

CURTISS WRIGHT CORP  
Form 10-Q  
November 09, 2012

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2012

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-134

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-0612970  
(I.R.S. Employer Identification No.)

10 Waterview Boulevard  
Parsippany, New Jersey  
(Address of principal executive offices)

07054  
(Zip Code)

(973) 541-3700  
(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  No

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  No

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

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

Yes  No

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: 46,779,938 shares (as of October 31, 2012).

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES

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PART 1- FINANCIAL INFORMATION  
Item 1. Financial Statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	\$479,222	\$509,120	\$1,507,269	\$1,466,267
Cost of sales	337,806	341,788	1,042,572	990,992
Gross profit	141,416	167,332	464,697	475,275
Research and development expenses	13,267	17,705	43,965	46,431
Selling expenses	28,009	30,918	93,378	90,077
General and administrative expenses	76,774	72,602	227,889	208,084
Operating income	23,366	46,107	99,465	130,683
Interest expense	(6,648 )	(5,033 )	(19,656 )	(15,121 )
Other income (expense), net	(119 )	(35 )	113	42
Earnings from continuing operations before income taxes	16,599	41,039	79,922	115,604
Provision for income taxes	5,156	9,165	25,802	33,264
Earnings from continuing operations	11,443	31,874	54,120	82,340
Discontinued operations, net of taxes				
Earnings from discontinued operations	-	2,619	3,059	5,885
Gain (loss) on divestiture	(144 )	-	18,172	-
Earnings (loss) from discontinued operations	(144 )	2,619	21,231	5,885
Net earnings	\$11,299	\$34,493	\$75,351	\$88,225
Basic earnings per share				
Earnings from continuing operations	\$0.24	\$0.69	\$1.17	\$1.78
Earnings from discontinued operations	-	0.05	0.45	0.13
Total	\$0.24	\$0.74	\$1.62	\$1.91
Diluted earnings per share				
Earnings from continuing operations	\$0.24	\$0.68	\$1.14	\$1.75
Earnings from discontinued operations	-	0.05	0.45	0.13
Total	\$0.24	\$0.73	\$1.59	\$1.88
Dividends per share	\$0.09	\$0.08	\$0.26	\$0.24
Weighted average shares outstanding:				

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Basic	46,884	46,466	46,795	46,328
Diluted	47,415	46,936	47,493	46,978

See notes to condensed consolidated financial statements

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net earnings	\$11,299	\$34,493	\$75,351	\$88,225
Other comprehensive income				
Foreign currency translation	23,614	(44,577 )	23,711	(19,367 )
Pension and postretirement adjustments	1,688	1,488	5,146	2,510
Other comprehensive income (loss), net of tax	25,302	(43,089 )	28,857	(16,857 )
Comprehensive income (loss)	\$36,601	\$(8,596 )	\$104,208	\$71,368

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except par value)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 239,546	\$ 194,387
Receivables, net	531,541	543,009
Inventories, net	355,383	313,045
Deferred tax assets, net	49,967	54,275
Other current assets	49,660	45,955
Total current assets	1,226,097	1,150,671
Property, plant, and equipment, net	438,597	442,728
Goodwill	767,825	759,442
Other intangible assets, net	247,614	261,448
Deferred tax assets, net	12,796	12,137
Other assets	12,776	9,121
Total assets	\$ 2,705,705	\$ 2,635,547
Liabilities		
Current liabilities:		
Current portion of long-term and short-term debt	\$ 127,501	\$ 2,502
Accounts payable	120,203	150,281
Dividends payable	4,234	-
Accrued expenses	117,523	105,196
Income taxes payable	10,317	4,161
Deferred revenue	199,254	206,061
Other current liabilities	36,066	43,841
Total current liabilities	615,098	512,042
Long-term debt	460,612	583,928
Deferred tax liabilities, net	25,514	24,980
Accrued pension and other postretirement benefit costs	214,855	232,794
Long-term portion of environmental reserves	19,989	19,067
Other liabilities	54,867	57,645
Total liabilities	1,390,935	1,430,456
Contingencies and commitments (Note 15)		
Stockholders' Equity		
Common stock, \$1 par value	49,190	48,879
Additional paid in capital	153,472	143,192
Retained earnings	1,227,191	1,164,041
Accumulated other comprehensive loss	(36,274 )	(65,131 )
	1,393,579	1,290,981
Less: Treasury stock, at cost	(78,809 )	(85,890 )
Total stockholders' equity	1,314,770	1,205,091



Total liabilities and stockholders' equity	\$	2,705,705	\$	2,635,547
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See notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net earnings	\$75,351	\$88,225
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	69,154	65,196
Gain on divestiture	(29,198 )	(1,195 )
Net loss (gain) on sale of assets	663	(397 )
Deferred income taxes	1,294	(1,090 )
Share-based compensation	7,469	7,545
Impairment of assets	4,836	-
Change in operating assets and liabilities, net of businesses acquired and divested:		
Accounts receivable, net	17,104	(76,910 )
Inventories, net	(36,837 )	(33,072 )
Progress payments	(9,421 )	(1,075 )
Accounts payable and accrued expenses	(28,455 )	(20,956 )
Deferred revenue	(6,807 )	20,094
Income taxes payable	2,479	7,786
Net pension and postretirement liabilities	(9,954 )	(11,329 )
Other current and long-term assets and liabilities	(3,740 )	10,000
Net cash provided by operating activities	53,938	52,822
Cash flows from investing activities:		
Proceeds from sales and disposals of long-lived assets	977	1,583
Proceeds from divestitures	52,123	8,100
Acquisitions of intangible assets	(2,439 )	(22 )
Additions to property, plant, and equipment	(56,043 )	(60,296 )
Acquisitions of businesses, net of cash acquired	(6,231 )	(132,344 )
Additional consideration of prior period acquisitions	(1,152 )	-
Net cash used for investing activities	(12,765 )	(182,979 )
Cash flows from financing activities:		
Proceeds under revolving credit facility	-	701,800
Payments of revolving credit facility	-	(587,000 )
Principal payments on debt	(76 )	(296 )
Repurchases of common stock	(4,974 )	-
Proceeds from exercise of stock options	14,113	10,669
Dividends paid	(7,967 )	(7,439 )
Excess tax benefits from share-based compensation	22	868
Net cash provided by financing activities	1,118	118,602
Effect of exchange-rate changes on cash	2,868	(1,582 )
Net increase (decrease) in cash and cash equivalents	45,159	(13,137 )
Cash and cash equivalents at beginning of period	194,387	68,119
Cash and cash equivalents at end of period	\$239,546	\$54,982
Supplemental disclosure of non-cash investing activities:		

Capital expenditures incurred but not yet paid	\$3,670	\$955
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See notes to condensed consolidated financial statements

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

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock
December 31, 2010	\$48,558	\$130,093	\$1,052,580	\$ (2,813 )	\$(88,194 )
Net earnings	-	-	126,354	-	-
Other comprehensive loss, net	-	-	-	(62,318 )	-
Dividends paid	-	-	(14,893 )	-	-
Stock options exercised, net	321	5,312	-	-	8,648
Share-based compensation	-	8,046	-	-	1,575
Repurchase of common stock	-	-	-	-	(8,178 )
Other	-	(259 )	-	-	259
December 31, 2011	\$48,879	\$143,192	\$1,164,041	\$ (65,131 )	\$(85,890 )
Net earnings	-	-	75,351	-	-
Other comprehensive income, net	-	-	-	28,857	-
Dividends declared	-	-	(12,201 )	-	-
Stock options exercised, net	311	7,247	-	-	7,619
Share-based compensation	-	3,447	-	-	4,022
Repurchase of common stock	-	-	-	-	(4,974 )
Other	-	(414 )	-	-	414
September 30, 2012	\$49,190	\$153,472	\$1,227,191	\$ (36,274 )	\$(78,809 )

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 systems 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.

On March 30, 2012, the Corporation sold its Heat Treating business to Bodycote plc. As a result of the divestiture, the results of operations for the Heat Treating business, which were previously reported as part of the Metal Treatment segment, have been reclassified as discontinued operations for all periods presented. Please refer to Footnote 3 of our Condensed Consolidated Financial Statements for further information.

The unaudited condensed consolidated financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America, which requires management 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 method, 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, warranty reserves, 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 third quarter and the nine months ended September 2012, the Corporation incurred unanticipated additional costs of \$12 million and \$20 million, respectively, on its long-term contract with Westinghouse for disassembly, inspection, and preparation for shipment costs related to the reactor coolant pumps (“RCPs”) that the Corporation is supplying for the AP1000 nuclear power plants in China. 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 2011 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

ADOPTION OF NEW STANDARDS

Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in United States of America generally accepted accounting principles (“U.S. GAAP”) and International Financial

Reporting Standards (“IFRS”)

In May 2011, new guidance was issued that amends the current fair value measurement and disclosure guidance to increase transparency around valuation inputs and investment categorization. The new guidance does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or IFRS. The new guidance is effective for annual and interim reporting periods beginning on or after December 15, 2011 and is to be adopted prospectively as early adoption is not permitted. The adoption of this guidance did not have an impact on the Corporation’s results of operations or financial condition.

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

Other Comprehensive Income: Presentation of Comprehensive Income

In June 2011, new guidance was issued that amends the current comprehensive income guidance. The new guidance allows the option of presenting the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single or continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The new guidance is to be applied retrospectively and is effective for fiscal years, and interim periods, beginning after December 15, 2011. In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance to defer the effective date for those aspects of the guidance relating to the presentation of reclassification adjustments out of accumulated other comprehensive income. The adoption of this new guidance did not have an impact on the Corporation's consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation of other comprehensive income.

Intangibles—Goodwill and Other: Testing Goodwill for Impairment

In September 2011, new guidance was issued that amends the current testing requirements of goodwill for impairment purposes. The new guidance gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The new guidance is to be applied prospectively effective for annual and interim goodwill impairment tests beginning after December 15, 2011, with early adoption permitted. The adoption of this standard did not have an impact on the Corporation's results of operations or financial condition.

2. CORRECTION OF PRIOR PERIOD ERROR

During the third quarter of 2012, as part of a recent reorganization, the Corporation identified errors related to its long-term contract accounting practices within a certain subsidiary in its Motion Control segment. The errors date back to periods prior to and including 2007 through 2011 and primarily relate to the untimely liquidation of certain labor-based inventory costs to Cost of sales resulting in an overstatement of retained earnings of \$23 million at December 31, 2011. In addition, other errors primarily related to incorrect capitalization of fixed assets were also identified. The combined errors resulted in a cumulative overstatement in Retained earnings of \$24 million at December 31, 2011 and primarily impacted Net sales, Cost of sales, and the balance sheet accounts identified in the table below.

In accordance with FASB Accounting Standards Codification ("ASC") No. 250-10-S99 ("ASC 250-10-S99"), the Corporation evaluated these errors and, based on an analysis of quantitative and qualitative factors, determined that they were not material to any one of the prior reporting periods affected and, therefore, amendment of previously filed reports with the Securities and Exchange Commission is not required.

However, if the adjustments to correct the cumulative effect of the aforementioned errors had been recorded in the three and nine months ended September 30, 2012, the impact would have been material to those two periods. Therefore, in accordance with Staff Accounting Bulletin ("SAB") 108, the Corporation has restated the prior period financial statements included within this filing as summarized below.

The Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2011, Condensed Consolidated Statements of Stockholders' Equity as of December 31, 2010 and for the year ended December 31, 2011, and the accompanying Condensed Consolidated Balance Sheets as of December 31, 2011 have been restated and retrospectively reclassified for the discontinued operations of the heat treating business as discussed in Note 3 as follows:



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

For the three months ended September 30, 2011:

	(In thousands)			
	Adjustments			
	As previously reported	Corrections	Reclassification of discontinued operations	As reclassified and restated
Net sales	\$ 515,996	\$ 2,349	\$ (9,225 )	\$ 509,120
Cost of sales	345,359	2,167	(5,738 )	341,788
Gross profit	170,637	182	(3,487 )	167,332
Operating income	50,146	182	(4,221 )	46,107
Earnings from continuing operations before income taxes	45,078	182	(4,221 )	41,039
Provision for income taxes	10,718	49	(1,602 )	9,165
Earnings from continuing operations	34,360	133	(2,619 )	31,874
Earnings from discontinued operations	-	-	2,619	2,619
Net earnings	34,360	133	-	34,493
<b>Basic earnings per share</b>				
Earnings from continuing operations	\$ 0.74	\$ -	\$ (0.05 )	\$ 0.69
Earnings from discontinued operations	-	-	0.05	0.05
Total	\$ 0.74	\$ -	\$ -	\$ 0.74
<b>Diluted earnings per share</b>				
Earnings from continuing operations	\$ 0.73	\$ -	\$ (0.05 )	\$ 0.68
Earnings from discontinued operations	-	-	0.05	0.05
Total	\$ 0.73	\$ -	\$ -	\$ 0.73

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

For the nine months ended September 30, 2011:

	(In thousands)			
	As previously reported	Adjustments Corrections	Reclassifications of discontinued operations	As reclassified and restated
Net sales	\$1,492,751	\$893	\$ (27,377 )	\$1,466,267
Cost of sales	1,004,188	4,252	(17,448 )	990,992
Gross profit	488,563	(3,359 )	(9,929 )	475,275
Operating income	143,518	(3,359 )	(9,476 )	130,683
Earnings from continuing operations before income taxes	128,447	(3,359 )	(9,484 )	115,604
Provision for income taxes	37,775	(912 )	(3,599 )	33,264
Earnings from continuing operations	90,672	(2,447 )	(5,885 )	82,340
Earnings from discontinued operations	-	-	5,885	5,885
Net earnings	90,672	(2,447 )	-	88,225
Basic earnings per share				