PARTICIPANTS

Corporate Participants

James Ryan – Director-Investor Relations, Curtiss-Wright Corp.
David Charles Adams – Chairman, President & Chief Executive Officer, Curtiss-Wright Corp.
Glenn E. Tynan – Chief Financial Officer & Vice President, Curtiss-Wright Corp.

Other Participants

Kristine Tan Liwag – Analyst, Bank of America Merrill Lynch
Michael F. Ciarmoli – Analyst, KeyBanc Capital Markets, Inc.
Myles Alexander Walton – Analyst, Deutsche Bank Securities, Inc.
Sam J. Pearlstein – Analyst, Wells Fargo Securities LLC
Ryan Curtis Cassil – Senior Industrials Analyst, Industrial Technology, Global Hunter Securities
Stephen E. Levenson – Analyst, Stifel, Nicolaus & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Curtiss-Wright Second Quarter 2015 Financial Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded. I would like to introduce your host for today's conference, Mr. Jim Ryan, Director of Investor Relations. Sir, please go ahead.

James Ryan, Director-Investor Relations

Thank you, Michelle, and good morning, everyone. Welcome to Curtiss-Wright's second quarter 2015 earnings conference call.

Joining me on the call today are Dave Adams, our Chairman and Chief Executive Officer; and Glenn Tynan, our Vice President and Chief Financial Officer. Our call today is being webcast and the press release, as well as a copy of today's financial presentation are available for download through the Investor Relations section of our company website at www.curtisswright.com. A replay of this call also can be found on the website.

Please note today's discussion will include certain projections and statements that are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are not guarantees of future performance. Forward-looking statements always involve risks and uncertainties and we detail those risks and uncertainties in our public filings with the SEC.

In addition, certain non-GAAP financial measures will be discussed on the call today. A reconciliation is available in the earnings release and at the end of the presentation and will be available on the company's website.

Finally, our discussions today of current and future results except for cash flow, are on a continuing operations basis which excludes all previously announced divestitures. In addition, any references to organic growth, exclude the effects of foreign currency translation, acquisitions, and divestitures unless otherwise noted.

Now I'd like to turn the call over to Dave to get things started. Dave?

David Charles Adams, Chairman, President & Chief Executive Officer

Thank you, Jim, and good morning, everyone.

For our agenda today, I'll begin with a brief update on recent events, followed by Glenn, who will provide an in-depth review of our second quarter financial performance along with updates to our 2015 guidance. Then I'll return to provide some additional commentary on the status of our AP1000 and margin expansion programs before we wrap up and open the call for questions.

We reported $0.83 in earnings per share in the second quarter which exceeded our expectations despite the fact that we had higher cost in the Power segment associated with the AP1000 program. As discussed on the prior earnings call, we expected to incur costs relative to the completion of the engineering and endurance testing on the AP1000 program in the first half of the year. The majority of which would be in the second quarter. We also recorded additional cost in the quarter relative to final modifications to our reactor coolant pumps. Excluding those costs, our overall operating results demonstrated solid improvement year-over-year as we continue to leverage the critical mass of One Curtiss-Wright to drive operating margin expansion.

For example, our second quarter results included a 520 basis point margin increase in our Defense segment and a 30 basis point gain in the Commercial Industrial segment despite a small drop in sales. Although we have experienced some headwinds in our industrial businesses based on the continued low oil price environment, our outlook in the industrial markets remains cautiously optimistic.

Additionally, it is worth highlighting that we repurchased $50 million worth of stock in the second quarter continuing our commitment to steady share repurchases. Overall, we remain confident and on track for a solid performance in 2015. We anticipate continued margin improvement during the second half of 2015 and are maintaining our current full year diluted EPS guidance of $3.80 to $3.90.

Now I'd like to turn the call over to Glenn to provide a more thorough review of our quarterly performance.

Glenn E. Tynan, Chief Financial Officer & Vice President

Thank you, Dave, and good morning, everyone.

I'll begin with the review of our second quarter sales by end market, where higher overall sales in defense were more than offset by a decline in overall sales in our commercial markets. In the defense markets, sales increased 9% overall and 11% organically, which excludes FX and acquisitions. Leading the way was ground defense, which increased 37% over the prior year as we continue to benefit from strong international demand for our turret drive stabilization systems. We are currently supporting several new foreign ground defense programs and recently announced the receipt of a sizeable production order on the UK's Scout Program.

In aerospace defense, higher sales of our ISR-related embedded computing products, most notably for the Joint Strike Fighter, Global Hawk UAV programs were partially offset by lower helicopter sales. In naval defense, higher order sales driven by the Block IV build Virginia-class submarines were essentially offset by lower aircraft carrier revenues. In the commercial markets, sales decreased 11% overall and 8% organically.

As expected, one of the major drivers were lower revenues on the AP1000 program in the power generation market, based primarily on lower domestic production. Within the nuclear aftermarket business, we continue to experience lower sales to existing domestic operating reactors based on ongoing deferred spending on plant maintenance and upgrades.

In the commercial aerospace market, the decline in sales was primarily driven by lower sales of avionics and flight test equipment while OEM sales were essentially flat year-over-year, as most production levels remain unchanged from 2014. And finally, sales in the general industrial market declined 10% overall in the quarter. Our results reflect a widespread impact of lower oil prices on our industrial businesses, though nearly half of the decline was due to unfavorable foreign currency translation.

In industrial valves, despite a pickup in our MRO business, we continued to experience lower sales related to timing on international oil and gas projects. In industrial vehicles, our results included higher sales of products for medium and heavy duty commercial vehicles that were more than offset by lower sales on products for hybrid and off-highway vehicles.

Moving on, I will discuss the key drivers of our second quarter operating income and margin performance. The Commercial Industrial segment produced operating margin improvement in the second quarter despite lower sales due to a combination of mix and FX. FX negatively impacted segment sales by $12 million and operating income by $1 million. Overall, segment operating income was essentially flat on a 3% decline in sales, resulting in operating margin improvement of 30 basis points to 14.9%.

This performance was driven by higher profitability in industrial vehicles despite the lower sales due to ongoing operational and margin improvement initiatives, partially offset by lower profitability and surface treatment services in industrial valves, a sizeable portion of which was due to unfavorable FX. It is worth noting that on a year-to-date basis, the Commercial Industrial segment has produced a solid 100 basis point margin expansion, as this segment remains focused on aggressively mitigating costs given the current macro environment.

In the Defense segment, operating income was up 35%, and operating margin was up 520 basis points to 20.4%. Operating income included a $3 million favorable impact of FX. Excluding that impact, organic operating income grew 21% on a 5% increase in organic sales, resulting in an organic operating margin improvement of 240 basis points to 17.6%. This strong performance was driven by continued solid growth in our embedded computing business, as well as the benefits of a newly signed international ground defense contract, which generated a solid contribution to operating margin in the quarter.

Next, in the Power segment which, as expected, was impacted by costs relative to the engineering and endurance testing on the AP1000 program. In addition, now that the design has been finalized, we accrued costs for final modifications to all 32 pumps currently in process for both China and domestic reactors. Total costs for AP1000 were $11 million in the second quarter. We expect that the significant expenditures related to design modifications are now behind us. Overall, segment operating margin was down for the quarter accordingly. However, we expect profitability in both the new build and after market nuclear businesses to significantly improve in the second half of 2015.

In summary, overall Curtiss-Wright operating income declined 9% in the second quarter which led to the 70 basis point decline in margin to 12%. On a year-to-date basis, operating income increased 4% compared to the prior year period while operating margin increased 70 basis points to 12.7% further indicating the resilience of our business model and the benefits of our diversified industrial strategy.

Moving on to our financial outlook, beginning with our end market sales; I will start with the defense markets. Now that we are halfway through 2015, the adjustments shown on the slide reflects better clarity regarding the specific programs on which our COTS embedded computing products are used. In the back half of 2015, we now expect a greater percentage will be applicable to aerospace rather than ground defense. And as a result, we made a few modifications to each of those end markets. Overall defense market guidance remains unchanged and is expected to grow between 2% and 4%.

Moving on to the commercial markets. Like many other companies we are experiencing the direct and the indirect impact of lower energy prices, particularly in some of our industrial businesses. While our overall exposure to oil and gas was significantly reduced as a result of our divestiture activity, our remaining exposure to international large projects continues to dampen our results, as these projects continue to move to the right.

During the first half of 2015, decline in project sales outweighed higher MRO sales. However, we expect this trend to reverse in the back half of the year. Reduced energy prices have not only affected our industrial valves products sold to oil and gas and petrochemical customers, also some of our on- and off-highway vehicle products, including those for hybrid and agriculture vehicles. Adding to this mix is general economic uncertainty and somewhat slower than anticipated global GDP rates. As a result, we felt it prudent to reduce our full year general industrial end market guidance from 5% to 9% down to 0% to 4%.

On a positive note, there are areas within our general industrial end market that continues to look solid for Curtiss-Wright, including increasing demand for our industrial vehicle products and services for the North American trucking and construction industries, and our MRO valves that are sold to global oil and gas and chemical customers. These industries continue to forecast solid growth in the second half of 2015. To sum up and as a result of the aforementioned tweaks to our end markets, we now expect overall Curtiss-Wright 2015 sales growth of 1% to 3%.

Next we are happy to share a new slide with you, the 2015 end market sales waterfall. Beginning with total sales, you can follow the split between commercial and defense markets in the blue boxes which then filtered down or layered to the six major end markets where we provide revenue guidance in the grey boxes. We felt this slide would help to provide a clear picture of our 2015 end market breakdown, most notably within the power generation and general industrial markets.

In power generation, approximately two thirds of our projected 2015 revenues are based on aftermarket sales to existing operating reactors. Nearly 20% is for new build which relates to revenues on the AP1000 program, as well as other new build opportunities globally. Finally the non-nuclear piece relates to surface treatment services on industrial gas turbines as well as analytical testing for the possible power generation industry.

In general industrial, the valves and vehicle businesses each represent approximately one third of our total general industrial sales. Industrial valves are split two thirds to the oil and gas and one third to the chemical and petrochemical industries. Oil and gas is further broken down as 75% MRO sales and 25% large projects.

Industrial vehicle product sales are primarily to on-highway commercial vehicles and to a lesser extent off-highway agricultural and construction as well as medical mobility markets. The surface treatment services include laser and shot peening, analytical services, and codings for automotive, construction, medical and various industrial markets. And the final category is for industrial sensors and industrial electric actuation equipment. Overall, we are pleased with our current market diversification and we hope this additional level of visibility will aid in your understanding of our end markets.

Continuing with our financial outlook by segment, the bulk of the end market guidance changes are in the general industrial market. We revised our expectations within the Commercial Industrial segment, accordingly. We have trimmed our current segment sales growth rate from 3% to 5% down to 1% to 2% to reflect the changes noted earlier. We also reduced the operating income associated with the lower sales however we bumped up margin slightly to a new range of 14.9% to 15%, as we are mitigating costs to offset some of the slowdown in our industrial markets.

In the Defense segment we continue to experience strong international demand for our turret drive stabilization systems and there also appears to be renewed interest in funding to maintain and upgrade existing domestic ground defense platforms from which we would benefit. However at this time, we are maintaining our current sales and profitability expectations for the segment. Sales in the Power segment will primarily be influenced by the AP1000 program and our expectations for nearly flat sales growth remains unchanged at this time.

Now that we've incurred the cost related to the AP1000 program in the first half of the year, we expect this segment to benefit from increased production and new China order in the second half. Overall, we continue to expect a strong second half of the year with our operating results following a similar trajectory as we have done historically. We remain on track to achieve 7% to 10% growth in total operating income and 70 basis points to 80 basis points in operating margin expansion to a range of 13.3% to 13.4%.

Moving on, we have updated some of our non-operational guidance expectations as indicated due to better than expected first half results for interest expense and effective tax rate. These adjustments help offset the reduction in segment operating income guidance noted earlier. And as Dave noted, our 2015 guidance for diluted earnings per share remains at a range of $3.80 to $3.90 which represents double-digit EPS growth over 2014.

Next to our cash flow, as a reminder and as noted on our previous conference call, we made a $145 million pension contribution that significantly impacted our first quarter reported cash flow results. We anticipate that this action will significantly lower our pension expense and eliminate the need for further cash contributions over the next five years.

Our second quarter adjusted free cash flow was $28 million lower than the prior year, due primarily to lower deferred revenues as the prior year included significant advance payments related to naval defense orders. And despite the slower first half performance, we are reiterating our free cash flow position for full year 2015, as we continue to expect an adjusted free cash flow level similar to our very strong 2014 results.

Now I'd like to turn the call back over to Dave to provide an update on our operating margin improvement initiatives and future outlook. Dave?

David Charles Adams, Chairman, President & Chief Executive Officer

Thank you, Glenn.

I'd like to spend a few minutes on the drivers of further operating margin expansion and our goal to reach and maintain upper quartile performance versus our peer group. We've come a long way in the past 18 months, as we've reshaped Curtiss-Wright through significant organizational realignment and raised the bar by setting new and transparent financial targets. We also completed several divestitures of noncore and underperforming assets which most recently included the sale of our downstream oil and gas business in the second quarter and our engineered packaging business early in the third quarter.

Outside of a few small surface treatment facilities, our pruning actions have essentially been completed and are fully reflected in our results and current guidance. We are pleased to complete the sale of these businesses which now allows the management team to increase their focus on the future. As we've stated, we are aiming to reach and then maintain our position in the upper quartile of our peer group with the ultimate goal of being at or near the top.

We're focused on improving margins and our return on invested capital by driving synergies and producing significant cost savings and I'm very confident that we'll reach our goals. At the halfway mark, we are right on track with our operating margin expansion plans. Similar to last year, we will provide an update on all of our initiatives on our February call when we have 2015 actuals and our guidance for 2016.

Regarding an update to our long-term operating margin guidance, we are not prepared to provide any target at this time. As the AP1000 program is quite significant to our future growth rates, we need to finalize the pending China order before fully resetting long-term expectations for margin growth. So for the time being, we remain committed to meeting and exceeding the 14.2% upper quartile or 75th percentile target.

Next I would like to provide an update on the AP1000 program. Overall we continue to make progress in the production of our first of a kind reactor coolant pump or RCP, supporting the AP1000 nuclear program. We have successfully completed the engineering and endurance testing phase and are now working with our customer and the Chinese as we evaluate the results of those tests. We expect to begin deliveries of our RCPs to China in the latter half of the third quarter. Regarding our next AP1000 order, we anticipate contract negotiations to resume once we begin shipping pumps and remain hopeful for the order by the end of the third quarter.

Longer term, the demand from China remains strong based on the anticipated use of nuclear power as part of its future energy mix and subsequent expansion of its nuclear reactor footprint. Curtiss-Wright is expected to play a key long-term role in support of this industry expansion.

Next, to capital allocation. Curtiss-Wright remains committed to keeping a fair balance between return of capital to shareholders, operational requirements and strategic acquisitions. We remain committed to repurchasing at least $200 million in stock this year through steady repurchases under a 10b5-1 plan as we continue to reward our shareholders. In the second quarter, we repurchased $50 million of stock, bringing the total through yesterday's trading to more than $100 million thus far in 2015.

Early in the month, we announced the expansion of our share repurchase program by $100 million up to the $300 million that was authorized by our board of directors last September. So for this year, you can expect us to repurchase the remaining $100 million under the $200 million 10b5-1 plan as well as the potential for additional opportunistic purchases up to another $100 million based on the recent expansion and market conditions.

While we have announced only one acquisition year-to-date, we have a solid pipeline of candidates that we're pursuing. Keep in mind that we have raised the bar for the types of businesses we're looking to acquire, focusing for now on smaller companies that can contribute to our long-term profitability expectations so they cannot be dilutive to overall CW. Further down the road, we would expect to also explore some potentially larger deals to bolster our top line growth projections. As a reminder, our use of our capital for operational needs includes ongoing CapEx requirements, as well as the $145 million pension payment made this year.

In addition, we will continue to invest in our business to drive long-term organic growth. We are confident that the progress we're making to more efficiently manage working capital and improve cash flow will benefit our shareholders over the long run.

In summary, we're looking forward to a strong second half and continue to expect another solid year in 2015. We're particularly pleased with the strength we're experiencing in our defense markets. We expect that at least 70 basis points in operating margin expansion and double-digit EPS growth in 2015, led by our operating margin improvement initiatives supporting the One Curtiss-Wright vision. Finally, our continued focus on margin expansion and free cash flow generation will drive Curtiss-Wright to upper quartile performance versus our peers for all of our financial metrics, and in turn, is expected to drive strong shareholder returns for years to come.

At this time, I would like to open up today's conference call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Kristine Liwag with Bank of America. Your line is open. Please go ahead.

<Q – Kristine Liwag – Bank of America Merrill Lynch>: Hi. Good morning, gentlemen.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Good morning.

<A – Dave Adams – Curtiss-Wright Corp.>: Hi, Kristine.

<Q – Kristine Liwag – Bank of America Merrill Lynch>: With your updated sales outlook for general industrial of 0% to 4%, what are you assuming for sales growth in the oil and gas MRO versus large projects?

<A – Glenn Tynan – Curtiss-Wright Corp.>: We don't have that right at our finger tips here, Kristine, at this point, at this time.

<Q – Kristine Liwag – Bank of America Merrill Lynch>: Sure. And then for the M&A pieces that you mentioned with the focus on smaller companies in the near term and then maybe larger ones later on, can you provide any sort of color on capabilities that you want to add or perhaps end markets that you want to enter?

<A – Dave Adams – Curtiss-Wright Corp.>: Yes, that's a great question, something that we look at from a strategic standpoint very often. As I indicated, we have a pretty strong pipeline filled with opportunities and they range from – there are some pretty large ones to the smaller ones. And the strategic bolt-ons that I have been talking about for the last two years now are sub-$100 million. That has been sort of the upper limit that we wanted to look at on a company by company basis.

And the areas in which we have a lot of interest are in particular defense, not shying away from that whatsoever. There's some great plays that complement what we want to move forward with in a strategic standpoint. In particular, the C4ISR area has been of interest to us and continues. Some of the UAV markets, we're very well grounded in the Global Hawk and others. And with what we have, we're able to acquire other companies that might have, let's say, bolt-on technologies that one plus one would equal three. So, those tend to be in the smaller range.

Now, as we look in other areas of the business, I still like the industrial side. We've continued to look at other areas of the vehicle that owns the cab, as it were. That's the sort of a little watch word that we use internally from a strategic perspective, saying whatever we can help the end user or our customer in terms of their efficiency and in terms of buying and or operating a big rig for example. If we could provide a whole host of electronics and/or components that go in that cab, instead of them, our customer, having to go out and source those independently and we would be on cutting edge from a technological perspective, then we feel that's a real niche filler that our customers are really looking for.

So, I look for that industrial side as being something of interest. Those two have been the primary areas. I have also made clear that we do like and continue to like the nuclear aftermarket. It's steady eddy type business. Granted, it's a little bit down right now. And that's going to change at some point in time and we have a good host of products that will fill the need when those become a revitalized part of the market. And so, in those three areas, that's the areas we have interest in.

Now relative to bigger transactions, as I indicated on my narrative in the front half here, it's really an area of interest to us to get to the point that we said we would get to and that was achieving upper quartile and against our peer type margins, op margins. And I said two years ago once we did that then we will have earned the right to grow this company with different mindset in terms of the margin expectations of those that are acquired. And that's exactly where we plan to hit. At some point, we will look for other opportunities that we are not going to overpay if we can help it. And we are certainly going to – we have a different measure by which we look at acquisitions now. They have to meet a certain bench. And so those things all add up into our grand strategy to continue to grow this company.

<Q – Kristine Liwag – Bank of America Merrill Lynch>: Great. And a final question for me. As you think about power and as you near delivery of the AP1000, how are you thinking about the cadence of long-term growth in that segment, and is there a normalized margin that you're looking at to target?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Yes. We said as soon as we get the order, Kristine, because we're still negotiating right now – I could at least tell you what we put in our guidance this year which was $13 million in sales and $3 million in operating profit as our estimate for this year, as a gauge. But until we get the order, we're not going to be able to – when we get the order, we will be able to share all of that with you but we can't do that right now since we are currently in negotiations.

<Q – Kristine Liwag – Bank of America Merrill Lynch>: Great. Thank you very much.

Operator: Thank you. And our next question comes from the line of Michael Ciarmoli with KeyBanc Capital. Your line is open. Please go ahead.

<Q – Mike Ciarmoli – KeyBanc Capital Markets, Inc.>: Hey. Good morning, guys. Thanks for taking my questions. Nice margins in the quarter. Maybe just to stay on that last line of questioning real quick, there is a lot of positive commentary coming out of China, some of the big power utilities there. But the numbers you just gave, Glenn, point to a 23% operating margin on what you've baked in for AP1000. I know you've said the first pumps between kind of the blue light special pricing, incurring all the learning curves and costs. Is that a realistic margin that we should be thinking about, 23% or is something in this initial kind of this first line of revenues you've put in for this year, is there something in there that is higher margin that's not sustainable?

<A – Glenn Tynan – Curtiss-Wright Corp.>: No, I think it is – this is an estimate we – our group down there come up with earlier in the year. It was in our guidance. So I'd say at this point, I can't say anything other than their best estimate of how the contract is going to end up. But again we're in negotiations. So we'd be able to give you that actual projection until we finalize the order.

<Q – Mike Ciarmoli – KeyBanc Capital Markets, Inc.>: Okay. And do you guys still feel comfortable? It's still on the guidance this year. It sounds like you could have this even though resuming negotiations but you guys still feel comfortable that this can be tied up here in the quarter?

<A – Dave Adams – Curtiss-Wright Corp.>: Yes. As I indicated, Mike, the order and I said on the last call as well that we had anticipated that we would get through the E&E testing and we did over the end of last quarter and that was excellent. We were very happy. We proved out the design modifications that we had made at that point. The thrust runner, bearing and so forth. The whole purpose was to go through and to really prove that we got a 60-year-life pump.

And so everybody's happy that we did accomplish that. And now as a result we are doing some tweaks and we anticipate that we are going to be shipping hardware in the very near term to China. And that was always the premise with our customer both domestic and China that once we started shipping product that met the requirement which requirement was efficiently passing the E&E testing then we would be starting resuming negotiations. So you've heard me say before I've been cautiously optimistic; I remain so. And third quarter is still what we are looking at to pick up an order as I indicated. We're going to be shipping hardware pretty soon.

<Q – Mike Ciarmoli – KeyBanc Capital Markets, Inc.>: Got it. Just on the margins in general. You're driving margin expansion with substantial top line headwinds, can you give us a sense as to what specifically is driving that improvement. Is it facility consolidation? Is it head count? Can you give us a sense as to how you're driving this improvement what aspect of that operating model improvement is really the contributor here, maybe in this current quarter?

<A – Dave Adams – Curtiss-Wright Corp.>: Yes, I'm going to give you the bigger answer, not current quarter related as much as more specific. I love the question. I honestly do. It is one that thrills me every time I get the question when I'm in one-on-ones or out with you folks and that is to be able to speak about our continuous improvement initiatives and our margin expansion initiatives that we put in place. They don't stop. And back in December of 2013 we came out with our – we called it our top ten and it was like 100 something initiatives. But that's spread over various different business units that have different drivers. And we continue to evolve it and to improve it. We haven't gone backwards which is a great part of this.

What we have created is something that we coined the CW Way and it is much akin to what we and industry know as the Danaher Way or the Toyota Production type model. We got this CW Way that we utilize internally. Like you said, it's an iterative process by which we go through and identify the areas that we can absolutely focus on and transform the businesses that are associated with whatever it is that we're focused on. I'll just give you the main highlights of those on the lean side. And lean is – kind of lean does talk about efficiency improvements and some head count modifications. You can't get lean without some of that. But what we do like to do is maintain as much as possible on the head count side, so that we can produce more and accomplish and accommodate the growth that we need to. And in some cases it's labor arbitrage shifting but lean is all about efficiency improvements, including equipment as well.

And to give you one example there is that we have so far this year through half one, we've identified and trained what we call 24 champions of the CW Way and we will have another 24 by the end of the year, so 48 people that are absolutely focused upon our business model, CW Way of producing at the highest levels of efficiency that we can possibly accommodate. And that's cutting edge or leading edge type lean.

Low-cost economies, we've got Mexico, couple of facilities, China we've got three, Pune, India we have a facility. We have so far roughly reported at about almost 0.5 million hours in terms of offload into the foreign economies for labor arbitrage. By the beginning of 2016 – let's say, by the beginning of 2017 or by the end of 2016, we'll be at 1 million hours. And that's considerable considering where we started from. That contributes a very large amount to margin improvement.

And supply chain, I sat in on a Spend Meeting we call it the other day. It was held here in Charlotte. And this one was where we brought in our raw material suppliers on either direct or distributor basis, fill the room full of them. And basically we're to opening the kimono and said look here's where we are at, here's what we're going to buy. And this is all in line with what I've been telling you for a while. And that is we spend $1 billion-plus, and we're going to take 3% of that out. Well, 3% you take it by one bite at a time. This was just a classic example of taking a one bite, having all suppliers in the room, just being straight up, here is where we're at. Some of you will survive. Some of you will not. We need your best and finals and here is how we got to get there as a team. And that way we are able to then put in place long-term contracts. And as the old ones roll off, like I've been talking about for the last year and a half, these new ones are rolling on with good margin pickups in our spend areas. That certainly contributes.

And then lastly, the consolidation side, you mentioned consolidation. And we're all about change. If you don't change, you are not staying ahead of the pack and we are changing as a company. We continue to do so. We launched 13 projects in this year, at the beginning of this year that were consolidation projects. And that's routine for us. Now 13 was a pretty good size number for us because we had done several last year but 13 this year. And we're not going to complete all 13 in this year because they'll roll into next year a little bit. But those are the kinds of activities where obviously you pick up from the brick and mortar, you consolidate, you don't have a brick and mortar cost and we look at when the lease expires then look at consolidations at that time. And then also head count, the labor side you go to low cost economies.

So these are absolutely real intangible pieces of margin expansion that I'm happy to go through on one-on-ones or when I get to conferences in more detail. But suffice it to say, they are a part of us achieving at and beyond our currently stated targets. So I'm just really happy to be able to report that we're making solid progress in that regard.

<Q – Mike Ciarmoli – KeyBanc Capital Markets, Inc.>: That's extremely helpful. Thank you very much guys. I'll jump back in the queue.

<A – Dave Adams – Curtiss-Wright Corp.>: Thanks, Mike.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Thank you, Mike.

Operator: Thank you and our next question comes from the line of Myles Walton with Deutsche Bank. Your line is open. Please go ahead.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Thanks. Good morning.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Hey, Myles.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Just a quick question, first on the working capital. It looks like working capital as a percent of sales is actually expanding a little bit. And Glenn, as you calculate it on your metric, what does it look like? Is the plan still to get to 30% by year-end – looks like if you got to 30% by year-end, you'd actually be well in advance of the guidance?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Yes. When we include deferred revenues which is what we do besides primary working capital, we're at 26.5%, June; that's down 0.5% from the prior yearend. Our forecast's now is to get it down to 23% in 2015. However, we've asked all of our business units to achieve a 10% reduction beyond that. That's what we're striving for. If we were to do that, and of course, we won't – probably won't do all of it – but if we were to accomplish that, that would get us down to about 21% versus our goal of the upper quartile of 20%. So we're clearly making some – we're expecting to make some pretty significant progress in the second half of this year.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. So the only adjustment you're doing is the deferred revenue?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Yes, that's it.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. And then the other one is really on the Power segment, particularly the second half margin run rate implied as 14% or so. How much should we interpret that as the go-forward run rate? And then secondarily I think we all understand the absence of the AP1000, the $3 million OI from the China shipments are kind of what you're counting on, but is there also a pickup in aftermarket in the nuclear markets? And is that in your backlog or is that more of a risk than an opportunity?

<A – Glenn Tynan – Curtiss-Wright Corp.>: No, the second half – you hit a couple. Obviously, it's influenced by the new order which is, at least we are estimating it to be fairly profitable for us, and a positive impact on the margin for us. We are expecting domestic production in the aftermarket business to pick up in the second half of the year. The aftermarket business has a pretty good order intake in primarily the first quarter but also in second quarter. So those are both coming out of backlog. So the combination of that. But I think the new order has a fairly heavy influence on that margin in the second half of the year.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: And the 14%, how much to think about that as the run rate for that business into 2016?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Again, we can't really go into this. We're back to the conundrum of one, we don't have 2016 projected yet, and two, until we really get the orders, that's still an estimate of what they think is going to happen this year. But we will remain to see what actuals are once we get the contract. And hopefully the next call, we'll be able to spell all this out for you because I know you guys really need this to look to the future, so...

<A – Dave Adams – Curtiss-Wright Corp.>: We're looking as forward to telling you as you are...

<A – Glenn Tynan – Curtiss-Wright Corp.>: Exactly.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Sounds good. We'll all in together. Thanks.

<A – Dave Adams – Curtiss-Wright Corp.>: Thanks, Miles.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Thanks, Miles.

Operator: Thank you and our next question comes from the line of Sam Pearlstein with Wells Fargo. Your line is open. Please go ahead.

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: Good morning.

<A – Dave Adams – Curtiss-Wright Corp.>: Hey, Sam.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Good morning.

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: Back on Power one more time. So you absorbed $11 million in cost. If I look at that, that still only gets you 10% or so margin. Was there anything else one time like restructuring or anything else in the quarter?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Just trying to think, no, I don't think so.

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: Okay.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Nothing popping out at this point. $7 million was exciting enough.

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: Yes. That's true.

<A – Glenn Tynan – Curtiss-Wright Corp.>: [indiscernible] (40:18)

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: And can you provide a little bit more in terms of why ground defense went down and then defense aerospace went up, what actually shifted in terms of the year?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Well, yeah, I'll tell you – here's what I – this is in our COTS embedded computing business and they run hundreds of programs. And a customer will come and order 100 boards. Since they're COTS by nature, commercial off the shelf, they can be used in a variety of programs. We don't necessarily always have visibility on where those boards are being used and as we get going on in the year that business unit got better clarity. And that's really the shifts between the two.

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: Okay. And then with the lower organic growth for this year just given what's happening in some of the markets, how do you feel about that long-term 3% or 4% kind of growth rate out to 2018? Do you still reach that, or do we just start on the lower base and then grow from here?

<A – Dave Adams – Curtiss-Wright Corp.>: Sam, that's the $64,000 question, isn't it, our complete industry wants to know. We feel we continue to demonstrate that we outpace our markets and our peer group in the marketplace. And we think we do by measure and we see it across the board opportunities. When you take the vehicles on highway, they're doing great domestically. They should come back and pick up internationally because in China, for example, they are down a little bit – ag worldwide is down. I'm not sure when that's coming back up again, but we are well positioned once it does.

We have new products that we're releasing. Those new products will capture market share that's not necessarily dependent upon, let's say, a rising tide of a particular industry. It is about technology insertion. Oil and gas prices don't help us a whole lot in terms of hybrid right now. And hybrid vehicles, well, they're not buying as many as they were 18 months ago, 12 months ago. That's done a little bit to us, but I'm here to tell you that I think that what goes around comes around. We're not going to see these oil prices forever at this level. It will switch. And so is that going to happen before 2018? Well, I don't know. But when it does, things like that, the hybrid which was a big headwind to us in terms of contributing to the lack of growth, we think that will come back and we're very well positioned with some new technological inserts from a hybrid perspective, as well as the old product that we currently have.

So I think generally we still feel optimistic. We go through these from a ground up with our individual business units each month and we talk about the possibilities, what we can do. And while it's not sure-fire guaranteed, we're not holding anybody's head under the water and say we have to get there. We want to do the very best we can on a realistic basis. And this is what we're projecting. So I guess, Sam, the short answer is we anticipate that we're going to continue to make this drive unless and until we see some significant changes.

<A – Glenn Tynan – Curtiss-Wright Corp.>: And Sam, also a couple. Besides the AP1000, right, which is going to ramp up in this – if and when we get the order – we also have the CVN-80 aircraft carrier during this next couple year process that's going to ramp up. And the Joint Strike Fighter build rates we expect to ramp up as well as new commercial aerospace platform. There's a number of different things that we see on the horizon that would give us some comfort for the long term range.

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: Okay. And does any of that end market weakness help you in terms of the M&A in the pipeline? Have you seen any change in the multiples that either people are asking and what you think it takes to close the transactions?

<A – Dave Adams – Curtiss-Wright Corp.>: Prices in M&A are still pretty high but like I said, we have a different look at a different type of company. So the benchmark company today was considerably different than the benchmark company of old. And return of invested capital 10% by year three and by year five is 12%. So we are looking at some higher metrics. They are going to cost more to buy those kinds of companies. There even might be some potential little pickups but we don't really like to buy in a down market and hope for the best.

I'm looking for technologies that stand out and can complement and contribute strongly to what we've got rather than buying something and riding out the storm. Now if there was just a super deal out there that was faltering because of market only and we had something to add, sure we'd take a look at something like that but not sure that we would execute on it and just take it on a case by case basis.

<Q – Sam Pearlstein – Wells Fargo Securities LLC>: Okay. Thank you.

<A – Dave Adams – Curtiss-Wright Corp.>: Thanks, Sam.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Thanks, Sam.

Operator: Thank you and our next question comes from the line of Ryan Cassil with Global Hunter Securities. Your line is open. Please go ahead.

<Q – Ryan Cassil – Global Hunter Securities>: Hi, guys. Thanks for taking my question.

<A – Dave Adams – Curtiss-Wright Corp.>: Hi, Ryan.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Hey, Ryan.

<Q – Ryan Cassil – Global Hunter Securities>: I thought it was a nice quarter and outlook given the industrial environment and perhaps we could focus there for a second. On the industrial valve side, it sounds like volumes are really pushing out to the right, but could you talk about whether you're seeing any pricing impact and whether there's any difference between the project and the MRO business there?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Well, I would say that, just so we can hone in on what we're doing in the industrial valves. It's about a third of the general industrial market, around $200 million. Two-thirds of that is oil and gas and that splits out between 75% MRO and 25% project. So projects is fairly small but needless to say we have numbers we expected to hit and we haven't hit them so they are moving to the right. The MRO we expect the way to what we said is we expect the projects kind of looking, kind of flat throughout the year. And they're actually higher than the MRO recently, but we expect the big second half in the MRO to be higher. It's going to overshadow the project business, and for the year, end up being up versus the project. So project's fairly smooth, the pricing is better on the MRO for sure than the projects, generally.

<Q – Ryan Cassil – Global Hunter Securities>: Okay. And then so, if I can infer to what you're – you're not really seeing it on the MRO side – the pricing pressure as much?

<A – Glenn Tynan – Curtiss-Wright Corp.>: No.

<Q – Ryan Cassil – Global Hunter Securities>: Okay, great. And then on the commercial vehicle side. I think one of the growth drivers has been China. And just given some of the headlines and concerns about China, is that still expected, or is that part of the lower outlook in industrial, generally? Any color there would be helpful.

<A – Dave Adams – Curtiss-Wright Corp.>: Ryan, like I said, a couple of facilities in China, three, a matter of fact and some for indigenous sales, some for the labor arbitrage side of the low cost economy. Of which, by the way, I wanted to mention that MRO valves benefits from. So we do have some times pricing pressure or we do have a really nice base there in our low cost economy to withstand some of that pressure and maintain margins, if not increase. So we feel pretty good about that.

But in terms of the outlook, we watched that with great interest and let's say it's not a huge piece of the growth at this point or a huge piece of the business from the overall industrial at this point. Someday I hope that it is. And because it is not – we're not seeing big tremendous drop-off. We were hoping for a more of a robust marketplace back in 2014 when we started to see the regulatory side become statutory with regards to some of their emissions control need. And then with 2015 we expect it to roll out a little more quickly. That hasn't happened as much as we had hoped because of obviously what's been happening over there. The need is still great. They know it. You can help but see it. It's in front of your face when you breathe. And so that's not going to stop.

We'll see some moderate growth there but it is going to take some time. The international vehicles as we discussed overseas, in particular in China has just taken off more slowly of recent than we had wanted. And ag, that's in the tank for now for a while anyway. But I don't see the need going away by any stretch; if anything, it's probably picking up. So I do think that, that's going to come back for us at some time.

<Q – Ryan Cassil – Global Hunter Securities>: Okay, understandable. Thanks, guys. Appreciate it.

<A – Dave Adams – Curtiss-Wright Corp.>: Thank you, Ryan.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Thanks, Ryan.

Operator: [Operator Instructions]. Our next question comes from the line of Steve Levenson with Stifel. Your line is open. Please go ahead.

<Q – Steve Levenson – Stifel, Nicolaus & Co., Inc.>: Thank you. Good morning, everybody.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Hey. Good morning, Steve.

<A – Dave Adams – Curtiss-Wright Corp.>: Good morning, Steve.

<Q – Steve Levenson – Stifel, Nicolaus & Co., Inc.>: Just a question on AP1000. There has been some news with some of the domestic installations, they're seeing some cost overruns that I guess a lot of people expected might not occur with the modular reactor. Are you getting any push-back or is that more on the – are you aware is that more on the construction side?

<A – Dave Adams – Curtiss-Wright Corp.>: Yes, I was reading some of those same articles of recent, and it looks more on the construction side. And some of them are late. Some of the projects are late however. And over-runs, I read about those as well but what I also read was that they are making progress. I think that there are only two that are active today but they are actually making progress and I took that as a positive out of the article in our position and it is that we are holding our own.

So I think we are doing pretty good, but, yes, I've seen some of those same articles and I haven't got any more color on it than that.

<Q – Steve Levenson – Stifel, Nicolaus & Co., Inc.>: Okay, that's helpful though. And then in terms of the stock buyback as opposed to acquisitions, is that just – you are still finishing the pruning before you start to add or was it a matter of valuation as opposed to the price of stock being a better investment at the time?

<A – Dave Adams – Curtiss-Wright Corp.>: We were counting our money for a while there and after the divestitures and so then we did go in as originally for a $300 million buyback authorization and now as you know we went out with the $200 million on a peanut butter spread. And then now as we indicated with the $100 million that we'll do that on an opportunistic basis. And it wasn't in lieu of acquisitions but it was if we have had acquisitions – we've been talking about we want this thing to be balanced. And if we had had acquisitions this year, more of them in the first half, maybe we wouldn't have done that extra $100 million.

But it is prudent. We believe in this company. We believe in the stock. And we believe that we're going to grow this business then. And our shareholders going to reap the rewards of same. And so that's why we initiated the second part of the $300 million and that being the $100 million. But I still remain bullish on acquisitions be they the right ones and it's not valuations that has scared us off, frankly.

We did bid on a couple of acquisitions that – you just reach a point where you say hey, look in an auction, the last guy standing is really not the winner although they won. But we've been through these cases. We want to be the last people standing. And the technologies were not worth enough to us to do that. And we're going to stay that line, stay that course. We do believe that there are some out there that match our intent strategically. And we can really do something with. And I'll tell you with the CW Way, with what we've got going from our process improvement, lean, so forth we got a real machine going here that once I can acquire businesses, they complement what we have. We can throw them into the fold. We can consolidate, rationalize, whatever we have to do and come out with what the one plus one equals three and that's what we're looking for. And I\m tremendously excited about being able to do that on the right ones.

<Q – Steve Levenson – Stifel, Nicolaus & Co., Inc.>: Got it. It is good to stick to the plan then. I appreciate your conviction on the stock. Thanks a lot.

<A – Dave Adams – Curtiss-Wright Corp.>: Thanks, Steve.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Thanks, Steve.

Operator: Thank you and I am showing no further questions. I would like to turn the call back to Mr. David Adams, Chairman and CEO, for any further remarks.

David Charles Adams, Chairman, President & Chief Executive Officer

Thank you, Michelle. And thank you all for joining us today. We look forward to speaking to you again during our third quarter 2015 earnings call. Have a great day. Bye.

Glenn E. Tynan, Chief Financial Officer & Vice President

So long. Bye-bye.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. And you may all disconnect. Everyone, have a great day.