CURTISS WRIGHT CORP
Form 10-Q
July 30, 2015

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

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015

or

o 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 1-134

CURTISS-WRIGHT CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	13-0612970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
13925 Ballantyne Corporate Place, Suite 400, Charlotte, North Carolina	28277
(Address of principal executive offices)	(Zip Code)

(704) 869-4600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period of time that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No o

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

Large accelerated filer ý		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $1.00 per share: 46,924,807 shares (as of June 30, 2015).

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2015	2014	2015	2014
Net Sales				
Product sales	$439,871	$457,873	$885,558	$894,100
Service sales	105,323	111,325	205,835	218,057
Total net sales	545,194	569,198	1,091,393	1,112,157
Cost of Sales				
Cost of product sales	287,685	299,525	580,694	588,459
Cost of service sales	75,158	71,442	137,252	140,853
Total cost of sales	362,843	370,967	717,946	729,312
Gross profit	182,351	198,231	373,447	382,845
Research and development expenses	(15,321)	(17,364)	(30,583)	(34,241)
Selling expenses	(29,105)	(32,099)	(60,193)	(64,730)
General and administrative expenses	(72,483)	(76,609)	(144,394)	(150,681)
Operating income	65,442	72,159	138,277	133,193
Interest expense	(8,985)	(8,986)	(17,981)	(18,041)
Other income, net	(37)	(23)	444	89
Earnings from continuing operations before income taxes	56,420	63,150	120,740	115,241
Provision for income taxes	(16,299)	(20,141)	(37,396)	(35,802)
Earnings from continuing operations	40,121	43,009	83,344	79,439
Loss from discontinued operations, net of taxes	(14,384)	(6,618)	(41,616)	(7,884)
Net earnings	$25,737	$36,391	$41,728	$71,555
Basic earnings per share				
Earnings from continuing operations	$0.85	$0.90	$1.76	$1.65
Loss from discontinued operations	(0.31)	(0.14)	(0.88)	(0.16)
Total	$0.54	$0.76	$0.88	$1.49
Diluted earnings per share				
Earnings from continuing operations	$0.83	$0.87	$1.72	$1.62
Loss from discontinued operations	(0.30)	(0.13)	(0.86)	(0.16)
Total	$0.53	$0.74	$0.86	$1.46
Dividends per share	0.13	0.13	0.26	0.26
Weighted-average shares outstanding:				
Basic	47,224	48,175	47,466	48,055
Diluted	48,258	49,239	48,487	49,160

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net earnings	$25,737	$36,391	$41,728	$71,555
Other comprehensive income (loss)				
Foreign currency translation, net of tax (1)	$31,881	$17,737	$(24,592)	$7,820
Pension and postretirement adjustments, net of tax (2)	2,366	914	4,769	1,700
Other comprehensive income (loss), net of tax	34,247	18,651	(19,823)	9,520
Comprehensive income	$59,984	$55,042	$21,905	$81,075

(1) The tax benefit included in other comprehensive income for foreign currency translation adjustments for the three and six months ended June 30, 2015 were $0.7 million and $2.9 million, respectively. The tax benefit included in other comprehensive income for foreign currency translation adjustments for the three and six months ended June 30, 2014 were and $0.4 million and $0.7 million, respectively.

(2) The tax expense included in other comprehensive income for pension and postretirement adjustments for the three and six months ended June 30, 2015 were $1.4 million and $2.7 million, respectively. The tax expense included in other comprehensive income for pension and postretirement adjustments for the three and six months ended June 30, 2014 were and $0.5 million and $0.9 million, respectively.

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands, except share data)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$244,980	$450,116
Receivables, net	523,212	495,480
Inventories, net	400,670	388,670
Deferred tax assets, net	43,156	44,311
Assets held for sale	14,761	147,347
Income taxes receivable	75,894	5,583
Other current assets	31,974	39,568
Total current assets	1,334,647	1,571,075
Property, plant, and equipment, net	433,747	458,919
Goodwill	991,283	998,506
Other intangible assets, net	333,992	349,227
Other assets	18,942	21,784
Total assets	$3,112,611	$3,399,511
Liabilities		
Current liabilities:		
Current portion of long-term and short-term debt	$1,039	$1,069
Accounts payable	138,134	152,266
Accrued expenses	112,304	145,938
Income taxes payable	6,137	22,472
Deferred revenue	154,578	176,693
Liabilities held for sale	1,750	35,392
Other current liabilities	51,199	38,163
Total current liabilities	465,141	571,993
Long-term debt	948,957	953,279
Deferred tax liabilities, net	105,844	51,554
Accrued pension and other postretirement benefit costs	71,463	226,687
Long-term portion of environmental reserves	14,606	14,911
Other liabilities	98,000	102,654
Total liabilities	1,704,011	1,921,078
Contingencies and commitments (Note 13)		
Common stock, $1 par value, 100,000,000 shares authorized at June 30, 2015 and December 31, 2014; 49,189,702 shares issued at June 30, 2015 and December 31, 2014; outstanding shares were 46,924,807 at June 30, 2015 and 47,904,518 at December 31, 2014	49,190	49,190
Additional paid in capital	154,541	158,043
Retained earnings	1,498,742	1,469,306
Accumulated other comprehensive loss	(148,234)	(128,411)
Common treasury stock, at cost (2,264,895 shares at June 30, 2015 and 1,285,184 shares at December 31, 2014)	(145,639)	(69,695)
Total stockholders’ equity	1,408,600	1,478,433

Total liabilities and stockholders' equity	$3,112,611	$3,399,511

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
(In thousands)	2015	2014
Cash flows from operating activities:		
Net earnings	$41,728	$71,555
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation and amortization	51,538	61,386
(Gain)/loss on sale of businesses	13,498	7,106
(Gain)/loss on fixed asset disposals	(669)	389
Deferred income taxes	17,038	10,695
Share-based compensation	4,626	4,286
Impairment of assets held for sale	40,813	—
Change in operating assets and liabilities, net of businesses acquired and divested:		
Accounts receivable, net	(29,713)	(19,801)
Inventories, net	(15,889)	(29,604)
Progress payments	(2,255)	(7,164)
Accounts payable and accrued expenses	(56,781)	(26,567)
Deferred revenue	(22,115)	20,430
Income taxes	(30,962)	1,924
Net pension and postretirement liabilities	(138,696)	(15,545)
Other current and long-term assets and liabilities	16,569	5,327
Net cash provided by (used for) operating activities	(111,270)	84,417
Cash flows from investing activities:		
Proceeds from sales and disposals of long lived assets	837	328
Proceeds from divestitures, net of cash sold and transaction costs	22,730	52,098
Additions to property, plant, and equipment	(15,689)	(35,996)
Acquisition of businesses, net of cash acquired	(13,228)	(34,362)
Additional consideration on prior period acquisitions	(436)	(230)
Net cash used for investing activities	(5,786)	(18,162)
Cash flows from financing activities:		
Borrowings under revolving credit facility	27,394	362,563
Payment of revolving credit facility	(27,425)	(413,203)
Repurchases of common stock	(97,114)	(23,911)
Proceeds from share-based compensation	9,253	26,476
Dividends paid	(6,184)	(6,277)
Other	281	—
Excess tax benefits from share-based compensation plans	3,790	6,657
Net cash used for financing activities	(90,005)	(47,695)
Effect of exchange-rate changes on cash	1,925	286
Net increase (decrease) in cash and cash equivalents	(205,136)	18,846
Cash and cash equivalents at beginning of period	450,116	175,294
Cash and cash equivalents at end of period	$244,980	$194,140
Supplemental disclosure of non-cash activities:		
Capital expenditures incurred but not yet paid	$347	$1,371
Property and equipment acquired under build to suit transaction	$—	$12,376

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
December 31, 2013	$49,190	$150,618	$1,380,981	$25,259	$(53,343)
Net earnings	—	—	113,338	—	—
Other comprehensive loss, net of tax	—	—	—	(153,670)	—
Dividends paid	—	—	(25,013)	—	—
Restricted stock	—	(722)	—	—	3,155
Stock options exercised, net of tax	—	311	—	—	45,049
Other	—	(430)	—	—	430
Share-based compensation	—	8,266	—	—	234
Repurchase of common stock	—	—	—	—	(65,220)
December 31, 2014	$49,190	$158,043	$1,469,306	$(128,411)	$(69,695)
Net earnings	—	—	41,728	—	—
Other comprehensive loss, net of tax	—	—	—	(19,823)	—
Dividends declared	—	—	(12,292)	—	—
Restricted stock	—	(5,793)	—	—	8,206
Stock options exercised, net of tax	—	(1,467)	—	—	12,097
Other	—	(573)	—	—	573
Share-based compensation	—	4,331	—	—	294
Repurchase of common stock	—	—	—	—	(97,114)
June 30, 2015	$49,190	$154,541	$1,498,742	$(148,234)	$(145,639)

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

Curtiss-Wright Corporation and its subsidiaries (the “Corporation” or the “Company”) is a diversified multinational manufacturing and service company that designs, manufactures, and overhauls precision components and provides highly engineered products and services to the aerospace, defense, automotive, shipbuilding, processing, oil, petrochemical, agricultural equipment, railroad, power generation, security, and metalworking industries.

The unaudited condensed consolidated financial statements include the accounts of Curtiss-Wright and its majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated.

The unaudited condensed consolidated financial statements of the Corporation have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted as permitted by such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of these financial statements.

Management is required to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities in the accompanying financial statements. Actual results may differ from these estimates. The most significant of these estimates includes the estimate of costs to complete long-term contracts under the percentage-of-completion accounting methods, the estimate of useful lives for property, plant, and equipment, cash flow estimates used for testing the recoverability of assets, pension plan and postretirement obligation assumptions, estimates for inventory obsolescence, estimates for the valuation and useful lives of intangible assets, legal reserves, and the estimate of future environmental costs. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Accordingly, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate.

During the second quarter of 2015, the Corporation recorded additional costs of $11.5 million related to its long-term contract with Westinghouse to deliver reactor coolant pumps (RCPs) for the AP1000 nuclear power plants in China. The increase in costs is due to a change in estimate related to production modifications that are the result of engineering and endurance testing. During the three and six month periods ended June 30, 2015 and 2014, there were no other individual significant changes in estimated contract costs.

In the opinion of management, all adjustments considered necessary for a fair presentation have been reflected in these financial statements.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s 2014 Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of trends or of the operating results for a full year.

Changes in Segment Presentation

In 2015, the Corporation revised its reportable segments as a result of previously announced discontinued operations to: Commercial/Industrial, Defense, and Power. Prior period financial information has been reclassified to conform to the current period presentation. See Note 11 for more information on the Corporation's reportable segments.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Recent accounting pronouncements

Standard	Description	Effect on the financial statements
ASU 2014-09 Revenue from contracts with customers Date of adoption: January 1, 2018	In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective adoption, with early adoption permitted as of January 1, 2017.	The Corporation is currently evaluating the impact of the adoption of this standard on its Consolidated Financial Statements.
ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs Date of adoption: January 1, 2016	In April 2015, the FASB issued guidance which changes the presentation of debt issuance costs in financial statements. An entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense.	The Corporation does not expect the standard to have a significant impact on its Consolidated Financial Statements.

2. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

As part of a strategic portfolio review conducted in 2014, the Corporation identified certain businesses it considered non-core. The Corporation considers businesses non-core when the business' products or services do not complement its existing businesses and where the long-term growth and profitability prospects are below the Corporation's expectations. As part of this initiative, the Corporation divested one business in the first quarter of 2015 and one business in the second quarter of 2015 that were previously classified as held for sale. The results of operations of these businesses are reported as discontinued operations within our Condensed Consolidated Statements of Earnings and prior year amounts have been restated to conform to the current year presentation.

Discontinued Operations

The aggregate financial results of all discontinued operations and assets classified as held for sale for the three and six months ended June 30, were as follows:

	Three Months Ended	Six Months Ended
(In thousands)	June 30,	June 30,

	2015	2014	2015	2014
Net sales	$23,025	$100,363	$57,284	$198,816
Earnings / (loss) from discontinued operations before income taxes [(1)]	153	(2,961)	(39,959)	(4,941)
Income tax benefit / (expense)	(3,759)	767	8,956	1,481
Gain / (loss) on sale of businesses [(2)]	(10,778)	(4,424)	(10,613)	(4,424)
Earnings / (loss) from discontinued operations	$(14,384)	$(6,618)	$(41,616)	$(7,884)

[(1)] Loss from discontinued operations before income taxes includes approximately $41 million of Held for sale impairment expense in the six months ended June 30, 2015.

[(2)] Net of tax benefit for the three and six months ended June 30, 2015 of $3.1 million, respectively.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Assets held for sale

During the third quarter of 2014, the Corporation committed to a plan to sell two surface technology treatment facilities and its Engineered Packaging business. In July 2015, the Corporation sold the assets and liabilities of its Engineered Packaging business for approximately $13 million. As of June 30, 2015, these businesses continue to be classified as held for sale and their results of operations are presented as discontinued operations in the Condensed Consolidated Statement of Earnings.

The following table outlines the net sales and earnings/(loss) before income taxes attributable to the assets held for sale for the three and six months ended June 30.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net Sales				
Surface Technologies - Domestic	$926	$1,157	$2,036	$2,485
Engineered Packaging	3,952	4,299	8,329	10,447
Total included in discontinued operations	$4,878	$5,456	$10,365	$12,932
Earnings / (loss) before income taxes				
Surface Technologies - Domestic	$(434)	$(144)	$(396)	$21
Engineered Packaging	178	173	283	1,220
Total included in discontinued operations	$(256)	$29	$(113)	$1,241

Divestitures and facility closures

During the second quarter of 2015, the Corporation completed the divestiture of its Downstream oil and gas business for $19 million, net of transaction costs. The business had previously been classified within assets held for sale and had recorded impairment charges of $40 million during the first quarter. In connection with the second quarter sale, the Corporation realized an additional pre-tax loss on divestiture of $14 million.

On January 9, 2015, the Corporation sold the assets of its Aviation Ground support business for £3 million ($4 million).

During the year ended December 31, 2014, the Corporation disposed of four businesses aggregating to cash proceeds of $153 million. The divestitures resulted in aggregate pre-tax losses in excess of $29 million, and tax benefits of approximately $7 million. During 2014, the Corporation also closed three international manufacturing facilities in its Surface Technologies business.

Net sales and earnings/(loss) before income taxes attributable to divestitures and facility closures for the three and six months ended June 30 were as follows:

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
(In thousands)	2015	2014	2015	2014
Net Sales	$18,147	$94,907	$46,919	$185,884
Earnings / (loss) before income taxes	409	(2,990)	(39,846)	(6,182)

3. ACQUISITIONS

2015 Acquisitions

Bolt's Metallizing, Inc.

On March 16, 2015, the Corporation acquired certain assets and assumed certain liabilities of Bolt's Metallizing, Inc. for $13.2 million in cash. The Asset Purchase Agreement contains a purchase price adjustment mechanism and representations and warranties customary for a transaction of this type, including a portion of the purchase price held back as security for potential indemnification claims against the seller. Bolt's Metallizing is a provider of thermal spray coatings for critical aerospace applications, including high velocity oxygen fuel (HVOF) and plasma spray coating capabilities. The acquired business will operate within Curtiss-Wright's Commercial/Industrial segment.

There have been no significant purchase price adjustments to our 2014 acquisitions since December 31, 2014.

4. RECEIVABLES

Receivables primarily include amounts billed to customers, unbilled charges on long-term contracts consisting of amounts recognized as sales but not billed, and other receivables. Substantially all amounts of unbilled receivables are expected to be billed and collected within one year. An immaterial amount of unbilled receivables are subject to retainage provisions. The amount of claims and unapproved change orders within our receivables balances are immaterial.

The composition of receivables is as follows:

(In thousands)	June 30, 2015	December 31, 2014
Billed receivables:		
Trade and other receivables	$384,528	$363,241
Less: Allowance for doubtful accounts	(6,646)	(5,619)
Net billed receivables	377,882	357,622
Unbilled receivables:		
Recoverable costs and estimated earnings not billed	155,674	150,526
Less: Progress payments applied	(10,344)	(12,668)
Net unbilled receivables	145,330	137,858
Receivables, net	$523,212	$495,480

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. INVENTORIES

Inventoried costs contain amounts relating to long-term contracts and programs with long production cycles, a portion of which will not be realized within one year. Long-term contract inventory includes an immaterial amount of claims or other similar items subject to uncertainty concerning their determination or realization. Inventories are valued at the lower of cost or market. The composition of inventories is as follows:

(In thousands)	June 30, 2015	December 31, 2014
Raw materials	$218,262	$201,998
Work-in-process	85,366	89,423
Finished goods and component parts	113,081	103,831
Inventoried costs related to long-term contracts	50,134	59,070
Gross inventories	466,843	454,322
Less: Inventory reserves	(51,889)	(51,435)
Progress payments applied	(14,284)	(14,217)
Inventories, net	$400,670	$388,670

Inventoried costs related to long-term contracts include capitalized contract development costs related to certain aerospace and defense programs of $30.4 million and $33.9 million, as of June 30, 2015 and December 31, 2014, respectively. These capitalized costs will be liquidated as production units are delivered to the customers. As of June 30, 2015 and December 31, 2014, $3.0 million and $7.2 million, respectively, are scheduled to be liquidated under existing firm orders.

6. GOODWILL

The changes in the carrying amount of goodwill, revised to reflect the Corporation’s new segment structure, for the six months ended June 30, 2015 are as follows:

(In thousands)	Commercial/Industrial	Defense	Power	Consolidated
December 31, 2014	$ 454,092	$356,689	$187,725	$998,506
Acquisitions	4,238	—	—	4,238
Goodwill adjustments	—	1,131	—	1,131
Foreign currency translation adjustment	(3,571)	(8,781		