Calculation of the Parent Debt Adjustment Using Exhibit 13 [Financial Information from ITT Industries, Inc. 1st Qtr 1996 Form 10-Q]

The financial information in the Form 10-Q is not sufficient to calculate a parent debt adjustment because it does not contain the information necessary to calculate the weighted cost of debt for ITT Industries, Inc.

Therefore, the calculation of the weighted cost of debt for ITT Industries, Inc. was made using the detailed debt and interest expense information contained in the ITT Industries 1995 Annual Report furnished by PCUC in response to OPC Request for Documents No. 9. This weighted cost of debt was then applied to the ITT Industries, Inc. debt balances for the most current period ending 3/31/96 and the three month average period 12/31/95 - 3/31/96 [see page 3 of this exhibit].

Page 2 of this exhibit restates MFR Schedule C-8 to show the weighted cost of parent debt to be used to calculate the parent debt adjustment.

<u>Sample Parent Debt Adjustment Calculation</u>
MFR Schedule C-8 provides the following formula for calculating the parent debt adjustment to recoverable income tax expense:

> Weighted Cost of Parent Debt x 38.58% x Equity of Subsidiary (to C-1)

As shown on page 2 of this exhibit, the weighted cost of parent debt is 4.33% for the 3 month average period ended March 31, 1996 and 4.02% for the period ended March 31.

Using PCUC's Year End Rate Base and the most recent ITT Industries, Inc. period ended March 31, 1996:

> Water Rate Base = $21,328,443 [MFR Schedule A-1]
> PCUC Equity Ratio = 51.37% [MFR Schedule D-1]

Parent Debt Adjustment = .0402 x .3858 x .5137 x $21,328,443 = $169,925 compared to $166,952 shown on MFR Schedule C-1.

RESTATEMENT OF MFR SCHEDULE C–8 USING ITT INDUSTRIES, INC. 1stQTR 1996 CAPITAL STRUCTURE

Parent(s) Debt Information

Company: Palm Coast Utility Corporation
Docket No.: 951056–WS
Test Year Ended: 12/31/95

Florida Public Service Commission

Schedule: C–8
Page 1 of 1
Preparer: Seidman/PCUC

Explanation: Provide the information required to adjust income tax expense by by the interest expense of the parent(s) that may be invested in the equity of the applicant. If a year–end rate base is used, provide on both a year–end and and an average basis. Amounts should be parent only.

Parent's Name: ITT Industries, Inc.

Average Period, 3 Months Ended March 31, 1996

(1) Line No.	(2) Description	(3) Average Amount $(000,000)	(4) % of Total	(5) Average Cost Rate	(6) Weighted Cost
1	Equity	639	43.05%		
2	Debt	845	56.95%	7.61%	4.33%
3	Total	1,483	100.00%		4.33%

Period Ended March 31, 1996

Line No.	Description	Period End Amount $(000,000)	% of Total	Average Cost Rate	Weighted Cost
4	Equity	650	47.17%		
5	Debt	728	52.83%	7.61%	4.02%
6	Total	1,378	100.00%		4.02%

Sources:
For Column (3), lines 1,2,4 & 5: ITT Industries, Inc. Form 10–K 1st Qtr 1996 [see page 6 of this exhibit]
For Column (5), lines 1 & 5: see page 3 of this exhibit.

Weighted Cost Parent Debt X 38.58% (or applicable consolidated tax rate)
X Equity of Subsidiary (To C–1)

ITTIND.WK3

ITT INDUSTRIES, INC.
DEBT & EQUITY COMPONENTS and COST OF DEBT, 1995

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	DEBT COMPONENTS						
2		Bal.	Bal.	Avg.	% of	Avg	Weighted
3	Components	12/94	12/95	Bal.	Total	Rate	Rate
4	< 6.00%	283	65	174	9.44%	6.00%	0.57%
5	6.0-7.0%	171	209	190	10.31%	6.50%	0.67%
6	7.0-8.0%	275	476	376	20.38%	7.50%	1.53%
7	8.0-9.0%	279	221	250	13.57%	8.50%	1.15%
8	9.0-10.0%	249	82	166	8.98%	9.50%	0.85%
9	> 10.0%	189	157	173	9.39%	10.00%	0.94%
10	Debt Disc.	(146)	(70)	(108)	-5.86%		0.00%
11	Commercial Paper	323	295	309	16.77%	5.59%	0.94%
12	Bank Loans, etc.	455	172	314	17.01%	5.64%	0.96%
13	Subtotals	2,078	1,607	1,843	100.00%		7.61%
14	Current Maturities	(928)	(646)	(787)			
15	Totals	1,150	961	1,056			

Source: ITT Industries, Inc. 1995 Annual Report, pages 33 & 34.
Columns (1)-(3), Lines 3-9; page 34 [Page 9 of this exhibit]
Columns (1)-(3), Lines 10,11; page 33 [page 8 of this exhibit]
Column (5), Lines 10,11; Page 33 [page 8 of this exhibit]
Columns (1)-(3), Line 14; page 34 [page 9 of this exhibit]

EXHIBIT NO. 13

WITNESS: FRANK SEIDMAN

DOCKET NO. 951056-WS

Application for rate increase by

PALM COAST UTILITY CORPORATION

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DESCRIPTION:

ITT INDUSTRIES, INC. FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1996

☐ TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission File Number 1-5627

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 _X_ No ____

As of April 23, 1996, there were outstanding 117,826,867 shares of common stock ($1 per value per share) of the registrant.

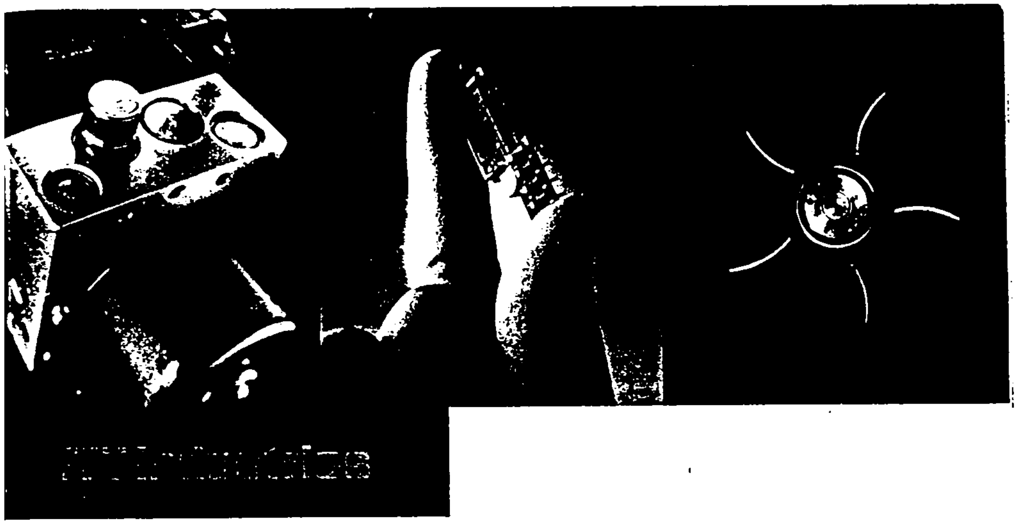
ITT INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions, except for shares and per share)

	March 31, 1996 (unaudited)	December 31, 1995
Assets		
Current Assets:		
Cash and cash equivalents	$ 17	$ 84
Receivables, net	1,337	1,267
Inventories	913	908
Other current assets	246	243
Total current assets	2,513	2,502
Plant, property, and equipment, net	2,172	2,235
Deferred U.S. income taxes	215	218
Goodwill, net	359	363
Other assets	543	561
	$ 5,802	$ 5,879
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 658	$ 781
Accrued expenses	1,070	1,072
Accrued taxes	149	162
Notes payable and current maturities of long-term debt	929	646
Total current liabilities	2,806	2,661
Pension and postretirement costs	1,094	1,101
Long-term debt	728	961 DEBT
Deferred foreign, state and local income taxes	111	121
Other liabilities	413	408
	5,152	5,252
Shareholders' Equity:		
Common stock:		
Authorized 200,000,000 shares, $1 par value per share Outstanding 117,784,803 shares and 117,068,833 shares	118	117
Capital surplus	408	399
Cumulative translation adjustments	102	111
Retained earnings	22	—
	650	627 EQUITY
	$ 5,802	$ 5,879

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

4



IT'S NOT EVERY YEAR THAT A NEW COMPANY IMMEDIATELY BECOMES A LEADER IN THREE FIELDS. 1995 WAS THAT YEAR.

ITT INDUSTRIES IS THAT COMPANY

ANNUAL REPORT 1995

would have to pay, in excess of common stock dividends, to extinguish the related ESOP debt.

Primary earnings per share is based on the weighted average of common stock and common stock equivalents. Net income applicable to primary earnings per share consists of reported net income adjusted for dividend requirements on preferred stock not considered common stock equivalents, net of the related tax benefits. The ESOP was terminated in 1995 and all ESOP series preferred stock was converted to shares of the Company's common stock (see "Employee Benefit Plans"). If the conversion had occurred on January 1, 1995, primary earnings per share for the year ended December 31, 1995 would have been $6.01.

Use of Estimates: The preparation of these consolidated financial statements required the use of certain estimates by management in determining the Company's assets, liabilities, sales, and expenses.

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

2. CHANGES IN ACCOUNTING PRINCIPLES

In 1994, the Company made several accounting changes, all of which were included in cumulative effect of accounting changes and related solely to Discontinued Operations. During the first quarter of 1994, the Company adopted SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS 115, the Company's portfolios were classified as "available for sale" and accordingly, investments were reflected at fair value with the corresponding impact included as a component of shareholders' equity designated "unrealized loss on securities, net of tax". At December 31, 1994, the unrealized loss on securities, net of tax was $1.4 billion.

The amortized cost basis of mortgage-backed interest-only investments that were determined to have other-than-temporary impairment losses at the time of initial adoption of SFAS 115 was written down to fair value. The writedown totaled $36 after tax or $.29 per fully diluted share.

Also, in the first quarter of 1994, the Company changed its method used to discount long-term tabular workers compensation liabilities, at its discontinued insurance segment, from a statutory interest rate to an appropriate market interest rate. A benefit of $42 after tax or $.33 per fully diluted share was recorded.

During the fourth quarter of 1994, the Company changed its method of accounting to expense certain marketing and start-up costs at ITT Educational Services, now a unit of ITT Corporation, which had previously been deferred and amortized. A charge of $17 after tax or $.13 per fully diluted share was recorded.

The Company's cash flows were not impacted by these changes in accounting principles.

3. ALCATEL N.V.

In 1992, the Company sold its 30% equity interest in Alcatel N.V. (Alcatel) to its joint venture partner, Alcatel Alsthom, resulting in a pretax gain of $942 or $622 after tax ($4.71 per fully diluted share). The Company received cash at the closing of $1.0 billion, two notes payable in 1993 and 1994 valued at $1.4 billion and 9.1 million shares of Alcatel Alsthom stock recorded at $806. The Alcatel Alsthom stock, which was contributed to ITT Corporation prior to the Distribution, was included as of December 31, 1994, in "net assets of discontinued operations" in the accompanying balance sheet.

4. RECEIVABLES

Receivables consist of the following:

	December 31, 1995	December 31, 1994
Trade	$1,254	$1,148
Accrued for completed work	41	26
Less—reserves	(38)	(36)
	$1,257	$1,138

5. INVENTORIES

Inventories consist of the following:

	December 31, 1995	December 31, 1994
Finished goods	$ 417	$ 452
Work in process	421	480
Raw materials and supplies	333	355
Less—reserves	(85)	(97)
—progress payments	(178)	(200)
	$ 908	$ 990

6. OTHER CURRENT ASSETS

At December 31, 1995, other current assets consist primarily of tax refund claims, advance payments on contracts, and other prepaid expenses. At December 31, 1994, other current assets consist mainly of prepaid expenses.

7. PLANT, PROPERTY, AND EQUIPMENT

Plant, property, and equipment consist of the following:

	December 31, 1995	December 31, 1994
Land and improvements	$ 115	$ 106
Buildings and improvements	888	788
Machinery and equipment	3,425	3,224
Construction work in progress	297	262
Other	330	249
	5,055	4,629
Less — accumulated depreciation and amortization	(2,820)	(2,515)
	$2,235	$2,114

8. OTHER ASSETS

At December 31, 1995, other assets consist primarily of prepaid pension and employee benefit plan costs, tax refund claims, and expected recoveries from third parties in relation to environmental and other claims. At December 31, 1994, other assets consist mainly of prepaid pension and employee benefit plan costs and tax refund claims.

9. INCOME TAX

Income tax data from continuing operations is as follows:

	1995	1994	1993
Pretax income			
U.S.	$ (81)	$187	$104
Foreign	152	162	96
	$ 71	$349	$200
Provision for income tax			
Current			
U.S. Federal	$ 9	$171	$160
State and local	8	3	8
Foreign	38	83	32
	55	257	200
Deferred			
U.S. Federal	(28)	(98)	(122)
Foreign and other	23	(12)	(13)
	(5)	(110)	(135)
	$ 50	$147	$ 65

No provision was made for U.S. taxes payable on accumulated undistributed foreign earnings of approximately $456 since these amounts are permanently reinvested.

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

The December 31, 1995 and 1994 balance sheets include net U.S. Federal deferred tax assets of $218 and $161, respectively, and net foreign and other deferred tax liabilities of $121 and $90, respectively.

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

	December 31, 1995 U.S. Federal	1995 Foreign & Other	1994 U.S. Federal	1994 Foreign & Other
Employee benefits	$119	$ 30	$111	$ 32
Accelerated depreciation	(42)	(172)	(28)	(165)
Reserves	120	40	83	16
Other	21	(19)	(5)	27
	$218	$(121)	$161	$(90)

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

	1995	1994	1993
Tax provision at U.S. statutory rate	$ 25	$122	$ 70
Foreign tax rate differential	2	14	(9)
Taxes on repatriation of foreign earnings	19	9	13
Tax basis differential on dispositions	—	—	(20)
State income taxes, net of Federal benefit	5	1	5
Other	(1)	1	6
Income tax expense	$ 50	$147	$ 65

10. DEBT

Debt consists of the following:

	December 31, 1995	December 31, 1994
Commercial paper	$ 295	$ 323
Bank loans and other short-term	172	455
Long-term	1,140	1,300
ESOP debt	—	562
	1,607	2,640
Less — current maturities	(646)	(928)
	$ 961	$1,712

The fair value of the Company's commercial paper and bank loans and other short-term loans approximates carrying value. The weighted average interest rate for commercial paper was 5.76% and 5.41% at December 31, 1995 and 1994, respectively. The weighted average interest rate for bank loans and other short-term borrowings was 5.39% and 5.88% at December 31, 1995 and 1994, respectively. The estimated fair value of long-term debt at December 31, 1995 and 1994 was $1.2 billion and $1.4 billion, respectively, based on discounted cash flows using the Company's incremental borrowing rates

AVG 5.64%

AVG 5.59%

Docket No. 95056-WS
Frank Seidman
Late Filed Exhibit 14
Page 8 Of 9

for similar arrangements. Bank loans and other short-term debt are drawn down under lines of credit, some of which extend for a fixed term of several years. In November 1995, the Company entered into two new revolving credit agreements with terms ranging from one to five years with 61 domestic and foreign banks providing aggregate commitments of $3.0 billion. These commitments, which were unused at December 31, 1995, were made to ITT Industries and certain of its subsidiaries and are intended to assure their working capital needs and to support their commercial paper. The interest rate for borrowings under these agreements is generally based on the London Interbank Offered Rate (LIBOR), plus a spread dependent on the Company's debt rating. The provisions of these agreements require the Company to maintain certain financial ratios and restrict indebtedness. Commitment fees on these revolving credit agreements range from .045% to .150% of the total commitment, based on the Company's debt ratings from the previous quarter.

Long-term debt maturities and interest rate percentages as of December 31, 1995 were:

	Below 6.0	6.0–6.99	7.0–7.99	8.0–8.99	9.0–9.99	Over 10.0	Total
1996	$ 54	$ 1	$ 29	$ 80	$ 1	$ 14	$ 179
1997	7	1	160	—	27	112	307
1998	1	10	—	37	—	—	48
1999	1	—	—	28	—	31	60
2000	1	63	—	—	—	—	64
Thereafter	1	134	287	76	54	—	552
Total–1995	$ 65	$209	$476	$221	$ 82	$157	$1,210
Total–1994	$283	$171	$275	$279	$249	$189	$1,446

~~The above balances as of December~~ 31, 1995 and 1994 include amortizable debt discounts of $70 and $146, respectively. Assets pledged to secure indebtedness (including mortgage loans) amounted to approximately $15 as of December 31, 1995.

ESOP debt of $562 as of December 31, 1994, was included in the balance sheet due to the Company's guarantee of its repayment by the ESOP and was offset by a reduction in shareholders' equity as deferred compensation and was at fixed rates ranging between 8.4% and 8.8% and was repaid in 1995 with the proceeds from the sale of common shares held by the ESOP trustee (see "Employee Benefit Plans").

11. EARLY EXTINGUISHMENT OF DEBT

In July 1995, the Company announced the successful completion of a tender offer for an aggregate of $4.1 billion of its debt securities, with $3.4 billion, or 82% of the aggregate principal amount, having been tendered. The tender offer was financed with the proceeds of commercial paper borrowings of approximately $3.7 billion. The tender offer resulted in the Company paying a tender premium of $307 after tax ($472 pretax) or $2.61 per fully diluted share in the third quarter of 1995 which has been recorded as an extraordinary loss on the early extinguishment of debt. In 1993, fixed rate debt was retired, resulting in an extraordinary loss of $50 after tax, or $.38 per fully diluted share.

12. CAPITAL STOCK

ITT Industries has authority to issue an aggregate of 250,000,000 shares of capital stock, of which 200,000,000 have been designated as "Common Stock" having a par value of $1 per share and 50,000,000 have been designated as "Preferred Stock" not having any par or stated value. Of the shares of Preferred Stock, 300,000 shares have initially been designated as "Series A Participating Cumulative Preferred Stock". Such Series A Preferred Stock will be issuable pursuant to the provisions of a Rights Agreement dated as of November 1, 1995 between ITT Industries and The Bank of New York, as Rights Agent.

In 1995, the Company repurchased 377,202 common shares for $35. During 1994, the Company repurchased 12,288,516 common shares for $1.0 billion. The excess over par value was charged to capital surplus to the extent available and then to retained earnings. In 1993, a total of 3,588,008 common shares were repurchased for $310.

At December 31, 1994, there were 8,756,883 shares of ESOP series preferred stock outstanding with a stated value of $653. In 1995, the Company terminated the ESOP portion of the Company's Investment and Savings Plan and the trustee of the ESOP converted the preferred stock held by the trustee to 9,660,766 shares of the Company's common stock.

At December 31, 1994 there were 545,546 Series N preferred shares outstanding with a stated value of $2. These shares were redeemed on August 29, 1995.

As of December 31, 1995, there were 7,627,461 shares of common stock reserved in connection with incentive stock plans. In addition, shares held in treasury totaled 28,079,175.

13. FOREIGN CURRENCY

Translation adjustments recorded in a separate component of shareholders' equity were:

	December 31, 1995	1994	1993
Balance—Beginning of year	$(113)	$(206)	$ (92
Translation of foreign currency financial statements	31	110	(125)
Hedges of net foreign investments	(1)	(17)	11
Distribution of ITT Corporation and ITT Hartford	194	—	—
Balance—End of year	$ 111	$(113)	$(206)

14. LEASES AND RENTALS

As of December 31, 1995, minimum rental commitments under operating leases were $91, $84, $67, $49, and $38 for 1996, 1997, 1998, 1999, and 2000, respectively. For the remaining years, such commitments amounted to $68, aggregating total minimum lease payments of $397.

Rental expenses for operating leases were $87, $74, and $69 for 1995, 1994, and 1993, respectively.

15. MISCELLANEOUS INCOME (EXPENSE)

Miscellaneous income (expense) includes the following:

	1995	1994	1993
Provision for gain (loss) on disposition of businesses	$(235)	$(18)	$ 3
Other expense	(5)	(3)	—
	$(240)	$(21)	$ 3

16. EMPLOYEE BENEFIT PLANS

Pension Plans—The Company and its subsidiaries sponsor numerous pension plans. The Company funds employee pension benefits, except in some countries outside the U.S. where funding is not required. The plans' assets are comprised of a broad range of domestic and foreign securities, fixed income investments, and real estate.

Total pension expense for 1995, 1994, and 1993 was:

	1995	1994	1993
Defined Benefit Plans			
Service cost	$ 68	$ 78	$ 71
Interest cost	240	218	214
Return on assets	(426)	(44)	(414)
Net amortization and deferral	228	(130)	234
Net periodic pension cost	110	122	105
Other Pension Cost			
Defined contribution (savings) plans	15	14	13
Other	4	4	4
Total Pension Expense	$129	$140	$122

U.S. pension expense included in the net periodic pension cost in the table above were $43, $60, and $49 for 1995, 1994, and 1993, respectively. Discontinued Operations accounted for $10, $18, and $20, for 1995, 1994, and 1993, respectively, of the U.S. pension expense.

The following table sets forth the funded status of the Company's pension plans, amounts recognized in the Company's balance sheets, and the principal weighted average assumptions inherent in their determination:

	December 31, 1995 Domestic	December 31, 1995 Foreign	December 31, 1994 Domestic	December 31, 1994 Foreign
Actuarial present value of benefit obligations:				
Vested benefit obligation	$2,153	$ 829	$1,820	$ 691
Accumulated benefit obligation	$2,266	$ 859	$1,909	$ 720
Projected benefit obligation	$2,424	$ 936	$2,064	$ 785
Plan assets at fair value	2,243	193	1,902	221
Projected benefit obligation in excess of plan assets	(181)	(743)	(162)	(564)
Unrecognized net (gain)/loss	321	(9)	225	(55)
Unrecognized net (asset)/obligation	(26)	31	(35)	32
Pension asset (liability) recognized in the balance sheet	$ 114	$(721)	$ 28	$(587)
Discount rate	7.50%	7.66%	8.50%	8.31%
Rate of return on invested assets	9.75%	9.22%	9.75%	8.78%
Salary increase assumption	5.00%	4.23%	4.94%	4.34%

For substantially all domestic plans, assets exceed accumulated benefits, and for substantially all foreign plans, accumulated benefits exceed the related assets.

Investment and Savings Plan—The ITT Investment and Savings Plan for Salaried Employees included an Employee Stock Ownership Plan (ESOP) feature. In 1989, the Company sold to the ESOP 9,384,951 shares of a new series of cumulative preferred stock at a price of $74.5875 per share, which was financed through borrowings by the ESOP guaranteed by the Company. Shares were allocated to participants as a percent of each covered employee's salary and respective contribution.

In connection with the Distribution, the Company terminated the ESOP portion of the ITT Investment and Savings Plan for Salaried Employees. As a result of the termination, in 1995, the trustee of the ESOP converted the preferred stock held by the trustee to Company common stock. The trustee then completed the sale of 5.3 million shares into the open market. The sales proceeds were used to repay the debt associated with the ESOP and the remainder was allocated pro rata to participants in the Plan. The Company changed the name of the Plan to the ITT Industries Investment and Savings Plan for Salaried Employees and will transfer the balances related to employees of ITT Corporation and ITT Hartford to plans created by those companies.

Postretirement Health and Life—The Company and its subsidiaries provide health care and life insurance benefits for certain eligible retired employees.