesses requesting post-closing adjustments to the purchase prices under the provisions of the sales agreements. During 1999, those claims were submitted to arbitration. In 2001 and early in 2002, both claims were favorably resolved.

The following tables display a rollforward of the automotive discontinued operations accruals from January 1, 2002 to June 30, 2004 (in thousands):

2002 BEGINNING BALANCE	2002	2002	OTHER
ENDING BALANCE	AUTOMOTIVE DISCONTINUED		
OPERATIONS ACCRUALS	JANUARY 1, 2002		
SPENDING SETTLEMENTS	ACTIVITY DECEMBER		
31, 2002	-----		
-----	-----		
-----	-----		
	----- Other Deferred		
Liabilities.....	\$ 807	\$ (46)	
	\$ --	\$ --	\$ 761 Accrued
Expenses.....	9,500		
	(909)	--	12,007 20,598
Environmental.....			
	14,612 (75)	-- --	14,537 Income
Tax.....			
154,151	-- --	--	154,151 -----
-----	-----		
Total.....			
	\$179,070	\$(1,030)	\$ -- \$12,007
	\$190,047	=====	===== =====
	=====	=====	=====

2003 BEGINNING BALANCE	2003	2003	OTHER
ENDING BALANCE	AUTOMOTIVE DISCONTINUED		
OPERATIONS ACCRUALS	JANUARY 1, 2003		
SPENDING SETTLEMENTS	ACTIVITY DECEMBER		
31, 2003	-----		
-----	-----		
-----	-----		
	----- Other Deferred		
Liabilities.....	\$ 761	\$ --	\$ --
	--	\$ (761)	\$ -- Accrued
Expenses.....	20,598		
	(1,668)	--	(1,244) 17,686
Environmental.....			
	14,537 (94)	--	(195) 14,248 Income
Tax.....			
154,151	-- --	--	154,151 -----
-----	-----		
Total.....			
	\$190,047	\$(1,762)	\$ -- \$(2,200)
	\$186,085	=====	===== =====
	=====	=====	=====

In 2003, the Company reassessed its obligations related to the disposal of the automotive businesses and determined that it would spend \$2.2 million less on the disposition, related to favorable spending on professional fees and adjustments to its environmental exposures. Based on this assessment, \$2.2 million was reversed into the 2003 Consolidated Income Statement under income from discontinued operations.

2004 BEGINNING BALANCE	2004	2004	OTHER
ENDING BALANCE	AUTOMOTIVE DISCONTINUED		
OPERATIONS ACCRUALS	JANUARY 1, 2004		
SPENDING SETTLEMENTS	ACTIVITY JUNE 30,		
2004	-----		
-----	-----		
-----	-----		
	----- Other		
Deferred Liabilities.....	\$ --		
	\$ --	\$ --	\$ -- \$ -- Accrued
Expenses.....	17,686		
	(7)	-- --	17,679

Environmental.....				
14,248 (49) -- --	14,199	Income		
Tax.....				
154,151 -- -- --	154,151	-----	-	

Total.....				
\$186,085 \$(56) \$ --	\$ --	\$186,029		
=====	====	=====	=====	=====

At June 30, 2004, the Company has automotive discontinued operations accruals of \$186.0 million that primarily relate to the following: taxes \$154.1 million -- which are related to the original transaction and are recorded in Accrued Taxes; product recalls \$7.8 million -- related to nine potential product recall issues which are recorded in Accrued Expenses; environmental obligations \$14.2 million -- for the remediation and investigation of groundwater and soil contamination at thirteen sites which are recorded in Other Liabilities; employee benefits \$9.9 million -- for workers compensation issues which are recorded in Accrued Expenses. In 2004, the Company made immaterial payments for matters attributable to the automotive discontinued

operations. The Company expects that it will cash settle \$154.1 million of tax obligations in late 2004 or 2005. The Company projects that it will spend between \$3.0 million and \$4.0 million in 2004 related to its remaining automotive obligations.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW OVERVIEW

The Company provided \$57.5 million of cash from operating activities during the first six months of 2004. Net income generated from continuing operations of \$200.8 million, which includes \$97.1 million of depreciation and amortization, and an increase in accounts payable were the primary factors for this performance. A \$100.0 million prepaid pension contribution and a \$195.9 million increase in accounts receivable, reflecting increased sales volume and the timing of collections, partially offset these items.

During the first six months of 2004, the Company also spent \$257.3 million on acquisitions, \$114.7 million on the repurchase of common stock, \$63.5 million on capital expenditures, \$30.5 million on dividend payments and \$36.2 million on the repayment of long-term debt. These actions were financed primarily with cash from operating activities, short-term debt, and cash received from exercised stock options.

The Company projects cash from operating activities to be between \$485.0 million and \$535.0 million for the twelve months ended December 31, 2004.

Cash Flows: Cash provided by operating activities during the first six months of 2004 was \$57.5 million, or a \$90.9 million improvement over the first six months of 2003. The improvement is primarily attributable to a \$100.0 million prepaid pension contribution in 2004 compared to a \$200.0 million prepaid pension contribution in the first six months of 2003. Lower spending of accrued expenses, higher income from continuing operations, and increased accounts payable balances also contributed to the favorable variance with the first six months of 2003. An increase in accounts receivable and inventory balances partially offset the improvement in cash provided by operating activities. These increases reflect higher volume and the timing of collections.

Status of Restructuring Activities: Restructuring payments during the first six months of 2004 totaled \$17.8 million and were comprised of \$5.2 million of expenditures for the 2004 plan and \$12.6 million of expenditures for the 2003, 2002 and 2001 restructuring plans. All future payments are projected to be paid with future cash from operating activities supplemented, as required, by commercial paper borrowings.

Additions to Plant, Property and Equipment: Capital expenditures during the first six months of 2004 were \$63.5 million, an increase of \$5.8 million from the first six months of 2003. The increase was seen across several operating segments.

Acquisitions: During the first six months of 2004, the Company spent \$257.3 million primarily for the acquisitions of the following:

- WEDECO AG Water Technology ("WEDECO"), the world's largest manufacturer of UV disinfection and ozone oxidation systems, which are alternatives to chlorine treatment.
- Shanghai Hengtong Purified Water Development Co. Ltd. and Shanghai Hengtong Water Treatment Engineering Co. Ltd. ("Hengtong"), a Shanghai-based producer of reverse-osmosis, membrane and other water treatment systems for the power, pharmaceutical, chemical and manufacturing markets in China.

The excess of the purchase price over the fair value of net assets acquired of \$179.7 million was recorded as goodwill.

On February 9, 2004, the Company signed a definitive agreement to purchase the Remote Sensing Systems ("RSS") business from Eastman Kodak Company for approximately \$725 million. RSS is the world's leading supplier of high-resolution satellite imaging systems and image information processing services. The acquisition significantly broadens the Company's space payload and service product offering for U.S. military as well as other science, government and commercial customers.

The acquisition is expected to close in the third quarter and will be funded via commercial paper.

During the first six months of 2003, the Company spent \$42.5 million, primarily for the acquisition of the following:

- The VEAM/TEC division of the Northrop Grumman Corporation ("VEAM"). VEAM is a designer and manufacturer of cylinder, filter and fiber optic connectors for the military/aerospace, industrial, transit, entertainment and nuclear markets.
- Uniservice Wellpoint Srl., a manufacturer of high quality diesel and electric powered, vacuum primed centrifugal pumps, along with spear or well point dewatering systems for the rental market and sale.

The excess of the purchase price over the fair value of net assets acquired of \$27.6 million was recorded as goodwill.

Divestitures: During the first six months of 2004, the Company generated \$4.7 million of cash proceeds primarily from the sale of two properties. In the first six months of 2003, the Company generated \$9.5 million of cash proceeds primarily from the sale of plant, property and equipment. This is primarily due to the sale of land for \$7.3 million at Defense Electronics & Services.

Financing Activities: Debt at June 30, 2004 was \$800.2 million, compared with \$602.4 million at December 31, 2003. Cash and cash equivalents were \$219.5 million at June 30, 2004, compared to \$414.2 million at December 31, 2003. The change in debt and cash levels primarily reflects the acquisition of WEDECO, the repurchase of common stock, and the payment of dividends. In March 2004, the Company arranged an additional revolving credit agreement of \$0.4 billion to accommodate additional acquisitions. As a result, the maximum amount of borrowing available under the Company's revolving credit agreements, which provide back-up for the Company's commercial paper program, at June 30, 2004, was \$1.4 billion. Borrowing through commercial paper and under the revolving credit agreements may not exceed \$1.4 billion in the aggregate outstanding at any time.

Status of Automotive Discontinued Operations: In 2004, the Company made immaterial payments for matters attributable to its automotive discontinued operations. Tax obligations of \$154.1 million are expected to be resolved in late 2004 or 2005. In addition, the Company projects between \$3.0 million and \$4.0 million of annual spending related to its remaining automotive obligations. All payments are forecast to be paid with future cash from operations supplemented, as required, by commercial paper borrowings.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported value of assets and liabilities and the disclosure of contingent assets and liabilities.

The Company has identified three accounting policies where estimates are used that require assumptions or factors that are of an uncertain nature, or where a different estimate could have been reasonably utilized or changes in the estimate are reasonably likely to occur from period to period.

ENVIRONMENTAL: 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 can be reasonably estimated. The Company calculates the liability by utilizing a cost estimating and weighting matrix that separates costs into recurring and non-recurring categories. The Company then uses internal and external experts to assign confidence levels based on the site's development stage, type of contaminant found, applicable laws, existing technologies and the identification of other potentially responsible parties. This methodology produces a range of estimates,

including a best estimate. At June 30, 2004, the Company's best estimate is \$101.6 million, which approximates the accrual related to the remediation of ground water and soil. The low range estimate for environmental liabilities is \$77.2 million and the high range estimate is \$165.1 million. On an annual basis the Company spends between \$8.0 million and \$11.0 million on its environmental remediation liabilities. These estimates, and related accruals, are reviewed periodically and updated for progress of remediation efforts and changes in facts and legal circumstances. Liabilities for environmental expenditures are recorded on an undiscounted basis.

The Company is currently involved in the environmental investigation and remediation of 104 sites, including certain instances where it is considered to be a potentially responsible party by the United States Environmental Protection Agency ("EPA") or similar state agency.

At present, the Company is involved in litigation against its insurers for reimbursement of environmental response costs. Recoveries from insurance companies or other third parties are recognized in the financial statements when it is probable that they will be realized.

In the event that future remediation expenditures are in excess of the 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.

For additional details on environmental matters see Note 13, "Commitments and Contingencies," in the Notes to the Consolidated Condensed Financial Statements.

EMPLOYEE BENEFIT PLANS: The Company sponsors numerous employee pension and welfare benefit plans. These plans utilize various assumptions in the determination of projected benefit obligations and expense recognition related to pension and other postretirement obligations. These assumptions include: discount rates, expected rates of return on plan assets, rate of future compensation increases, mortality, termination, and health care inflation trend rates, some of which are disclosed in Note 19, "Employee Benefit Plans," within the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K.

KEY PENSION ASSUMPTIONS

The Company determines its expected return on plan assets assumption by evaluating both historical returns and estimates of future returns. Specifically, the Company analyzes the Plan's actual historical annual return on assets over the past 10, 15, 20 and 25 years; makes estimates of future returns using a Capital Asset Pricing Model; and evaluates historical broad market returns over the past 75 years based on the Company's strategic asset allocation, which is detailed in Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K.

Based on the approach described above, the Company estimates the long-term annual rate of return on assets for domestic pension plans at 9.0%. For reference, the Company's actual geometric average annual return on plan assets for domestic pension plans stood at 10.1%, 11.2%, 11.8%, and 12.6%, for the past 10, 15, 20, and 25 year periods, respectively. The Company's weighted average expected return on plan assets for all pension plans, including foreign affiliate plans, at December 31, 2003, is 8.86%.

The Company utilizes the assistance of its plan actuaries in determining the discount rate assumption. As a service to its clients, the plan actuaries have developed and published an interest rate yield curve to enable companies to make judgments pursuant to EITF Topic No. D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Post Retirement Benefit Plans Other Than Pensions." The yield curve is comprised of AAA/AA bonds with maturities between zero and thirty years. The plan actuaries then discount the annual benefit cash flows of the Company's pension plan using this yield curve and develop a single-point discount rate matching the plan's characteristics.

At December 31, 2003, the Company lowered the discount rate on all of its domestic pension plans, which represent about 90% of the Company's total pension obligations, from 6.50% to 6.25%. The Company's weighted average discount rate for all pension plans, including foreign affiliate plans, at December 31, 2003, is 6.18%.

At December 31, 2003, the Company also lowered its expected rate of future compensation increases for its domestic plan participants to 4.5%, from 5.0%, based on recent historical experience and expectations for future economic conditions.

ASSUMPTION 2003	2002	-	-----	-----	-----	Long-Term
Rate of Return on Assets.....						8.86%
9.61% Discount Rate used to determine benefit obligation						
at Dec.						
31.....						
6.18% 6.44% Discount Rate used to determine net periodic						
benefit cost... 6.44% 7.14% Rate of future compensation						
increase used to determine benefit obligation at Dec.						
31.....						4.42% 4.88%

Management develops each assumption using relevant Company experience in conjunction with market related data for each individual country in which such plans exist. All assumptions are reviewed periodically with third party actuarial consultants and adjusted as necessary.

PENSION PLAN ACCOUNTING AND INFORMATION

The Company's strategic asset allocation target for its U.S. domestic plans apportions 70% of all assets to equity instruments and the remaining 30% to fixed income instruments. At December 31, 2003, the Company's actual asset allocation was 68.5% in equity instruments, 21.6% in fixed income instruments and 9.7% in hedge funds, with the remainder in cash and other.

On an annual basis, the Company's long-term expected return on plan assets will often differ from the actual return on plan assets. The chart below shows actual returns versus the expected long-term returns for the Company's domestic pension plans that are utilized in the calculation of the net periodic benefit cost. For more information, please see Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K.

2003	2002	2001	2000	1999	-----	-----	-----
					-----	-----	Expected Return on
Assets.....							
9.00%	9.75%	9.75%	9.75%	9.75%			Actual
							Return on
Assets.....							
28.3%	(10.9)%	(4.0)%	(0.7)%	22.4%			

The Company's Defense Electronics & Services segment represents approximately 50% of the active U.S. Salaried Plan participants. As a result, the Company has sought and will continue to seek reimbursement from the Department of Defense for a portion of its pension costs, in accordance with government regulations. U.S. Government Cost Accounting Standards (CAS) govern the extent to which pension costs are allocable to and recoverable under contracts with the U.S. Government. Reimbursements of pension costs are made over time through the pricing of the Company's products and services on U.S. Government contracts.

Funding requirements under IRS rules are a major consideration in determining the amount of contributions we make to our pension plans. The Company contributed \$206.3 million to our domestic pension plans during 2003, and an additional \$106.3 million in the first six months of 2004. Of these amounts, \$200.0 million and \$100.0 million, respectively, have been contributed to the domestic Salaried Retirement Plan. As a result, the Company does not expect to face any material minimum required contributions to any of its domestic pension plans for the balance of 2004 and 2005 under current IRS requirements.

Depending on market conditions and recently passed revisions to the IRS contribution requirements, the Company estimates that it may be required to make additional contributions between zero and \$400.0 million in 2006.

FUNDED STATUS

Funded status is derived by subtracting the value of the projected benefit obligations at December 31, 2003 from the end of year fair value of plan assets. The Company's U.S. Salaried Pension Plan represents approximately 80% of the Company's total pension obligation, and therefore the funded status of the

U.S. Salaried Pension Plan has a considerable impact on the overall funded status of the Company's pension plans.

During 2003, the Company's U.S. Salaried Pension Plan assets grew by \$647.0 million to \$2,989.2 million at the end of 2003. This increase primarily reflected return on assets of \$659.0 million, and Company contributions of \$200.0 million, offset by payments to plan beneficiaries of \$206.8 million.

Also during 2003, the projected benefit obligation for the U.S. Salaried Pension Plan increased by \$152.0 million to \$3,448.8 million. The increase included the \$104.3 million impact of a 25 basis point decline in the discount rate at year-end. This was partially offset by the \$(28.3) million impact of a 50 basis point decrease in the expected rate of future compensation increases. As a result, the funded status for the Company's U.S. Salaried Plan improved by \$495.4 million to \$(459.6) million at the end of 2003. Funded status for the Company's total pension obligations, including foreign and affiliate plans, improved by \$452.6 million to \$(871.3) million at the end of 2003.

Funded status at the end of 2004 will depend primarily on the actual return on assets during the year and the discount rate at the end of the year. The Company estimates that every 25 basis points change in the discount rate impacts the funded status of the U.S. Salaried Pension Plan, which represents about 80% of the Company's pension obligations, by approximately \$104 million. Similarly, every five percentage point change in the actual 2004 rate of return on assets impacts the same plan by approximately \$150 million.

MINIMUM PENSION LIABILITY

SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS No. 87"), requires that a minimum pension liability be recorded if a plan's market value of assets falls below the plan's accumulated benefit obligation.

In 2002, the combination of a decline in the discount rate and a decline in assets caused several of the Company's plans to be in a deficit position. Accordingly, during 2002, the Company recorded a total after-tax reduction of \$765.5 million to its total shareholders' equity. It is important to note that these actions did not cause a default in any of the Company's debt covenants. As a result of the improved financial markets in 2003, the Company recorded a total after-tax increase of \$182.5 to its shareholders' equity at year-end 2003.

Future recognition of additional minimum pension liabilities will depend primarily on the rate of return on assets and the prevailing discount rate.

PENSION EXPENSE

The Company uses the market-related value of assets method, as described in paragraph 30 of SFAS No. 87, for the calculation of pension expense. This method recognizes investment gains or losses over a five-year period from the year in which they occur. In addition, in accordance with paragraph 32 of SFAS No. 87, a portion of the Company's unrecognized net actuarial loss is amortized and this cost is included in the net periodic benefit cost.

The Company recorded \$33.0 million of net periodic pension cost (\$35.4 million after considering the effects of curtailment losses) into its Consolidated Income Statement in 2003, compared with pension income of \$10.4 million in 2002. The 2003 net periodic pension cost reflected benefit service cost of \$73.3 million and interest cost on accrued benefits of \$256.5 million, offset by the expected return on plan assets of \$327.0 million. In addition, the 2003 pension expense included \$23.5 million of amortization of past losses, up from \$3.2 million in 2002. The primary drivers behind the increase in the net periodic pension cost were the effect of the change in the discount rate, the effect of the lowered assumption as to expected return on assets and the increase in amortization of past losses in 2003.

In 2004, the Company expects to incur approximately \$70 million of pension expense that will be recorded into its Consolidated Income Statement. The increase in pension expense is primarily due to the effect of the change in discount rate and higher amortization of past losses. See Note 12, "Pension and

Postretirement Medical Benefit Expenses," in the Notes to Consolidated Condensed Financial Statements for additional details, including pension expense incurred during the first six months of 2004.

REVENUE RECOGNITION: The Company recognizes revenue as services are rendered and when title transfers for products, subject to any special terms and conditions of specific contracts. For the majority of the Company's sales, title transfers when products are shipped. Under certain circumstances, title passes when products are delivered. In the Defense Electronics & Services segment, certain contracts require the delivery, installation, testing, certification and customer acceptance before revenue can be recorded. Further, some sales are recognized when the customer picks up the product.

The Defense Electronics & Services segment typically recognizes revenue and anticipated profits under long-term, fixed-price contracts based on units of delivery or the completion of scheduled performance milestones. Estimated contract costs and resulting margins are recorded in proportion to recorded sales. During the performance of such contracts, estimated final contract prices and costs (design, manufacturing, and engineering and development costs) are periodically reviewed and revisions are made when necessary. The effect of these revisions to estimates is included in earnings in the period in which revisions are made. There were no material revisions to estimates in the covered periods.

Accruals for estimated expenses related to warranties are made at the time products are sold or services are rendered. These accruals are established using historical information on the nature, frequency and average cost of warranty claims and estimates of future costs. Management believes the warranty accruals are adequate; however, actual warranty expenses could differ from estimated amounts. The accrual for product warranties at June 30, 2004 and 2003 was \$34.5 million and \$41.1 million, respectively. See Note 14, "Guarantees, Indemnities and Warranties," in the Notes to Consolidated Condensed Financial Statements for additional details.

ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 132 (revised December 2003), "Employers' Disclosures About Pensions and Other Post Retirement Benefits." This revised SFAS retains the disclosure requirements of SFAS 132. Additionally, the pronouncement requires additional disclosures regarding the types of plan assets, investment strategy, measurement dates, plan obligations, cash flows and components of net periodic benefit cost recognized during interim periods for defined benefit pension plans and other defined benefit post retirement plans. The Company adopted this pronouncement effective December 31, 2003. Adoption did not have a material impact on the financial statements of the Company.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 clarifies the circumstances under which a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS No. 133. In addition, SFAS No. 149 clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of this interpretation did not have a material effect on the Company's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. The provisions of SFAS No. 150 were effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The Company did not have any financial instruments that met the provisions of SFAS No. 150; therefore, the adoption of this standard did not have a material effect on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN 46 are applicable to all variable interest entities created after January 31, 2003 and variable interest entities in which an enterprise obtains an interest after that date. For variable interest entities created before January 31, 2003, the provisions were effective December 31, 2003. The Company did not create or obtain any variable interest entities during 2003. The Company elected early adoption of the provisions of FIN 46 related to variable interest entities created prior to January 31, 2003 as of July 1, 2003. The adoption of this interpretation did not have a material effect on the Company's financial statements. In December 2003, the FASB issued a revision to Interpretation No. 46; however, it had no impact on ITT's adoption.

In January 2004, FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP No. 106-1") was issued. Subsequently, FSP No. 106-2 was issued, which amends FSP No. 106-1 and permits the deferral of recognizing the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) in the accounting for postretirement health care plans under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and in providing disclosures related to the plan required by SFAS No. 132. The deferral of the accounting for the Act continues to apply until authoritative guidance is issued on the accounting for the federal subsidiary provided by the Act or until certain other events requiring plan remeasurement. The Company has elected the deferral provided by this FSP and is evaluating the magnitude of the potential favorable impact of the subsidy on the financial statements. The authoritative guidance, when issued, could require a change to previously reported information. See Note 19, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K for discussion of postretirement benefits.

RISKS AND UNCERTAINTIES

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 accruals in accordance with accounting principles generally accepted within the United States. Insurance recoveries are included in other assets when it is probable that a claim will be realized. 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. For disclosure of the Company's commitments and contingencies, see Note 21, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements of the 2003 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

Certain material presented herein consists of forward-looking statements which involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in or implied from such forward-looking statements. Such factors include general economic and worldwide political conditions, foreign currency exchange rates, competition and other factors all as more thoroughly set forth in Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-Looking Statements in the ITT Industries, Inc. Form 10-K Annual Report for the fiscal year ended December 31, 2003 and other of its filings with the Securities and Exchange Commission, to which reference is hereby made.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 3 is provided in Note 9, "Derivative Instruments and Hedging Activities" in the Notes to Consolidated Condensed Financial Statements herein. There has been no material change in the information concerning market risk as stated in the Company's 2003 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report the Company's disclosure controls and procedures are effective in identifying, on a timely basis, material information required to be disclosed in our reports filed or submitted under the Exchange Act.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following should be read in conjunction with Note 13 to the unaudited interim consolidated condensed financial statements in Part I of this Report, as well as Part I Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2003.

The Company and its subsidiaries from time to time are involved in legal proceedings that are incidental to the operation of their businesses. Some of these proceedings allege damages against the Company relating to environmental liabilities, intellectual property matters, copyright infringement, personal injury claims, employment and pension matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. The Company will continue to vigorously defend itself against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including the Company's assessment of the merits of the particular claim, as well as its current reserves and insurance coverage, the Company does not expect that such legal proceedings will have any material adverse impact on the cash flow, results of operations, or financial condition of the Company on a consolidated basis in the foreseeable future.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

ISSUER PURCHASES OF EQUITY SECURITIES

TOTAL NUMBER OF PURCHASED(1)	AVERAGE PRICE PAID PER SHARE(2)	PERIOD	SHARES
		----- 4/1/04 -	
4/30/04.....	442,265 \$78.73	5/1/04 -	
5/31/04.....	235,302 \$78.91	6/1/04 -	
6/30/04.....	277,850 \$83.36		

(1) All share repurchases were made in open-market transactions. None of these transactions were made pursuant to a publicly announced repurchase plan.

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

No share repurchases were made pursuant to a publicly announced plan or program. The Company's strategy for cash flow utilization is to pay dividends first and then repurchase Company common stock to cover option exercises made pursuant to the Company's stock option programs. The remaining cash is then available for strategic acquisitions and discretionary repurchases of the Company's common stock.

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

At ITT Industries' annual meeting of shareholders held on May 11, 2004, the persons whose names are set forth below were elected as directors, constituting the entire Board of Directors. Relevant voting information for each person follows:

VOTES	FOR	WITHHELD
		----- Curtis J.
Crawford.....	79,354,847	1,064,368 Louis J.
Giuliano.....	78,738,230	1,680,985 Christina A.
Gold.....	78,506,034	1,913,181 Ralph F.
Hake.....	78,553,827	1,865,388 John J.
Hamre.....	79,355,306	1,063,909 Raymond W.
LeBoeuf.....	78,548,728	1,870,487 Frank T.
MacInnis.....	78,550,334	1,868,881 Linda S.
Sanford.....	79,343,247	1,075,968 Markos I.
Tambakeras.....	78,537,812	1,881,403

In addition to the election of directors, one other vote was taken at the meeting. The appointment of Deloitte & Touche LLP as independent auditors for 2004 was ratified by a vote of 78,308,202 shares in favor, 1,391,192 shares against, and 719,821 shares abstained. There were no other matters presented for a vote at the meeting.

ITEM 5. OTHER INFORMATION

On June 28, 2004 Steven R. Loranger was elected Director, President and Chief Executive Officer. Also on June 28, 2004 Louis J. Giuliano resigned as President and Chief Executive Officer, but continues as a Director and Chairman of the Company.

On August 5, 2004, the Company announced that Robert J. Pagano, formerly President of the Company's Fluid Technology Industrial Products business, had been appointed to the position of Corporate Controller. Mr. Pagano replaces Mark Lang, who was named Vice President -- Finance and Controller, for the Company's Defense Electronics & Services business.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

(b) Reports filed on Form 8-K.

(1) ITT Industries filed under Item 5, on June 2, 2004 a press release providing an update on the timing of its pending acquisition of Kodak's Remote Sensing Systems business and reaffirming its earnings projections for the second quarter and full year 2004.

(2) ITT Industries filed under Item 5 and Item 7 on June 29, 2004 a press release announcing the election of Steven R. Loranger as Director, President and Chief Executive Officer of ITT Industries, Inc. ITT Industries, Inc. also announced that Louis J. Giuliano resigned as President and Chief Executive Officer but would continue as a Director and Chairman of the Board of the Company.

SIGNATURE

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

ITT Industries, Inc.

(Registrant)

By /s/ EDWARD W. WILLIAMS

Edward W. Williams
Senior Vice President and
Chief Financial Officer

August 6, 2004

EXHIBIT INDEX

EXHIBIT NO DESCRIPTION LOCATION - - - - - (2)
 Plan of acquisition, reorganization, arrangement, liquidation or
 succession.....
 None (3.1) ITT Industries, Inc. Restated Articles of
 Incorporation..... Incorporated by reference to Exhibit
 3(i) of ITT Industries' Form 10-Q for the quarter ended June 30,
 1997 (CIK No. 216228, File No. 1-5627) (3.2) ITT Industries, Inc.
 By-laws, as amended June 25, 2004..... Attached (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. (CIK No.
 216228, File No. 1-5627). (10.1) ITT Industries, Inc. 2003 Equity
 Incentive Plan, effective May 13,
 2003.....
 Incorporated by reference to Exhibit 10.1 of ITT Industries' Form
 10-Q for the quarter ended June 30, 2003 (CIK No. 216228, File No.
 1-5672) (10.2) Employment Agreement dated as of June 28, 2004
 between ITT Industries, Inc. and Steven R.
 Loranger..... Attached (11) Statement re
 computation of per share earnings..... See Note 6
 of the Notes to Consolidated Condensed Financial Statements (15)
 Letter re unaudited interim financial
 information..... None (18) Letter re change in
 accounting principles..... None (19) Report
 furnished to security holders..... None
 (22) Published report regarding matters submitted to vote of
 security
 holders.....
 None (23) Consents of experts and
 counsel..... None (24) Power of
 attorney..... None
 (31.1) Certification of Steven R. Loranger Pursuant to Section 302
 of the Sarbanes-Oxley Act of
 2002..... Attached (31.2)
 Certification of Edward W. Williams Pursuant to Section 302 of the
 Sarbanes-Oxley Act of
 2002..... Attached

EXHIBIT NO
DESCRIPTION
LOCATION - - -

(32.1)

Certification
Pursuant to
18. U.S.C.
Section 1350,
as adopted
pursuant to
Section 906
of the
Sarbanes-
Oxley Act of
2002.....

Attached.

This Exhibit
is intended
to be
furnished in
accordance
with

Regulation S-
K Item 601(b)
(32)(ii) and
shall not be
deemed to be
filed for
purposes of
Section 18 of
the

Securities
Exchange Act
of 1934 or
incorporated
by reference
into any
filing under
the
Securities
Act of 1933,
except as
shall be
expressly set
forth by
specific
reference.

(32.2)

Certification
Pursuant to
18. U.S.C.
Section 1350,
as adopted
pursuant to
Section 906
of the
Sarbanes-
Oxley Act of
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filing under
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Securities
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except as
shall be
expressly set
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specific
reference.

[ITT INDUSTRIES LOGO]

BY-LAWS

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 1.5 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. 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 and the Board shall be the bodies to whom the independent auditors of the Corporation shall be ultimately accountable and shall have ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent auditors (or to nominate the independent auditors to be proposed for shareholder approval). The Audit Committee shall be responsible for assessing the objectivity and independence of said auditors; confirming the scope of audits to be performed by said auditors; reviewing audit results, internal accounting and control procedures and policies, fees paid to said auditors, and expense accounts of senior executives; reviewing and recommending approval of the audited financial statements of the Corporation and the annual reports to shareholders; and otherwise complying with the responsibilities and obligations of the Securities and Exchange Commission and the New York Stock Exchange applicable from time to time to audit committees. The Audit Committee shall consist entirely of "independent directors" as provided for in Section 2.12 of these By-Laws and shall be in compliance with the requirements of the Securities and Exchange Commission and the New York Stock Exchange applicable from time to time to audit committee members.

(c) *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.

(d) *Nominating and Governance Committee.* The Nominating and Governance Committee shall consider and make recommendations as to the composition, structure, organization and future requirements of the Board and Committees thereof and as to other corporate governance issues relating to the Corporation; administer the Board evaluation process; propose nominees for election to

the Board and Committees thereof; consider shareholder nominees for election to the Board; and consider matters concerning the qualifications, compensation and retirement of Directors. The Nominating and Governance Committee shall consist entirely of “independent directors” as provided for in Section 2.12 of these By-Laws.

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 *Officer, Titles, Elections, Terms.* (a) The Board may from time to time elect a Chairman, a Chief Executive, 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 of the Chairman or Chief Executive.* The Chairman shall be the Chief Executive of the Corporation unless the Board specifically elects the President to be Chief Executive of the Corporation, in which case the President shall be the Chief Executive (the Chairman or the President,

as appropriate, is referred to in these By-laws as the “Chief Executive”). The Chairman and, if the President is Chief Executive, the President 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 Chief Executive 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. The Chairman (whether or not the Chief Executive) 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.* Unless the President is Chief Executive (in which case Section 3.3 shall be applicable), 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.

3.11 *Applicable Definitions.* As used in these By-laws, the term "Chairman" shall refer to the person elected as Chairman unless the President has been elected pursuant to Section 3.3 as "Chief Executive," in which case, the term "Chairman" shall refer to the President in his or her capacity as Chief Executive; provided however, the foregoing shall not apply to (A) the references to Chairman in (i) Section 2.6, (ii) Section 3.1(a), (iii) Section 3.3 or (iv) this Section 3.11, so that the references to Chairman in those sections referred to in clauses (i) through (iv) shall refer only to the person elected as Chairman, or (B) to the references to Chairman in (v) Section 5, (vi) Section 6, and (vii) Section 7, so that the references to Chairman in those sections referred to in clauses (v) through (vii) shall refer to the person elected as Chairman and, if applicable, the President in his or her capacity as Chief Executive.

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: August 6, 2004.

/s/ Kathleen S. Stolar

Secretary

ADOPTED

06/25/04

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "*Agreement*"), effective as of June 28, 2004 (the "*Effective Date*"), by and between ITT Industries, Inc., an Indiana corporation (the "*Company*"), and Steven R. Loranger ("*Executive*").

WHEREAS, the Company desires to employ Executive and to enter into an agreement embodying the terms of such employment and considers it essential to its best interests and the best interests of its stockholders to foster the employment of Executive by the Company during the term of this Agreement;

WHEREAS, Executive desires to accept such employment with and participation in the ownership of the Company and to enter into this Agreement; and

WHEREAS, Executive is willing to accept employment on the terms hereinafter set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties hereby agree as follows:

1. *Term of Employment.* Subject to the provisions of Section 11, this Agreement shall be effective for a term commencing on the Effective Date and ending on the day immediately preceding the third anniversary of the Effective Date (the "*Initial Term*"); *provided, however*, that such term shall be automatically extended for successive twelve (12) month periods unless, no later than one hundred and eighty (180) days prior to the expiration of the Initial Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the term hereof (the Initial Term together with any extension period shall be referred to hereinafter as the "*Employment Term*").

2. *Position.*

(a) Executive shall serve as the President and Chief Executive Officer of the Company. In such position, Executive shall have such authorities, responsibilities and duties customarily exercised by a person holding that position, including, without limitation, the authority and responsibility for the management, operation, strategic direction and overall conduct of the business of the Company. Executive shall report directly to the Board of Directors of the Company (the "*Board*").

(b) Executive shall become a member of the Board on the Effective Date. During the Employment Term, Executive will devote his time and best efforts to the performance of his duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict with the rendition of such services either directly or indirectly, without the prior written consent of the Board; *provided, however*, that Executive may (i) serve as a director, trustee or officer or otherwise participate in not-for-profit educational, welfare, social, religious and civic organizations; (ii) with the prior approval of the Board, serve as a director of any for-profit business which does not compete with the Company or any of its subsidiaries or affiliates, and (iii) acquire passive investment interests in one or more entities, to the extent that such other activities do not inhibit or interfere with the performance of Executive's duties under this Agreement, and do not to the knowledge of Executive conflict in any material way with the policies of the Company or any subsidiary or affiliate thereof and, to the extent such investment interests exceed 3% of the outstanding equity interests of any such entity, such entity does not compete in any material manner with the Company or any subsidiary or affiliate thereof.

3. *Base Salary.* During the Employment Term, the Company shall pay Executive a base salary (the "*Base Salary*") at the annual rate of \$900,000.00, payable in regular installments in accordance with the Company's usual payroll practices. The Board may from time to time review and increase Executive's Base Salary in its sole discretion.

4. *Annual Bonus.* During the Employment Term, Executive shall be eligible to receive an annual cash bonus (the "*Bonus*" and together with the Base Salary, "*Compensation*") in respect of each full or partial fiscal year of the Company (a "*Fiscal Year*" which, as of the Effective Date, is the period

January 1 through December 31) ending during the Employment Term, with a target bonus equal to 100% of Base Salary (“*Target Bonus*”), a minimum bonus of \$0 and a maximum bonus of 200% of Base Salary (pro rated for partial Fiscal Years of employment), subject to the terms of the Company’s 1997 Annual Incentive Plan for Executive Officers and based on the attainment of Company, individual, or other performance targets established by the Compensation and Personnel Committee of the Board (the “*Compensation Committee*”) for such Fiscal Year. Notwithstanding the foregoing, the Bonus for the 2004 Fiscal Year shall be no less than \$900,000.00. The Bonus for each Fiscal Year shall be paid to Executive no later than the end of the first calendar quarter following the end of the Fiscal Year.

5. Long-Term Incentive Awards.

(a) Executive shall be granted in Fiscal Year 2005 a long-term incentive award with an aggregate target value of \$4,500,000.00 (the “*Incentive Award*”). \$1,800,000.00 of the Incentive Award shall be granted in the form of a target award in that amount pursuant to the terms of the Company’s 1997 Long-Term Incentive Plan (the “*LTIP*”) for the “*Performance Period*” (as defined in the LTIP) commencing on January 1, 2005 and ending on December 31, 2007. \$450,000.00 of the Incentive Award shall be granted in the form of a long-term incentive award (not under the LTIP) with a target award of that amount, which shall be earned and payable on terms and conditions identical to those of the LTIP award described in the preceding sentence. Payment, if any, with respect to each of the awards described in the preceding two sentences shall be made on or before March 30, 2008 in the form of cash, unrestricted shares of the Company’s common stock, \$1.00 par value per share (“*Shares*”), or a combination of cash and Shares as determined by the Compensation Committee upon the attainment of the applicable “*Performance Measures*” (as defined in the LTIP) for such Performance Period. The other \$2,250,000.00 of the Incentive Award shall be in the form of a nonqualified stock option grant made during the first quarter of Fiscal Year 2005 pursuant to the Company’s 2003 Equity Incentive Plan, to purchase such number of Shares as shall be determined by the Committee as necessary for such stock option grant to have a value of \$2,250,000.00, determined in a manner consistent with the valuation methodology followed for other senior executives of the Company. The stock option grant shall have such vesting, forfeiture and other terms as are applicable to stock options granted to other senior executives of the Company.

(b) Executive shall also participate in the LTIP for the Performance Period commencing on January 1, 2003 and ending on December 31, 2005, and for the Performance Period commencing on January 1, 2004 and ending on December 31, 2006, with a target award for each such Performance Period of \$1,800,000.00, and with such participation being deemed to have commenced on January 1, 2003 and January 1, 2004, respectively. In addition, Executive shall be eligible for an additional long-term incentive award (not under the LTIP) in respect of each such Performance Period, which shall have a target award of \$700,000.00 and which shall be earned and payable on terms and conditions identical to those of the LTIP award described in the preceding sentence in respect of the same Performance Period.

(c) The determination of the portions of any future long term incentive award to be delivered in cash and equity incentive shall be the same for Executive as for other senior executives of the Company.

(d) The determination of Executive’s target long-term incentive awards for Performance Periods commencing after January 1, 2005 shall be established by the Compensation Committee based on its determination of Executive’s performance and market levels of compensation for CEOs of comparable size companies, in accordance with procedures used by the Compensation Committee to establish compensation levels for other senior executives of the Company.

(e) For purposes of this Agreement, the \$450,000.00 target long-term incentive award described in Section 5(a) and the two \$700,000.00 target long-term incentive awards described in Section 5(b), and each similar future long-term incentive award which is not granted under the LTIP because of contractual limits on the level of awards thereunder, shall be collectively referred to herein as the “*Phantom LTIP Awards*.”

6. *Sign-On Equity.* On the Effective Date, Executive shall be granted a nonqualified stock option to purchase 125,000 Shares pursuant to the stock option agreement attached hereto as *Exhibit A*, and 125,000 restricted stock units pursuant to the restricted stock unit agreement attached hereto as *Exhibit B*.

7. *Special Pension Arrangement.* Upon the termination of Executive’s employment with the Company for any reason on or after the fifth anniversary of the Effective Date, Executive shall be entitled to receive from the Company a special pension arrangement in the form of an annual single life annuity commencing immediately following Executive’s termination of employment and payable on a monthly basis, calculated as the Applicable Percentage of Executive’s average annual Compensation for the five (5) years in which Executive’s Compensation was the highest (with each “year” for this purpose being the twelve (12) month period commencing on the Effective Date and each anniversary thereof), determined in accordance with the following schedule and without actuarial reduction (but reduced as described in the following paragraph):

Executive’s Age Upon Termination	Applicable Percentage
57	38%
58	42%
59	46%
60 or higher	50%

The amount of the annual single life annuity computed pursuant to the preceding paragraph shall be reduced, but not below zero, by (A) the amount of annual single life annuity, computed as of the date of Executive’s termination of employment with the Company, equal to the actuarial equivalent of the qualified and nonqualified defined benefit pension benefits that Executive is entitled to receive from any Company and prior employer defined benefit pension arrangement (other than the nonqualified defined benefit pension arrangement of Honeywell International Inc. (“*Honeywell*”)), whether or not paid or payable prior to, on or following Executive’s termination of employment, and computed as the actuarial equivalent of a single life annuity commencing at age 65, reduced (if applicable) for payment commencing prior to age 65 and upon the termination of Executive’s employment, and (B) the amount of annual single life annuity, determined as of the date of Executive’s termination of employment with the Company, which is the actuarial equivalent value of \$2,195,000.00 (being the lump sum payment received by Executive pursuant to the nonqualified defined benefit pension arrangement of Honeywell upon his termination of employment with Honeywell) increased by an interest factor of three percent (3%), compounded annually, from January 19, 2003(1) through the date of Executive’s termination of employment with the Company.

Executive also shall be entitled to receive the special pension described in this Section 7 commencing upon his termination of employment prior to the fifth anniversary of the Effective Date by the Company without Cause (including on account of Disability) or by Executive with Good Reason in accordance with Section 11(a) or 11(c), as applicable; provided that (I) the Applicable Percentage shall be the product of (X) 38% multiplied by (Y) 20% multiplied by (Z) the number of anniversaries of the Effective Date which have occurred through the date of such termination, and (II) the compensation against which the Applicable Percentage is applied shall be the “Partial Period Average Compensation,” as defined below, through the date of termination.

Notwithstanding the foregoing, (A) Executive shall receive an immediate lump sum payment equal to the actuarial present value of the special pension described in this Section 7 upon his termination of employment by the Company without Cause, or by Executive with Good Reason, in accordance with Section 11(c), in either case upon or following a “Change of Control” (as defined in Section 11(e)); provided that in that case, (i) the Applicable Percentage shall be based on Executive’s age at the time of the Change of Control plus three years, (ii) the Applicable Percentage shall be no less than 38% and (iii) if such termination occurs prior to the fifth anniversary of the Effective Date, the compensation against which the Applicable Percentage is applied shall be the

1 The date of payment by Honeywell.

Partial Period Average Compensation through the date of termination and (B) subject to the preceding clause (A), if Executive is married on the date as of which payment of the special pension described in this Section 7 commences, such pension shall be paid in the form of an actuarially equivalent joint and 100% survivor annuity with Executive's spouse as the joint annuitant.

Furthermore, if Executive dies prior to the commencement of payment of the special pension described in this Section 7, then Executive's "Beneficiary" (as defined below) shall receive an immediate lump sum payment equal to the actuarial equivalent of the benefit to which Executive would have been entitled, if any, under this Section 7 had Executive's employment been terminated by the Company without Cause immediately prior to Executive's death.

For purposes of this Section 7, (i) actuarial equivalents shall be computed by using the actuarial assumptions used by the Company for financial statement reporting purposes in respect of its U.S. defined benefit pension plans for the Company's fiscal year ending immediately preceding Executive's termination of employment with the Company, (ii) "*Partial Period Average Compensation*" shall mean the Compensation paid during the period from the Effective Date through the applicable date of Executive's termination of employment, or not paid but fully earned and payable in respect of any Fiscal Year ending prior to such period, multiplied by a fraction, the numerator of which is 365, and the denominator of which is the number of days elapsed from the Effective Date through the date of termination, and (iii) "*Beneficiary*" shall mean Executive's beneficiary as last designated in writing by Executive to the Company prior to Executive's death or, if there is no such designation, Executive's surviving spouse or, if there is no such designation and no such surviving spouse, Executive's estate.

8. *Employee Benefits, Fringe Benefits and Perquisites.* Executive shall be provided with employee benefits, fringe benefits and employment and post-employment perquisites on a basis no less favorable than such benefits and perquisites are provided by the Company from time to time to the Company's other senior executives, or are or were provided to the Company's former chief executive officer, and the Company shall, to the extent reasonably practicable, structure any such benefits and perquisites to comply with any applicable requirements for tax exemption by Executive. The Company agrees to waive any waiting periods for Executive and Executive's dependents with respect to group coverage under its welfare benefit plans. Without limiting the foregoing, Executive shall be entitled to:

(a) *Corporate Aircraft.* Executive (and Executive's spouse when she accompanies him) shall be entitled to use the Company aircraft for business travel when it is available, and for occasional use for personal travel in accordance with policies established from time to time by the Board when the aircraft is not scheduled for use for business purposes. The Company shall impute income to Executive for personal use of Company aircraft as required by applicable law.

(b) *Business Clubs.* The Company shall pay the initiation fees and membership dues for Executive for at least one business club reasonably selected by Executive.

(c) *Financial Planning.* The Company shall reimburse Executive for the reasonable costs associated with annual financial and tax planning advice provided by an advisor chosen by Executive in an amount not less than provided to any of the Company's other senior executives.

9. *Vacation.* Executive shall be entitled to four (4) weeks annual paid vacation in accordance with the vacation policy of the Company.

10. *Expense Reimbursement.* During the Employment Term, all reasonable business expenses incurred by Executive in the performance of his duties hereunder, including expenses related to professional memberships and associations, shall be reimbursed by the Company in accordance with Company policies. Executive shall be reimbursed for expenses of relocation in accordance with the Company's relocation policy applicable to senior executives (a copy of which has been previously provided to Executive). In addition, if Executive has not sold his primary residence within ninety (90) days after the Effective Date, the Company shall acquire or cause a third party to acquire such residence for its fair market value as determined by the average of the fair market values determined by two appraisers reasonably acceptable to Executive and the Company. Executive shall act in a diligent manner in promptly listing such residence for sale and attempting to sell it.

11. *Termination*. Notwithstanding any other provision of the Agreement:

(a) *For Cause by the Company*. The Employment Term, and Executive's employment hereunder, may be terminated at any time by the Company for "Cause" upon delivery of a "Notice of Termination" (as defined in Section 11(g)) by the Company to Executive. For purposes of this Agreement, "Cause" shall mean (i) the willful and continued failure of Executive to perform substantially his duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to Executive by the Board which specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties and Executive has failed to cure such failure to the reasonable satisfaction of the Board, (ii) the willful engaging by Executive in gross misconduct which results in substantial damage to the Company, (iii) Executive's willful violation of a material provision of the Company's Code of Conduct, (iv) conviction of, or entry of a pleading of guilty or no contest by, Executive with respect to a felony, other than a traffic infraction not involving an intent to commit a crime, or any lesser crime of which fraud or dishonesty is a material element, (v) Executive's breach of any of his representations in Section 16(a) or (vi) Executive's habitual intoxication or continued abuse of illegal drugs which materially interferes with Executive's ability to perform his assigned duties and responsibilities. For purpose of this Section 11(a), no act or failure to act by Executive shall be considered "willful" unless done or omitted to be done by Executive in bad faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company. Cause shall not exist unless and until the Company has delivered to Executive, along with the Notice of Termination for Cause, a copy of a resolution duly adopted by a majority of the Board (excluding Executive) at a meeting of the Board called and held for such purpose (after reasonable notice to Executive and an opportunity for Executive, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board an event set forth in clauses (i)-(vi) above has occurred and specifying the particulars thereof in detail.

If Executive is terminated for Cause pursuant to this Section 11(a), he shall be entitled to receive only his Base Salary through the date of termination and he shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement which have not vested prior to his date of termination. All other benefits, if any, due Executive following Executive's termination of employment for Cause pursuant to this Section 11(a) shall be determined in accordance with the plans, policies and practices of the Company; *provided, however*, that Executive shall not participate in any severance plan, policy or program of the Company.

(b) *Disability, Death or Normal Retirement*. The Employment Term, and Executive's employment hereunder, shall terminate immediately upon his death or following delivery of a Notice of Termination by the Company to Executive if Executive becomes physically or mentally incapacitated and is therefore unable for a period of ninety (90) consecutive days or one-hundred twenty (120) days during any consecutive six (6) month period to perform his duties with substantially the same level of quality as immediately prior to such incapacity (such incapacity is hereunder referred to as "Disability"). Executive may retire upon achieving age 65 ("*Normal Retirement*"). Upon termination of Executive's employment hereunder for Disability, death or Normal Retirement, Executive or Executive's estate (as the case may be) shall be entitled to receive his Base Salary through the date of termination and any earned but unpaid Bonus for any calendar year preceding the year in which the termination occurs, together with a pro rata payment of the Target Bonus and target award for each outstanding LTIP award and Phantom LTIP Award based on the number of days elapsed during the applicable performance period (or such greater amount as may be provided under the LTIP, including as the terms of the LTIP may apply to the Phantom LTIP Awards). Executive or Executive's estate (as the case may be) shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination for Disability or death shall be determined in accordance with the plans,

policies and practices of the Company; *provided, however*, that Executive (or his estate, as the case may be) shall not participate in any severance plan, policy or program of the Company.

(c) *Without Cause by the Company or for Good Reason by Executive*. The Employment Term, and Executive's employment hereunder, may be terminated by the Company without Cause (other than by reason of Executive's Disability) following the delivery of a Notice of Termination to Executive or by Executive for "Good Reason" (as defined below) following the delivery of a Notice of Termination to the Company. If the Company give a notice under Section 1 of its desire not to have the term of this Agreement automatically extended (a "*Company Non-Renewal Notice*"), then the subsequent termination of Executive's employment at the end of the Employment Term shall be deemed, for all purposes of this Agreement other than as specifically stated below, as a termination by the Company without Cause; provided that this sentence shall not apply if the end of the Employment Term following a Company Non-Renewal Notice falls on or after Executive's attainment of age 65. If Executive's employment is terminated by the Company without Cause (other than by reason of Executive's Disability) or by Executive for Good Reason, Executive shall receive (i) within five (5) days following termination, a lump sum payment of (A) any earned but unpaid Base Salary through the date of termination, (B) any earned but unpaid Bonus for any calendar year preceding the year in which the termination occurs, plus (C) a pro-rata Target Bonus for the year of termination based on the number of days elapsed in the Fiscal Year prior to such termination (the "*Accrued Obligations*") plus (ii) twenty-four (24) monthly payments, commencing on the first day of the month immediately following Executive's termination of employment, each of which shall be equal to one twenty-fourth ($1/24$) of the sum of (A) two times his Base Salary (at the rate then in effect) and (B) two times his Target Bonus; provided that if such termination is at the end of the Employment Term following the Company giving a Company Non-Renewal Notice as described above, then Executive shall receive under this clause (ii) twelve (12) monthly payments, commencing on the first day of the month immediately following Executive's termination of employment, each of which shall be equal to one-twelfth ($1/12$) of the sum of (A) one times his Base Salary (at the rate then in effect) and (B) one times his Target Bonus. In addition, upon a termination of Executive's employment pursuant to this Section 11(c), the Company shall continue to provide health and other welfare benefits to Executive and his spouse and dependents, if any, for a two (2) year period following the date of Executive's termination, as are provided from time to time to actively employed senior executives of the Company; *provided*, that the Company's obligation to provide a health or other welfare benefit shall cease with respect to such benefit at the time Executive becomes eligible for such benefit from another employer. To the extent that the health and other welfare benefits provided for in this Section 11(c) are not permissible after termination of employment under the terms of the benefit plans of the Company then in effect (and cannot be provided through the Company's paying the applicable premium for Executive under COBRA), the Company shall pay to Executive such amount as is necessary to provide Executive, after tax, with an amount equal to the cost of acquiring, for Executive and his spouse and dependents, if any, on a non-group basis, for the required period, those health and other welfare benefits that would otherwise be lost to Executive and his spouse and dependents as a result of Executive's termination. Executive shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement. All other benefits, if any, due Executive following a termination pursuant to this Section 11(c), including benefits, if any, under any long-term incentive award, shall be determined in accordance with the plans, policies and practices of the Company; *provided, however*, that Executive shall not participate in any severance plan, policy or program of the Company.

For purposes of this Agreement, "*Good Reason*" means:

(i) (A) any change in the authorities, duties or responsibilities (including reporting responsibilities) of Executive that is inconsistent in any material and adverse respect with Executive's position(s), authorities, duties, responsibilities or status with the Company (including any material and adverse diminution of such authorities, duties or responsibilities); (B) any adverse change in Executive's title; (C) the failure of Executive to be nominated or re-elected to the Board; or (D) the failure of Executive to be elected as Chairman of the

Board on or before December 31, 2004 or, at any time thereafter, to be retained as Chairman of the Board, unless the Board determines that the positions of Chairman and Chief Executive Officer must be held by different persons (I) due to an applicable statutory, regulatory or stock exchange requirement or (II), if such practice is common among companies of similar size in similar industries to the Company and the Board determines, based on the written advice of the Company's or the Board's outside counsel, that such practice constitutes best practices corporate governance;

(ii) any failure by the Company to comply with any of the provisions of Section 3, 4, 5, 6, 7, 8 or 9 of this Agreement;

(iii) the relocation of Executive's primary office to a location that is more than fifty (50) miles from both of (A) the Company's headquarters in White Plains, New York and (B) Executive's residence at the time of such relocation;

(iv) any purported termination by the Company of Executive's employment otherwise than as permitted by this Agreement, it being understood that any such purported termination shall not be effective for any purpose of this Agreement; or

(v) the Company's failure to comply with and satisfy Section 16(h)(ii) of this Agreement, or the Company's breach of any of its representations in Section 16(a);

provided that a termination by Executive with Good Reason shall be effective only if, within thirty (30) days following the delivery of a Notice of Termination for Good Reason by Executive to the Company, the Company has failed to cure the circumstances giving rise to Good Reason.

(d) *Termination by Executive without Good Reason.* The Employment Term, and Executive's employment hereunder, may be terminated by Executive without Good Reason prior to Normal Retirement following the delivery of a Notice of Termination to the Company. Upon a termination by Executive pursuant to this Section 11(d), Executive shall be entitled to his Base Salary through the date of such termination and he shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement which have not vested prior to Executive's termination date. All other benefits, if any, due Executive following termination pursuant to this Section 11(d) shall be determined in accordance with the plans, policies and practices of the Company; *provided, however*, that Executive shall not participate in any severance plan, policy or program of the Company.

(e) *Termination in Connection with a Change of Control.* In the event that the Company terminates Executive's employment and this Agreement without Cause or if Executive terminates his employment and this Agreement for Good Reason within two (2) years following a Change of Control, then Executive shall be entitled to receive, instead of the amounts set forth in Section 11(c), the following:

(i) a lump sum payment of the Accrued Obligations within five (5) days following the date of termination;

(ii) a lump sum payment of severance pay equal to the sum of (A) three (3) times his Base Salary (at the rate then in effect) and (B) three times an amount equal to the highest Bonus paid to Executive at any time during the three (3) year period prior to the Change in Control; and

(iii) continued health and other welfare benefits in accordance with Section 11(c).

All other benefits, if any, due Executive following Executive's termination of employment by the Company without Cause or by Executive for Good Reason under the circumstances described in this Section 11(e) shall be determined in accordance with the plans, policies and practices of the Company.

For purposes of this Agreement, a "Change of Control" shall be deemed to have occurred on the first day that any one or more of the following conditions has been satisfied:

(i) a report on Schedule 13D being filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities and Exchange Act of 1934 (the “Exchange Act”) disclosing that any “person” (within the meaning of Section 13(d) of the Exchange Act), other than the Company or any of its subsidiaries or any employee benefit plan sponsored by the Company or any of its subsidiaries, is the “beneficial owner” (as such term is described in Rule 13d-3 of the Exchange Act) directly or indirectly of twenty (20%) or more of the outstanding common stock of the Company;

(ii) any “person” (within the meaning of Section 13(d) of the Exchange Act), other than the Company or any of its subsidiaries or any employee benefit plan sponsored by the Company or any of its subsidiaries, shall purchase shares pursuant to a tender offer or exchange offer to acquire any common stock of the Company (or securities convertible into common stock of the Company) 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 described in Rule 13d-3 of the Exchange Act) directly or indirectly, of fifteen percent (15%) or more of the outstanding common stock of the Company (calculated as provided in paragraph (d) of Rule 13d-3 under the Exchange Act in the case of rights to acquire common stock);

(iii) the stockholders of the Company 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 common stock of the Company would be converted into cash, securities or other property, other than a merger of the Company in which holders of common 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) a change in the majority of the members of the Board within a twelve (12) month period unless the election or nomination for election by the Company’s stockholders of each new director during such twelve month period was approved by the vote of two-thirds (2/3) of the directors then still in office who were directors at the beginning of such twelve (12) month period.

(f) *Special Rules Regarding Retiree Medical Coverage.* Executive shall be entitled to retiree medical coverage in accordance with the terms of the Company’s retiree medical arrangement in effect for persons joining the Company on the Effective Date; provided that, in addition to the terms of eligibility generally applicable to Executive pursuant to such arrangement and notwithstanding anything in this Agreement to the contrary, Executive’s termination of employment after the first anniversary of the Effective Date (i) by the Company without Cause (including on account of Disability) or by Executive with Good Reason in accordance with Section 11(a) or 11(c), as applicable, or (ii) due to Executive’s death, shall be considered a “retirement” for purposes of such arrangement and entitle Executive to the benefits thereunder.

(g) *Release.* Notwithstanding any other provision of this Agreement to the contrary, Executive acknowledges and agrees that any and all payments to which Executive is entitled under this Section 11 are conditional upon and subject to Executive’s execution of a general release and waiver, in such reasonable and customary form as shall be prepared by the Company, of all claims Executive may have against the Company and its directors, officers and affiliates, except as to matters covered by provisions of this Agreement that expressly survive the termination of this Agreement. Such release shall include a release by the Company and its subsidiaries of all claims against Executive other than claims as to which all material facts are not actually known to any member of the Board (other than Executive) at the date of termination.

(h) *Notice of Termination.* Any purported termination of employment by the Company or Executive shall be communicated by a written Notice of Termination to Executive or the Company, respectively, delivered in accordance with Section 16(k) hereof. For purposes of this Agreement, a “Notice of Termination” shall mean a notice which shall indicate the specific termination provision in the Agreement relied upon, the date of termination, and shall set forth in

reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. The date of termination of Executive's employment shall be the date so stated in the Notice of Termination, which date, in the event of a termination by Executive pursuant to Section 11(c) or 11(d) shall be no less than thirty (30)(in the case of a Section 11(c) termination) or sixty (60)(in the case of a Section 11(d) termination) days following the delivery of a Notice of Termination; *provided, however*, that in the case of a termination for Cause by the Company, the date of termination shall be the date the Notice of Termination is delivered in accordance with Section 16(k).

12. *Certain Additional Payments by the Company.* In the event that it shall be determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 12, such payments or distributions being referred to herein as "*Payments*") would give rise to liability of Executive for the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "*Code*"), or that any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "*Excise Tax*"), then Executive shall be entitled to receive an additional payment (the "*Gross-Up Payment*") in an amount such that after payment by Executive of all Federal, state and local taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income and employment taxes (and any interest and penalties imposed with respect to such taxes) and Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For this purpose, Executive shall be deemed to be in the highest marginal rate of Federal, state and local taxes. This payment shall be made as soon as possible following the date of Executive's termination of employment, but in no event later than thirty (30) calendar days of such date. In the event the Gross-Up Payment shall fail to make Executive whole on an after-tax basis, the Gross-Up Payment shall be recalculated ("*Recalculated Gross-Up Payment*"), using Executive's actual effective tax rate, once it is known for the calendar year in which the Gross-Up Payment is made, and the Company shall reimburse Executive for the full amount of any amount by which the Recalculated Gross-Up Payment exceeds the Gross-Up Payment ("*Additional Gross-Up Payment*"). The Gross-Up Payment and any Additional Gross-Up Payment shall be paid out of the general assets of the Company. In the event the Internal Revenue Service subsequently adjusts the excise tax computation herein described, the Company shall reimburse Executive for the full amount necessary to make Executive whole on an after-tax basis (less any amounts received by Executive that Executive would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service. The Company shall reimburse Executive on an after-tax basis for all legal and accounting expenses incurred in connection with the filing of any tax return or amended tax return with respect to the Excise Tax or the amount payable under this Section 12 and any dispute with the Internal Revenue Service regarding the amount of the Excise Tax or the amount payable under this Section 12. Executive shall confer and cooperate with the Company in any such dispute with the Internal Revenue Service.

13. *Restrictive Covenants.*

(a) *Non-Competition/ Non-Solicitation.* Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its subsidiaries and affiliates and accordingly agrees as follows:

(i) During the Employment Term and for a period of two (2) years following the earlier of (A) the expiration of the Employment Term and (B) the date Executive ceases to be employed by the Company (the "*Restricted Period*"), Executive will not, directly or indirectly, engage in "*Competition*" in the "*Restricted Territory*" (as each such term is defined below). For purposes of this Section 13, the Company shall be construed to include the Company and its subsidiaries and affiliates.

(1) “*Competition*” shall mean engaging in, as an employee, director, partner, principal, shareholder, consultant, advisor, independent contractor or similar capacity, any business activity or conduct that directly competes with the business lines in which the Company is engaged both at the time of termination of employment and at the time of the determination and that during the last fiscal year ending prior to the date of such termination represented, or during the fiscal in which such termination occurs is reasonably anticipated by the Company to represent, at least five percent (5%) of the Company’s revenues (the “*Prohibited Lines*”). Notwithstanding anything else in this Section 13(a), Competition shall not include: (i) engaging in any activity with the prior written approval of the Company’s Chief Executive Officer, (ii) the employment by, or provision of services to, an investment banking firm or consulting firm that provides services to entities that are in Competition with the Company provided that Executive does not personally represent or provide services to such entities with regard to businesses in Competition with the Prohibited Lines, (iii) being employed by, or consulting for, a non-Competitive division or business unit of an entity that is in Competition with the Company (and participating in such entity’s employee equity plans) or (iv) any activities conducted after a Change in Control.

(2) “*Restricted Territory*” shall mean any geographic area in which the Company with regard to the Prohibited Lines did more than nominal business.

(ii) Notwithstanding anything to the contrary in the Agreement, Executive may, directly or indirectly, own, solely as an investment, securities of any person engaged in the business of the Company which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (A) is not a controlling person of, or a member of a group which controls, such person and (B) does not, directly or indirectly, own five percent (5%) or more of any class of securities of such person.

(iii) During the Restricted Period, Executive will not, directly or indirectly, solicit or encourage to cease to work with the Company, or directly or indirectly hire, any person who is an employee of or consultant then under contract with the Company or who was an employee of or consultant then under contract with the Company within the six (6) month period preceding such activity without the Company’s written consent.

(iv) During the Restricted Period, Executive will not, directly or indirectly, solicit, encourage or cause any client or customer of the Company to cease doing business with the Company, or to reduce the amount of business such client or customer does with the Company.

(v) Executive understands that the provisions of this Section 13(a) may limit his ability to earn a livelihood in a business similar to the business of the Company but he nevertheless agrees and hereby acknowledges that (A) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (B) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (C) such provisions are not harmful to the general public, (D) such provisions are not unduly burdensome to Executive, and (E) the consideration provided hereunder is sufficient to compensate Executive for the restrictions contained in this Section 13(a). In consideration of the foregoing and in light of Executive’s education, skills and abilities, Executive agrees that he shall not assert that, and it should not be considered that, any provisions of Section 13(a) otherwise are void, voidable or unenforceable or should be voided or held unenforceable.

(vi) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 13(a) to be reasonable, if a judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of

competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(b) *Mutual Nondisparagement.* Executive agrees (whether during or after Executive's employment with the Company) not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about the Company or its affiliates or the officers, directors, managers or shareholders of the Company or its affiliates unless giving truthful testimony under subpoena. Upon the termination of Executive's employment with the Company, the Company shall instruct its directors and senior officers not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about Executive unless giving truthful testimony under subpoena.

(c) *Code of Conduct.* Executive agrees (whether during or after Executive's employment with the Company) to abide by the terms of the Company's Code of Conduct.

(d) *Confidentiality/Company Property.* Executive shall not, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity, any "Confidential Information" (as defined below) except while employed by the Company, in furtherance of the business of and for the benefit of the Company or its affiliates, or any "Personal Information" (as defined below); *provided* that Executive may disclose such information when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company and/or its affiliates, as the case may be, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information; *provided, further*, that in the event that Executive is ordered by a court or other government agency to disclose any Confidential Information or Personal Information, Executive shall (i) promptly notify the Company of such order, (ii) at the written request of the Company, diligently contest such order at the sole expense of the Company as expenses occur, and (iii) at the written request of the Company, seek to obtain, at the sole expense of the Company, such confidential treatment as may be available under applicable laws for any information disclosed under such order. For purposes of this Section 13(d), (i) "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information relating to the business of the Company or its affiliates or customers, that, in any case, is not otherwise available to the public (other than by Executive's breach of the terms hereof) and (ii) "Personal Information" shall mean any information concerning the personal, social or business activities of the officers, directors, principals, shareholders, agents and employees of the Company or its affiliates. Upon termination of Executive's employment with the Company and its affiliates, Executive shall return all Company property, including, without limitation, files, records, disks and any media containing Confidential Information or Personal Information.

(e) *Developments.* All discoveries, inventions, ideas, technology, formulas, designs, software, programs, algorithms, products, systems, applications, processes, procedures, methods and improvements and enhancements conceived, developed or otherwise made or created or produced by Executive alone or with others, and in any way relating to the business or any proposed business of the Company or any of its affiliates of which Executive has been made aware, or the products or services of the Company or any of its affiliates of which Executive has been made aware, whether or not subject to patent, copyright or other protection and whether or not reduced to tangible form, at any time during the Employment Term ("*Developments*"), shall be the sole and exclusive property of the Company. Executive agrees to, and hereby does, assign to the Company, without any further consideration, all of Executive's right, title and interest throughout the world in and to all Developments. Executive agrees that all such Developments that are copyrightable may constitute works made for hire under the copyright laws of the United States and, as such, acknowledges that the Company or one of its affiliates, as the case may be, is the author of such Developments and owns all of the rights comprised in the copyright of such Developments and Executive hereby assigns to the Company without any

further consideration all of the rights comprised in the copyright and other proprietary rights Executive may have in any such Development to the extent that it might not be considered a work made for hire. Executive shall make and maintain adequate and current written records of all Developments and shall disclose all Developments promptly, fully and in writing to the Company promptly after development of the same, and at any time upon request.

14. *Enforcement.* Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Sections 13(a), (b), (d) and (e) herein would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, the Company shall be entitled to immediately cease paying any amounts remaining due or providing any benefits to Executive pursuant to Section 11 upon a determination by the Board that Executive has violated any provision of Section 13.

15. *Indemnification.*

(a) The Company agrees that if Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or is or was serving at the request of the Company as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board of Directors or, if greater, by the laws of the State of Indiana, against all cost, expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or other liabilities or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith, and such indemnification shall continue as to Executive even if he has ceased to be a director, member, employee or agent of the Company or other entity, with respect to acts or omissions which occurred prior to his cessation of employment with the Company, and shall inure to the benefit of Executive's heirs, executors and administrators. To the fullest extent allowed by law, the Company shall advance to Executive all reasonable costs and expenses incurred by him in connection with a Proceeding within 20 calendar days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses.

(b) Neither the failure of the Company (including its board of directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by Executive under Section 15(a) above that indemnification of Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its board of directors, independent legal counsel or stockholders) that Executive has not met such applicable standard of conduct, shall create a presumption that Executive has not met the applicable standard of conduct.

(c) During his employment with the Company and thereafter, so long as Executive may have liability arising out of his service as an officer or director of the Company, the Company agrees to continue and maintain a directors' and officers' liability insurance policy covering Executive to the maximum extent that the Company provides such coverage for its active executive officers and directors.

16. *Miscellaneous.*

(a) *Executive's and Company's Representations.* Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive does not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by

which he is bound; (ii) Executive is not a party to or bound by an employment agreement, noncompete agreement or confidentiality agreement with any other person or entity which would interfere in any material respect with the performance of his duties hereunder; and (iii) Executive shall not use any confidential information or trade secrets of any person or party other than the Company and its subsidiaries in connection with the performance of his duties hereunder. The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement, that the Agreement has been duly authorized by all necessary corporate action, that the performance of its obligations under this Agreement will not violate any agreement between it and any other person, firm or organization or any applicable law or regulation and that this Agreement is enforceable in accordance with its terms. The Company further represents that, to the knowledge of the Board and the “named executive officers” on the Company’s latest proxy statement immediately preceding the Effective Date, all financial reporting by the Company has been in compliance with all applicable requirements of law.

(b) *No Mitigation or Offset.* In the event of any termination of Executive’s employment hereunder, Executive shall be under no obligation to seek other employment or otherwise mitigate the obligations of the Company under this Agreement and there shall be no offset against any amounts due under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

(c) *GOVERNING LAW; CONSENT TO JURISDICTION.* THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED WITHIN THAT STATE, WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS OF ANY JURISDICTION WHICH WOULD CAUSE THE APPLICATION OF ANY LAW OTHER THAN THAT OF THE STATE OF NEW YORK. ANY ACTION TO ENFORCE THIS AGREEMENT AND/OR THE EXHIBITS HERETO (OTHER THAN AN ACTION WHICH MUST BE BROUGHT BY ARBITRATION PURSUANT TO SECTION 16(i)(ii)) MUST BE BROUGHT IN, AND THE PARTIES HEREBY CONSENT TO THE JURISDICTION OF, A COURT SITUATED IN WESTCHESTER COUNTY, NEW YORK. EACH PARTY HEREBY WAIVES THE RIGHTS TO CLAIM THAT ANY SUCH COURT IS AN INCONVENIENT FORUM FOR THE RESOLUTION OF ANY SUCH ACTION.

(d) *JURY TRIAL WAIVER.* THE PARTIES EXPRESSLY AND KNOWINGLY WAIVE ANY RIGHT TO A JURY TRIAL IN THE EVENT ANY ACTION ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT OR EXECUTIVE’S EMPLOYMENT WITH THE COMPANY IS LITIGATED OR HEARD IN ANY COURT.

(e) *Entire Agreement/Amendments.* This Agreement, together with the Exhibits hereto, contains the entire understanding of the parties with respect to the employment of Executive by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. Neither this Agreement nor the Exhibits hereto may be altered, modified, or amended except by written instrument signed by the parties hereto. In the event that the terms of any plan under which any award referenced in this Agreement is granted would limit or restrict in any way any right provided under this Agreement, the terms of this Agreement shall supercede the terms of such plan. Sections 12, 13, 14 and 15 survive the termination of Executive’s employment with the Company, except as otherwise specifically stated herein.

(f) *No Waiver.* The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party’s rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(g) *Severability.* In the event that one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(h) *Successors.*

(i) This Agreement is personal to Executive and shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors.

(ii) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "*Company*" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(i) *Legal Fees, Resolution of Disputes.*

(i) The Company shall reimburse to Executive, or pay directly, upon submission to the Company of a statement for services, the amount payable by Executive to an attorney of Executive's choice that Executive has retained to advise Executive with regard to the negotiation and execution of this Agreement; or payable to a financial advisor of Executive's choice with respect to advice in connection with this Agreement, *provided, however*, that (i) the fees charged by such attorney and advisor are computed at such attorney's or advisor's standard hourly rates, and (ii) such reimbursement or payment shall not exceed, in the aggregate, \$25,000.00.

(ii) *Arbitration of Disputes and Reimbursement of Legal Costs.* Any controversy or claim arising out of or relating to Section 13 of this Agreement (or the breach thereof) shall be settled by a state or federal court located in Westchester County, New York. Any controversy or claim arising out of or related to any other provision of this Agreement shall be settled by final, binding and non-appealable arbitration in Westchester County, New York by three arbitrators. Subject to the following provisions, the arbitration shall be conducted in accordance with the Commercial Rules of the American Arbitration Association (the "*Association*") then in effect. One of the arbitrators shall be appointed by the Company, one shall be appointed by Executive and the third shall be appointed by the first two arbitrators. If the first two arbitrators cannot agree on the third arbitrator within 30 days of the appointment of the second arbitrator, then the third arbitrator shall be appointed by the Association and shall be experienced in the resolution of disputes under employment agreements for CEOs of major corporations. Any award entered by the arbitrators shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrators shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. If the Executive prevails on any material issue which is the subject of such arbitration or lawsuit, the Company shall be responsible for all of the fees of the American Arbitration Association and the arbitrators (if applicable) and any expenses relating to the conduct of the arbitration or litigation (including the Company's and the Executive's reasonable attorneys' fees and expenses). Otherwise, each party shall be responsible for its own expenses relating to the conduct of the arbitration or litigation (including reasonable attorneys' fees and expenses) and shall share the fees of the American Arbitration Association and the arbitrators, if applicable, equally.

(j) *Qualification, Registration and Trading of Stock.* The Company shall take all actions as may be necessary or desirable to cause any Shares issued to Executive pursuant to any awards described in this Agreement (including upon the exercise of any such awards) to be (i) duly authorized, validly issued, fully paid and nonassessable, (ii) registered, or otherwise qualified, for sale, and for resale, under state and Federal securities laws to the extent that other Shares of the

same class are then so registered or qualified; *provided, however*, that in no event shall the Company be required to prepare and file a Form S-3 reoffer prospectus, and (iii) listed, or otherwise qualified, for trading on any securities exchange or securities market on which Shares of the same class are then listed or qualified.

(k) *Notice*. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, if sent by facsimile transmission or if mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; *provided, however*, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered; (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission, and (iii) notices sent by United States registered mail shall be deemed given two days after the date of deposit in the United States mail.

If to Executive, to such address as shall most
currently appear on the records of the
Company.

With a courtesy copy to:

Mayer, Brown, Rowe and Maw LLP
190 South LaSalle Street
Chicago, IL 60603
Fax: (312) 701-7711
Attn: Herbert W. Krueger

If to the Company, to:

ITT Industries, Inc.
4 West Red Oak Lane
White Plains, NY 10604
Fax: 914-696-2961
Attn: General Counsel

With a courtesy copy to:

Paul Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Fax: 212-757-3990
Attn: Michael J. Segal

(l) *Withholding Taxes*. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(m) *Counterparts*. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EXECUTIVE

/s/ STEVEN R. LORANGER

Steven R. Loranger

ITT INDUSTRIES, INC.

By: /s/ MARKOS I. TAMBAKERAS

Name: Markos I. Tambakeras

Title: Chairman, Compensation and Personnel Committee of the Board of Directors of
ITT Industries, Inc.

ITT INDUSTRIES, INC.

2003 EQUITY INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AWARD AGREEMENT

THIS AGREEMENT (the "Agreement"), effective as of the 28th day of June, 2004 (the "Grant Date"), by and between ITT Industries, Inc. (the "Company") and Steven R. Loranger (the "Optionee"), **WITNESSETH:**

WHEREAS, the Company and the Optionee have entered into an Employment Agreement, dated the date hereof (the "Employment Agreement"), and as an inducement for the Optionee to enter into and remain in the service of the Company and as an incentive for increased efforts during such service, the Company, through the Company's Compensation and Personnel Committee (the "Committee"), desires to provide an opportunity for the Optionee to acquire stock ownership in the Company pursuant to the provisions of the Company's 2003 Equity Incentive Plan (the "Plan");

NOW, THEREFORE, in consideration of the terms and conditions set forth in this Agreement and pursuant to the provisions of the Plan (which are incorporated herein as part of this Agreement) and any administrative rules and regulations related to the Plan as may be adopted by the Committee, the parties hereto hereby agree as follows:

1. **Option Grant.** In accordance with, and subject to, the terms and conditions of the Plan and this Agreement, the Company hereby grants to the Optionee a Nonqualified Stock Option (the "Option") to purchase from the Company all or any part of an aggregate of 125,000 shares of common stock of the Company (the "Option Shares"), at the purchase price of \$83.03 per Option Share (the "Exercise Price").

2. **Terms and Conditions.** It is understood and agreed that the Option is subject to the following terms and conditions:

(a) **Expiration Date.** The Option shall expire on the tenth (10th) anniversary of the Grant Date, or, if the Optionee's employment terminates before that date, on the date specified in subsection (e) below.

(b) **Exercise of Option.** The Option may not be exercised as to any Option Share until it has become vested in respect thereof.

(c) **Vesting.** Subject to Optionee's continued employment with the Company on each such date, the Option shall vest and become exercisable as to one third (1/3) of the Option Shares on each of the third, fourth and sixth anniversaries of the Grant Date, such that the Option is 100% vested on the sixth anniversary of the Grant Date. Notwithstanding the foregoing, the Option shall vest and become exercisable with respect to 100% of the then unvested Option Shares upon the first to occur of the following events:

(i) termination of the Optionee's employment due to Optionee's death or Disability (as defined, and subject to the provisions set forth, in the Employment Agreement), termination by the Company without Cause (as defined, and subject to the provisions set forth, in the Employment Agreement), or termination by the Optionee with Good Reason (as defined, and subject to the provisions set forth, in the Employment Agreement); or

(ii) an Acceleration Event.

(d) **Payment of Exercise Price and Tax Withholding.** Permissible methods for payment of the Exercise Price and for satisfaction of tax withholding obligations upon exercise of the Option shall be as described in Sections 6.6 and Article 14 of the Plan, or, if the Plan is amended, successor provisions. In addition to the methods of exercise permitted by Section 6.6 of the Plan, the Optionee may exercise the Option by way of a broker-assisted cashless exercise in a manner consistent with the Federal Reserve Board's Regulation T, unless the Committee determines that such exercise method is prohibited by law.

(e) Effect of Termination of Employment.

If the Optionee's employment terminates before the tenth anniversary of the Grant Date, the Option shall expire on the date set forth below, as applicable:

(i) *Termination of Optionee's Employment by the Company for Cause or by the Optionee without Good Reason.* If the Optionee's employment is terminated by the Company for Cause or by the Optionee without Good Reason, both the vested and the unvested portions of the Option shall automatically expire and cease to be exercisable on the date of the termination of the Optionee's employment.

(ii) *Termination of Optionee's Employment for any reason other than by the Company for Cause or by the Optionee without Good Reason.* If the Optionee's employment is terminated for any reason other than by the Company for Cause or by the Optionee without Good Reason, the unvested portion of the Option shall automatically expire and cease to be exercisable on the date of the termination of the Optionee's employment and the vested portion of the Option shall expire on the earlier of the first anniversary of the termination of the Optionee's employment or the tenth anniversary of the Grant Date.

(f) Compliance with Laws and Regulations. The Option shall not be exercised at any time when its exercise or the delivery of shares hereunder would be in violation of any law, rule, or regulation that the Company may find to be valid and applicable.

(g) Optionee Bound by Plan and Rules. Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by the terms and provisions thereof. Optionee agrees to be bound by any rules and regulations for administering the Plan as may be adopted by the Committee during the life of the Option; provided, however, that, in the event of any conflict between the Plan (or any rules and regulations for administering the Plan), the terms of this Agreement shall prevail and, provided further, that any dispute under this Agreement shall be deemed a dispute under the Employment Agreement and shall be subject to all of the terms and conditions of the Employment Agreement. Capitalized terms used herein and not otherwise defined shall be as defined in the Plan.

This Agreement is issued, and the Option evidenced hereby is granted, in White Plains, New York, and shall be governed and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by the undersigned Senior Vice President, as of the 28th day of June, 2004.

ITT INDUSTRIES, INC.

By: /s/ SCOTT A. CRUM

Scott A. Crum
Senior Vice President and Director,
Human Resources

OPTIONEE

/s/ STEVEN R. LORANGER

Steven R. Loranger

ITT INDUSTRIES, INC.
2003 EQUITY INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT AGREEMENT (the "*Agreement*"), dated as of June 28, 2004 (the "*Grant Date*"), between ITT Industries, Inc. (the "*Company*"), and Steven R. Loranger ("*Holder*").

RECITALS

A. The Company has adopted the ITT Industries, Inc. 2003 Equity Incentive Plan (the "*Plan*") (the terms of which are hereby incorporated by reference and made part of this Agreement).

B. The Committee appointed to administer the Plan has determined that it would be to the advantage and best interest of the Company and its shareholders to award Restricted Stock Units to Holder as an inducement for Holder to enter into and remain in the service of the Company and as an incentive for increased efforts during such service, and has advised the Company thereof and instructed the undersigned officer(s) to award such Restricted Stock Units to Holder, subject to the restrictions and conditions contained in this Agreement.

AGREEMENTS

In consideration of services to be rendered to the Company and the other mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. *Definitions.* As used in this Agreement, the following terms shall have the following definitions ascribed to them:

(a) "*Cause*" shall have the meaning ascribed to such term in Section 11(a) of the Employment Agreement.

(b) "*Disability*" shall have the meaning ascribed to such term in Section 11(b) of the Employment Agreement.

(c) "*Employment Agreement*" shall mean the Employment Agreement between the Company and Holder, dated the date hereof.

(d) "*Good Reason*" shall have the meaning ascribed to such term in Section 11(c) of the Employment Agreement.

(e) "*Qualifying Termination*" shall mean Holder's Termination of Employment due to Holder's death or Disability, by the Company without Cause or by Holder with Good Reason.

(f) "*Termination of Employment*" shall mean the time when the employee-employer relationship between Holder and the Company and its Affiliates is terminated for any reason, including a Qualifying Termination.

2. *Grant of Restricted Stock Units.* Subject to the terms and conditions of the Plan and this Agreement, the Company hereby credits 125,000 Restricted Stock Units ("*Units*") to a separate account maintained for Holder on the books of the Company (the "*Account*"). On any date, the value of each Unit shall equal the Fair Market Value of one share of the common stock of the Company, par value \$1.00 per share (a "*Share*").

3. *Vesting.*

(a) Subject to the accelerated vesting provisions set forth in Section 3(b) below, the Units shall vest, on a cumulative basis, with respect to one third (1/3) of the Units on each of the third, fourth, and sixth anniversaries of the Grant Date, so as to be 100% vested on the sixth anniversary thereof (each such date, a “*Vesting Date*”); *provided* that Holder is employed by the Company or an Affiliate of the Company on each such Vesting Date.

(b) Notwithstanding the foregoing, the Units shall vest as to:

(i) 100% of the then unvested Units in Holder’s Account upon a Qualifying Termination; or

(ii) 100% of the then unvested Units in Holder’s Account upon the occurrence of an Acceleration Event.

If Holder incurs a Termination of Employment for any reason other than due to a Qualifying Termination, all Units which have not vested at the time of such termination shall be automatically forfeited. If Holder incurs a Termination of Employment by the Company for Cause for any of the grounds described in clauses (ii), (iv) and (v) of Section 11(a) of the Employment Agreement, any vested Units that have not been settled prior to the date of such Termination of Employment shall also be automatically forfeited.

4. *Settlement.* One half (1/2) of the Units vesting on each Vesting Date shall be settled (and, upon such settlement, cease to be credited to Holder’s Account) upon such Vesting Date and the other one half (1/2) of the Units vesting on such Vesting Date shall be settled (and, upon such settlement, cease to be credited to Holder’s Account) within ten (10) days of Holder’s Termination of Employment, in either case by the issuance to Holder of one Share per vested Unit.

5. *Dividends.* If on any date the Company pays any dividend with respect to Shares (the “*Payment Date*”), then the number of Units credited to Holder’s Account shall on the Payment Date be increased by that number of Units equal to: (a) the product of (i) the number of Units in Holder’s Account as of the Payment Date and (ii) the per Share cash amount of such dividend (or, in the case of a dividend payable in Shares or in property other than cash, the per share equivalent cash value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the Payment Date. Each additional Unit, or fraction thereof, credited to Holder’s Account in accordance with the preceding sentence shall vest and be settled at the same time as the original Units to which they are attributable.

6. *Restrictions.* The Units granted hereunder may not be sold, pledged or otherwise transferred (other than by will or the laws of descent and distribution) and may not be subject to lien, garnishment, attachment or other legal process. Holder acknowledges and agrees that, with respect to each Unit credited to his Account, Holder has no voting rights with respect to the Company unless and until such Unit is settled for a Share.

7. *Taxation.* Upon the vesting of any Units, Holder shall be required to pay to the Company by check the amount of any employment tax withholding that the Company determines is required. Upon the settlement of vested Units in Shares, Holder shall be required as a condition of such settlement to pay to the Company by check the amount of any income tax withholding that the Company determines is required; *provided*, that, with the prior written consent of the Committee, Holder may elect to satisfy such income tax withholding tax obligation by having the Company withhold from the settlement that number of Shares having a Fair Market Value equal to the amount of such withholding; *provided, further*, that the number of Shares that may be so withheld by the Company shall be limited to that number of Shares having an aggregate Fair Market Value on the date of such withholding equal to the aggregate amount of Holder’s Federal and state income tax liabilities based upon the applicable minimum statutory withholding rates for Federal and state income tax purposes.

8. *No Effect on Employment.* Neither this Agreement nor the Units granted hereunder shall confer upon Holder any right to, or impose upon Holder any obligation of, continued employment with the Company and shall not in any way modify or restrict any right the Company may otherwise have to terminate such employment.

9. *Notices.* Any notice hereunder to any party shall be effective upon receipt (or refusal of receipt) and shall be in writing and delivered personally or sent by telecopy, or certified or registered mail, postage prepaid, as follows:

(a) If to the Company:

ITT Industries, Inc.
4 West Red Oak Lane
White Plains, NY 10604
Attn: General Counsel

(b) If to Holder, in accordance with the notice provisions of the Employment Agreement

or at any other address as any party shall have specified by notice in writing to the other party.

10. *Miscellaneous.*

(a) All amounts credited to Holder's Account under this Agreement shall continue for all purposes to be a part of the general assets of the Company. Holder's interest in the Account shall make Holder only a general, unsecured creditor of the Company.

(b) This Agreement, together with the Plan, constitutes the entire agreement of the parties with respect to the subject matter hereof and may not be modified or amended except by a written agreement signed by the Company and Holder. In the event that any provision of this Agreement shall conflict with any provision of the Plan, the provision of this Agreement shall control, except to the extent that the same would violate applicable law.

(c) Capitalized terms not defined herein shall have the meaning ascribed to such terms in the Plan.

(d) In the event of any corporate event or transaction described in Section 4.2 of the Plan, the Units shall be adjusted in order to prevent any dilution of the benefits to Holder. The Units shall be subject to adjustment in accordance with Section 13.2 of the Plan.

(e) No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

(f) Except as otherwise expressly provided herein, this Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns and Holder and Holder's heirs and personal representatives.

(g) If any provision of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained herein.

(h) The section headings contained herein are for the purposes of convenience only and are not intended to define or limit the contents of said sections. Except as may otherwise be expressly provided, all references herein to "Section" or "Sections" shall mean the applicable section or sections of this Agreement.

(i) Words in the singular shall be read and construed as though in the plural and words in the plural shall be read and construed as though in the singular in all cases where they would so apply.

(j) This Agreement may be executed in one or more counterparts, all of which taken together shall be deemed one original.

(k) This Agreement shall be deemed to be a contract under the laws of the State of New York and for all purposes shall be construed and enforced in accordance with the internal laws of said State without regard to the principles of conflicts of law. In the event of any dispute under this Agreement, such dispute shall be deemed a dispute under the Employment Agreement and shall be subject to all of the terms and conditions of the Employment Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

ITT INDUSTRIES, INC.

By: /s/ SCOTT A. CRUM

Scott A. Crum
Senior Vice President and Director,
Human Resources

HOLDER

/s/ STEVEN R. LORANGER

Steven R. Loranger

CERTIFICATION OF STEVEN R. LORANGER PURSUANT TO SEC. 302
OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Steven R. Loranger, became President and Chief Executive Officer of ITT Industries, Inc. on June 28, 2004 and certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITT Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEVEN R. LORANGER

Steven R. Loranger
President and Chief Executive Officer

Date: August 6, 2004

CERTIFICATION OF EDWARD W. WILLIAMS PURSUANT TO SEC. 302
OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Edward W. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITT Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ EDWARD W. WILLIAMS

Edward W. Williams
Senior Vice President and Chief
Financial Officer

Date: August 6, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ITT Industries, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven R. Loranger, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec.906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN R. LORANGER

Steven R. Loranger
President and
Chief Executive Officer

August 6, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ITT Industries, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward W. Williams, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec.906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ EDWARD W. WILLIAMS

Edward W. Williams
Senior Vice President and
Chief Financial Officer

August 6, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.