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Corporate Participants

Martin R. Benante – Chairman and Chief Executive Officer
Glenn E. Tynan – Vice President and Chief Financial Officer

Other Participants

Stephen E. Levenson – Analyst, Stifel, Nicolaus & Co., Inc.
Myles A. Walton – Analyst, Deutsche Bank Securities, Inc.
Michael F. Ciarmoli – Analyst, KeyBanc Capital Markets
Yair Reiner – Analyst, Oppenheimer Securities
Tyler Hojo – Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: [Operator Instructions] Good day, everyone, and welcome to the Curtiss-Wright Second Quarter 2012 Financial Results Conference Call. Today's call is being recorded. At this time, I would like to turn the conference over to Martin Benante, please go ahead.

Martin R. Benante, Chairman and Chief Executive Officer

Well, thank you, Kim, and good morning, everyone. Welcome to our second quarter 2012 earnings conference call. Joining me on the call today is Mr. Glenn Tynan, our CFO. Last night, we announced our second quarter results. We reported solid sales growth of 4% led by a strong performance in our Metal Treatment segment and the benefit of our recent acquisitions, as well as diluted earnings per share of $0.48, which met the high end of our revised guidance.

We expected our second quarter operating results would be negatively impacted by several factors, including $8 million in restructuring charges, as well as an additional investment of nearly $6 million on the AP1000 program. Excluding these charges, operating income in the second quarter increased 10%, while our diluted earnings per share increased 5% from the previous prior-year period.

Overall, we continue to reposition Curtiss-Wright for improved operating income growth and margin expansion in the latter half of 2012 and beyond. In addition, we made an adjustment to our full-year 2012 sales outlook, which includes slight reductions to our outlook in some of our defense and commercial businesses based on changing market conditions. However, based on the solid outlook for most of our end-markets and the inherent diversification of our business model, we remain optimistic for continued solid financial performance in sales and operating income in 2012.

Now I'll turn the meeting over to Glenn.

Glenn E. Tynan, Vice President and Chief Financial Officer

Thank you, Marty. 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 can also 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 this presentation and will be available on the company's website.

For our agenda today, I will provide you with an overview of Curtiss-Wright's 2012 second quarter performance, along with updates to our guidance, followed by Marty, who will discuss our strategic markets and outlook. And then we'll open the call for questions.

As Marty indicated, we experienced solid sales growth in the second quarter of 2012, driven by growth in all three of our segments as well as acquisitions. Our results reflect growth in all of our commercial markets, led by a 21% increase in commercial aerospace based upon our position as a key supplier to both Boeing and Airbus.

We also experienced solid gain in power generation due to higher revenues on AP1000 projects in both China and the U.S., and improvement in our oil and gas market due to the continued rebound in MRO-related sales.

In our defense market, solid gains in aerospace defense were more than offset by lower sales in both ground and naval defense, where the latter was primarily due to timing on long-term contracts for the Virginia class submarines. Meanwhile, operating income, despite being down overall in the quarter due to the restructuring actions taken across all three segments and the AP1000 investments, benefited from a strong 25% increase in our Motion Control segment.

Next I wanted to remind everyone that our second quarter results in the remainder of this presentation are presented on a continuing operations basis and, therefore, excludes the impact of the first quarter sale of our heat treating business from current and prior year results.

Our overall sales increase of 4% was driven by a 13% increase in our Metal Treatment segment, due to solid growth in the general industrial and commercial aerospace markets. Although our reported operating income declined 17% in the quarter, if you exclude the impact of our company-wide restructuring initiatives and the AP1000 strategic investments, adjusted operating income increased 10%, while adjusted operating margin was 10.3%, up 60 basis points from the prior year period.

In addition, adjusted segment operating margin, which excludes corporate expenses, was 11.7%, an increase of 120 basis points, due to solid margin expansion in both Motion Control and the Metal Treatment segments. I will provide more details on the specific impacts to segment operating income on the next slide.

Meanwhile, new orders grew 1% year-over-year. Book-to-bill was 0.9% overall, which was in line with our historical pattern in the second quarter, but is expected to steadily increase over the next six months. Backlog was approximately $1.7 billion, split approximately 70% in Flow Control and 30% in Motion Control.

And finally, free cash flow was $2 million in the quarter, primarily impacted by lower accounts payable and lower advance payments on long-term contracts, while capital expenditures of $21 million were slightly higher than the prior year period, due to expansion investments being made in our Metal Treatment business. However, year-to-date our free cash flow is consistent with 2011.

Next I want to explain some of the drivers impacting our operating income during the second quarter, particularly the restructuring actions, which we expect to contribute to significantly increased profitability in the second half of 2012, well above our first half results.

In the Flow Control segment, operating income was negatively impacted by approximately $6 million of strategic investments on the AP1000 program, as well as $2 million in restructuring costs. We expect that these restructuring actions will improve the segment's profitability moving forward. Marty will further address the strategic investments and future outlook for the AP1000 later in the call.

If you were to exclude these items from Flow Control's results, operating income would have declined only 1%, as the oil and gas market experienced lower margins as we ramp up our new super vessel business. We continue to expect this segment's operating margin to improve over time as the sales volume increases and restructuring benefits are realized.

Next, within the Motion Control segment, reported operating income rose 25%, as a result of prior restructuring initiatives, as well as 24% growth in their commercial aerospace sales. And in the Metal Treatment segment, our results were impacted by $5 million of the anticipated total of $12.4 million in restructuring charges. Excluding these charges, Metal Treatment's operating income surged 46% based on solid demand for products serving the general industrial, as well as the commercial aerospace market, particularly for shot peening services. And lastly, our operating income was negatively impacted, as expected, by slightly elevated pension costs compared to the prior year period.

Moving to our end markets. In the second quarter, defense represented 38% of our total sales, while commercial represented 62%. And starting with defense, we experienced a mixed performance across our end markets and an overall decline of 3% in the quarter. An increase in aerospace defense was driven by higher sales related to our embedded computing products supporting various helicopter programs, primarily the Black Hawk and Stallion.

We also experienced solid sales of coatings across various defense platforms within our Metal Treatment segment. And based on these gains, we achieved solid growth of 7% overall in aerospace defense, despite lower sales on the Global Hawk program as we transition from the development to the production phase. Elsewhere, we experienced a reduction in our overall ground defense market primarily due to lower sales on several large platforms, such as the Abrams and Stryker, as well as various other ground defense applications.

We did, however, experience an increase in sales for our turret drive systems and ammunition handling systems to foreign militaries. Meanwhile, we experienced lower overall production revenues on CVN-79 Ford class aircraft carrier program, due primarily to the completion of production on the Electromagnetic Aircraft Launching System, or EMALS, and Advanced Arresting Gear, or AAG, programs, as well as reduced revenues on the Virginia class submarine program based on the timing of long-term contracts, which is coming off a much stronger than expected first quarter. On a positive note, we did see higher sales on the DDG-51 destroyer program.

Moving on to our commercial end markets, where we achieved solid sales growth of 9% based on improvements in all three operating segments. We continue to benefit from the ramp-up in the commercial aerospace market with strong 21% growth, 19% of which was organic, that led all of our end markets in the quarter.

In addition to the solid demand across all major Boeing and Airbus platforms, we also experienced increased sales to the commercial helicopter market.

In our oil and gas market, we experienced higher MRO revenues both to domestic and international customers, along with increased large vessel sales, while our business supporting large capital projects internationally continues to be soft.

The continued demand for MRO products provides some offset to counteract what has otherwise been a challenging and longer-than-expected down cycle for the refining industry. In our power generation market, we benefited from higher revenues on both the U.S. and China AP1000 projects, as well as increased aftermarket sales supporting existing international operating reactors. Sales supporting existing domestic operating reactors declined slightly as plant operators pause to evaluate and prepare for the NRC's new Tier 1 regulations.

And finally, sales in the general industrial market were mixed as higher demand in the U.S. auto market were somewhat offset by lower HVAC revenues in the second quarter.

Next I will update you on the outlook in our end markets for 2012. The defense environment is subject to significant change in the near future, and like others in the industry we face the potential for future reductions in DoD procurement spending. One area that clearly has been impacted is our ground defense market, as the timing of some future ground vehicle upgrades and modernization programs has shifted beyond 2012.

As a result, we are trimming our estimates in the ground defense market, resulting in a slight reduction in our outlook in overall defense to 2% to 4% growth. However, the current and long-term outlook in naval defense remains favorable for Curtiss-Wright, particularly as the CVN-79 aircraft carrier, our largest single program, continues to ramp up in production.

In our commercial markets, we have adjusted our full-year growth target to 10% to 12%, as we tweaked our expectations across several markets. Beginning with power generation, where our revised outlook is based on lower China AP1000 revenues due to production and testing delays, as well as a shift in the timing of some orders associated with our typical aftermarket sales into next year, as plant operators prepared to meet the NRC's Tier 1 regulations.

However, we continue to expect solid gains related to the ramp-up in production for the domestic AP1000 projects in Georgia and South Carolina. Within our oil and gas market, we continue to see solid demand for global MRO products, and while some of our large capital project sales will benefit our results later in 2012, we've reduced our full-year growth targets and some of these projects have shifted into 2013.

Elsewhere, we have adjusted our sales guidance in our general industrial market due primarily to the general softer conditions in Europe, despite a fairly solid performance in our domestic automotive market thus far in 2012. The bulk of this reduction will impact our Motion Control segment.

And finally, we expect that the momentum from our strong first half in commercial aerospace will continue in the back half of the year, as Curtiss-Wright is well positioned for solid sales supported by the multi-year production up-cycle anticipated in this market.

Based on these end-market changes, our outlook for total Curtiss-Wright sales growth has been adjusted to 7% to 9% growth in 2012. Looking ahead, we remain well positioned to achieve our full-year sales growth targets as approximately 70% of our second half sales are currently in backlog.

Let me now cover our segment guidance. Despite the revisions to our full-year sales and operating income guidance for 2012, based upon the restructuring actions and various investments that took place in the first half of the year, we are expecting strong growth in sales, operating income, and operating margin in the second half of the year compared to the first half, which should result in double-digit segment operating income growth of 11% to 14% for 2012.

In Flow Control, we are expecting a significant increase in sales in the second half of the year versus the first half, particularly in our naval defense and power generation markets, along with favorable absorption of overhead costs on the higher sales volumes. Furthermore, approximately 66% of Flow Control second half sales are currently in backlog. We also expect to move past the combined $8 million of AP1000 investments and restructuring charges that impacted our first half operating income to produce much improved profitability, which with double-digit margins in the second half of 2012.

In Motion Control, we are also experiencing a significant increase in sales in the second half of the year, as compared to the first half, to come from our aerospace defense and commercial aerospace markets, with the higher sales volumes generating favorable absorption.

In addition, approximately 75% of Motion Control second half sales are currently in backlog. We also expect significant profitability improvements in the second half due to continued cost reduction efforts and the benefit of our restructuring that impacted our first half operating income, leading to a full-year operating margin just shy of 14%.

Metal Treatment, despite a better-than-expected first half performance, our full-year sales guidance remains unchanged. Our operating income in the second half will be impacted by approximately $7 million that remains from our previously announced restructuring charges, the majority of which will impact the fourth quarter, but will be partially mitigated by cost reduction initiatives, which we expect will lead to margin improvement compared to our prior expectations.

While on the surface it would appear that overall 2012 operating income and margin in this segment will be lower than 2011, I will illustrate on the next slide that if you remove the non-recurring impact of the restructuring charges from our 2012 operating income, we would actually have improved operating income and margin in 2012 compared to 2011.

And finally, our forecast for corporate and other expenses increased slightly to approximately $33 million due to a pension true-up that took place in the second quarter. In addition, looking ahead to the remainder of 2012, our diluted EPS will be more heavily weighted to the fourth quarter as we have done historically.

Taking a closer look at the updated Metal Treatment segment guidance, if you adjust our 2012 guidance to remove the one-time impact of the restructuring costs, or approximately $12.4 million, operating margin would be well north of 15%, which would result in a 200- to 220-basis-point improvement from 2011 results from continuing operations, driven by a 24% to 30% improvement in operating income.

To add some color on the impact of this restructuring, of the $12.4 million in charges, more than $10 million of that amount is non-cash in 2012. The remaining 2012 cash charge of less than $2 million is expected to yield approximately $4 million in annual savings beginning in 2013.

As a result, we expect this segment to produce margin expansion in 2013 as we move past these restructuring actions and begin to realize the resultant benefits.

And here are some additional income statement guidance metrics for 2012. Based on our segment restructuring initiatives and additional investments on the AP1000 program, as initially disclosed in our June 28 press release, we are guiding our overall operating income to grow 7% to 11% in 2012, and consolidated operating margin to be in the range of 9.6% to 9.8%. This includes the $12.4 million of restructuring initiatives in our Metal Treatment segment, approximately $5 million of which impacted our second quarter results.

Our EPS guidance remains unchanged at this time. In addition, our pension expense increased slightly to $27 million, as I discussed earlier, while all other guidance metrics remain unchanged. Just as a reminder, pursuant to current SEC regulations, our guidance above excludes the impact of the first quarter sale of our heat treating business of $0.44 per diluted share from discontinued ops, including the gain of $0.38 per share. In addition, our free cash flow does not include the approximately $40 million in cash that we netted from the transaction.

Now I'd like to turn the call back over to Marty for his final comments before we wrap up the call. Marty?

Martin R. Benante, Chairman and Chief Executive Officer

Thank you, Glenn. As we have discussed thus far, we have repositioned Curtiss-Wright for improved profitability in the latter half of 2012 and beyond. We are aggressively focused on restructuring and cost reductions to ensure future growth and profitability for our business. Looking ahead to the remainder of 2012, despite reducing our top line sales expectations, we remain well positioned overall with sales growth forecasted across both our defense and commercial markets. In addition, we continue to expect that our profits will grow faster than our sales.

Next I'd like to focus on the key impacts to some of our core markets followed by some additional color supporting our confidence of attaining our 2012 financial goals.

I'll begin in commercial aerospace, which continues to be the leading growth driver among our diverse end markets. Year-to-date, sales in this market have grown 27% compared to 2011, benefiting from production rate increases across numerous Boeing and Airbus platforms, as well as new sales being generated by our Emergent Operations facility in support of the Boeing 787 program.

In addition, we are seeing the benefit of Metal Treatment's recent expansion into more highly technical areas of thermal spray coating and analytical services. Our continued solid growth in this market was led by our support of the Boeing 737 and 787 platforms as they prepare to ramp up to higher production levels in 2013. And also on the 747-8, and it is currently ramping from 1.5 shipsets to 2 airplanes per month build rate.

We also expect solid growth in support of the key Airbus platforms. Overall, we continue to expect that the OEM cycle will remain robust for several more years, and as a result, our growth outlook in this market remains strong.

Staying within our Commercial Markets, an update in oil and gas. We're experiencing solid growth in our MRO products, particularly for our traditional pressure relief and butterfly valve products.

As we continue to highlight, refinery operators generally cut capital spending during weaker points in the cycle and invest in turnarounds, and small improvement projects. Besides creating additional opportunities for our MRO product offerings it provided steady sales throughout the first half of 2012. However, our business supporting large capital projects continues to be soft. In several cases, with these large international projects, the customer, which in most cases are national oil companies, may be ready to move forward. However, government approval often takes some time and is unpredictable, and that has resulted in certain projects moving out beyond our expectations.

Meanwhile, cat cracking sales are coming in better than expected, and this year is shaping up to be ahead of last year. Super vessel sales should remain solid in the second half of the year as we complete some previous large orders and receive some significant new orders, which will begin to benefit our results. However, learning curves associated with ramping up new machinery and facilities will continue to negatively impact profitability over the remainder of this year.

In addition, we started the consolidation of our Houston aftermarket Service Center with our manufacturing facility in Channelview, Texas. This will allow optimum capacity utilization of our new machine shop and offer even stronger services as a combined entity, while reducing our fixed costs.

Overall, the first half strength in MRO activity offset the continued weakness in large capital projects. And although we are expecting the projects business to rebound somewhat in the second half of the year, we have reduced our full-year growth target in oil and gas as some of these projects have already shifted into 2013.

Furthermore, we remain comfortable with this revised full-year forecast as approximately 75% of the expected second half sales in this market are currently in backlog. Of the orders not currently in backlog, only $10 million is associated with large international projects, with the balance coming from MRO.

In our power generation market, an update on the events influencing our business and the industry. In the United States, construction of the two AP1000 nuclear plants in South Carolina and Georgia remains on schedule. In China, which expects to restart reactor construction approval later this year, construction essentially remains on schedule for the plants currently under development, particularly for the world's first Westinghouse AP1000 reactor at Sanmen, which is expected to be operational in late 2013.

Elsewhere in the world, Japan recently announced that it restarted two reactors in Western Japan, the first to restart since the Fukushima crisis last year. Just to give you a sense of the importance of nuclear power in this region, Japan's nuclear power plants provide approximately 30% of the country's power before Fukushima. Also in June, Westinghouse signed a memorandum of understanding with India for initial nuclear site exploration and development. In late July, the United Arab Emirates became the first Middle East country to grant a construction permit for a commercial nuclear plant and immediately will begin construction on four nuclear reactors.

In addition, Curtiss-Wright signed a strategic alliance with Westinghouse to jointly pursue and develop business opportunities for the refurbishment of large motors for commercial nuclear power applications in North America and to collaborate on new technology development. We are pleased with this agreement as it provides us with future growth potential on existing operating reactors down the road.

Next an update on the AP1000 program. In our late June press release, we announced that we were taking a charge related to unanticipated additional investment in the China AP1000 program. These investments primarily related to replacement materials for stator jackets and additional assembly and test time, and higher labor costs for painting, disassembly, inspection, and packing. Once again, these investments are necessary to ensure that the pump will operate safely and properly throughout its 60-year maintenance-free life.

We continue to make progress towards shipment of the first four reactor coolant pumps, and all four have successfully completed required testing. More specifically, pump 1 is in the packing skid, and is essentially available for shipment today.

Pump 2 is in the build-for-ship process and it is available for shipment next week. Pump 3 is also in the build-for-ship process and is projected to be available for shipment in two weeks. And pump four, which has just recently completed test and is now in teardown and inspection, it will be available for shipment in three weeks. We have completed logistical reviews, and despite a slight change in the timetable, the first two nuclear reactor coolant pumps required for Sanmen Unit 1 in China are expected to be ready for shipment by the end of next week, while the two additional pumps will be ready to ship when required by our customer.

Overall, we remained well ahead of anticipated installation dates by the customers. Finally, we expect our next major AP1000 order to come from China either in the fourth quarter of this year or possibly in early 2013, depending on the outcome of a September meeting held by the Chinese in order to decide on the timing of the next round of commercial AP1000 build.

Turning to defense, Congressional leaders have agreed in principle to a six-month continuing resolution that would extend current funding levels through the end of March 2013. Although the decision would still need to be voted on by Congress in September, we recognize that the mandatory provision of the Budget Control Act of 2011 have created uncertainties about the availability of government funding for defense programs next year. At this point we have no reason to disagree with the industry's consensus view that Congress is likely to adopt the current proposal or a similar form of continuing resolution that delays mandatory cuts, budget cuts, by at least six months and would continue current defense spending into 2013, with the potential for discretionary budget cuts by Congress.

We currently are formulating contingency plans for a variety of outcomes. Within our markets, as Glenn mentioned, we have seen an impact in our ground defense market in 2012 due to the continued uncertainty surrounding the timing to upgrade and modernize the fleet and have reduced our full-year expectation as a result. Meanwhile, naval defense remains a bright spot for Curtis-Wright.

We also experienced an increase in new program wins of 10% in the second quarter of 2012 compared to the prior year's period, primarily in our embedded computing business. We remain encouraged by both the new program wins and the high level of bid and proposal activity thus far in 2012. In the event that some of the significant cut reductions does not take place, our long-term view in defense remains favorable based on our role in naval defense and the government's increased focus on new ISR requirements in electronic warfare and communications capabilities.

Based on the most recent future-year defense spending plan, they remain key areas of increased investment dollars and will continue to support our future sales in defense. We now remain cautiously optimistic in defense as the balance provided by our diversification provides us some downside protection to Curtis-Wright even in less favorable defense environments.

Next I'd like to highlight some of the key points that Glenn covered earlier, which provides us with confidence of attaining our 2012 financial goals. We are aggressively focused on restructuring and cost reduction measures throughout all levels of Curtiss-Wright, continually looking at ways to improve our operating efficiency and deliver more growth in our bottom line. Including in this process are certain restructuring actions and strategic investment and supply chain management improvements that we've put in place to our to lower our current and future risks and position the company for improved long-term profitability, which we know will enhance long-term shareholder value.

Over the course of the past few months, we have initiated restructuring and cost reduction actions in all three segments, and in each case we expect to see improved second half operating income and margin expansion when compared to the first half, which will enable us to reach our full-year targets.

Within our Metal Treatment segment, our decision to move forward with our previously announced restructuring initiatives was predicated on closing facilities that have not met our financial performance criteria. And by completing these actions, we inherently will experience improved profitability in this segment, and it should have a positive impact in Metal Treatment's performance beginning next year, with the potential to be at or above mid-teen operating margins.

As Glenn highlighted, a cash investment of less than $2 million this year, it is expected to yield $4 million in improved profitability next year once the restructuring is completed. In our Motion Control segment, as we expressed on the last call, the restructuring actions taken in the first quarter, a small portion of which impacted our second quarter results, will be behind us in the second half, enabling this business to produce solid full-year operating margins that will approach 14%. We will continue to see more of the approximately $7 million of annualized savings in this segment in the second half of the year. We expect a similar outcome in our Flow Control business as this restructuring action will be beneficial to segment profitability in the second half of 2012 and into 2013.

We expect to see more than half of the approximately $5 million of annual savings in this segment in the second half of the year. In addition, with approximately 70% of our second half sales currently in backlog, we remain fully confident in our full-year 2012 sales growth target of 7% to 9%.

Furthermore, we continue to invest in the future and build our company through acquisition and organic investments, and strategically expand our unique portfolio of highly engineered advanced technologies, enabling Curtiss-Wright to continue to outperform in the markets we serve.

Overall, our outlook for Curtiss-Wright's future growth remains solid, reflecting our disciplined capital deployment strategy combined with our commitment to return cash to shareholders through solid earnings per share growth, dividends, and share repurchases.

During the second quarter, the company repurchased approximately 156,000 shares of common stock at an average price of $31.85. Looking ahead, we continue to monitor the level of our stock price and evaluate the best use of our free cash. In addition, on May 8 the company's board of directors declared a dividend of $0.09 per share of common stock, which is a 12.5% increase compared to the prior dividend of $0.08 per share, and reflects our confidence in the company's ability to continue to deliver strong revenue and profitable growth as we execute our strategic plan.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is from Stephen Levenson from Stifel, Nicholas.

<Q – Stephen Levenson – Stifel, Nicolaus & Co., Inc.>: Thanks. Good morning, everybody.

<A – Marty Benante – Curtiss-Wright Corp.>: Hi.

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

<Q – Stephen Levenson – Stifel, Nicolaus & Co., Inc.>: It's nice to see that your restructuring actions are having an impact. I am just curious, do you feel that there're any holes you're going to be looking to fill through acquisitions? Or are future acquisitions just planned for expansion the way you've been doing in the past?

<A – Marty Benante – Curtiss-Wright Corp.>: Right now we have a few companies that we are hopeful be able to close before the end of year. Most of them are in the sensor product area. And that's not a hole, that's more an expansion of capabilities.

<Q – Stephen Levenson – Stifel, Nicolaus & Co., Inc.>: Sounds good. I'm sorry. Go ahead.

<A – Marty Benante – Curtiss-Wright Corp.>: That was it.

<Q – Stephen Levenson – Stifel, Nicolaus & Co., Inc.>: Okay. The other thing is, on the commercial aerospace sales, how far ahead of build rates do your shipments typically run? Just because there're some more expected upward breaks in build rates, and I'm just curious, which are the largest couple of programs?

<A – Marty Benante – Curtiss-Wright Corp.>: We normally get a three-month window from Boeing for going up, and more, I think, more of a nine-month or six-month for coming down. And our biggest programs are 737. We have about 150,000 per shipset, and obviously they're 35 going to 38.

And then when you look at the 787 we have about 525,000 on that airplane. So right now, that's at four a month; it's going to end up the year at 5. We're projecting 6 and 7 through the end of next year and getting to 10 come 2014. Obviously Boeing is looking at trying to get it 10 by the end of the year, but our outlook is based on, basically year outlook.

<Q – Stephen Levenson – Stifel, Nicolaus & Co., Inc.>: Got it. Thank you. And on ground defense. I know you mentioned that some of the – that's part of the reason for the change in guidance. Are those things that you think are just moving to the right? Or are those funds that are likely not to be appropriated ultimately?

<A – Marty Benante – Curtiss-Wright Corp.>: Oh, there's actually the – some of the modernization programs that we had counted on to have some sales the latter half of the year, even though they've been funded, have not – we have not received contracts from, particularly in the Abrams and the Bradley. And they're looking at increasing that funding again in 2013. So it's just basically a timing error, timing item.

But also we expressed awhile ago that the ground defense was going down, and that's one of the reasons why we are restructuring in the controls businesses, both in the embedded computing area and also in our sensor products. That's also in anticipation of some of the sequestration actions that may be taken. So we've already really started planning for that to take place.

<Q – Stephen Levenson – Stifel, Nicolaus & Co., Inc.>: Great, thanks for all the additional detail.

<A – Marty Benante – Curtiss-Wright Corp.>: Thank you, Steve.

Operator: Moving on, we'll hear from Myles Walton from Deutsche Bank.

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

<A – Marty Benante – Curtiss-Wright Corp.>: Hey, Myles, how are you doing?

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

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: So I'm just going to start off with Motion Control. You've lowered the sales forecast but the EBIT forecast remained intact.

<A – Marty Benante – Curtiss-Wright Corp.>: Right.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: And so that's implying a 16% plus type margin for the back half of the year.

<A – Marty Benante – Curtiss-Wright Corp.>: That's correct.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Couple of questions on that. One is, is for ex significantly more benefit than it has been in the first half? Is it mix? And kind of what sales came out of the mix? The $40 million – or $30 million you took out of the forecast, where those incredibly low margin sales that you were taking out?

<A – Marty Benante – Curtiss-Wright Corp.>: No. As a matter of fact, it's ground defense and we've done – our profits are limited by government contracting. And it's also some general industrial sales of sensor products in Europe, which is a little soft. But one of the – if you go through Motion Control, we have a lot of confidence in Motion Control getting there. First, you have an increase in sales of almost $40 million in the second half, and that accounts for about one-third or more of the increase in profitability. The restructuring accounts for another $5 million.

But one of their biggest, aside from increased volume, is their supply chain management, which we expect an $8 million improvement in the second half of next year. A lot of that has to do with reduced purchase price. We put up our new facility in Mexico and the improvement for the Boeing overflow and that's producing profitability. Our company in Mexico and some cost reduction and buying out of China and also in Europe.

So that's one of the bigger hits, and you can only take credit for that profitability as they enter into inventory and then come out. So that's one of the, I think, the biggest change that takes place besides volume going – increasing their profitability.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Hey, Myles, just to put that in perspective, the restructuring is about 100 basis points to the margin, and the SCM is about 200 basis points in the margin, in the second half of the year.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. Supply chain management, that's SCM?

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

<A – Marty Benante – Curtiss-Wright Corp.>: Yes.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay.

<A – Marty Benante – Curtiss-Wright Corp.>: Sorry, I'm sorry.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: No, that's okay. And so then I guess the other question, the follow-on to that is, what's the sustainability of that kind of new run rate into 2013? Obviously, I'm not looking to annualize second half, because I know the seasonality of the business. But so just...

<A – Marty Benante – Curtiss-Wright Corp.>: Yeah. No, we think that we can, we're going to be in the 14% possibly 15%. It's going to come down to where is the defense going to go? And I think that from a standpoint of doing our restructuring, hopefully, we've taken a lot of that into account.

So we should hit the ground running in a lot of the other restructurings as far as our two Mexican plants are concerned, and also our companies that we have in China. So we think that we're going to be in pretty good shape as far as that's concerned, depending on the volume out of defense.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. The...

<A – Marty Benante – Curtiss-Wright Corp.>: And realistically, Myles, let me just point on that again also. If there was to be some reduction in JSF, that's built in the same plant that we build Boeing, which is going up. So it'd be a matter of hiring less people.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. The other side, on Flow. If you strip out this year's charges and restructuring, but also strip out last year's second quarter charge on AP1000, which I think was $2.8 million, but you can correct me. It looks like margins are actually down 150 basis points, kind of in the underlying margin mix. Is that right? And given volumes were slightly up, is that mix? Is it something else?

<A – Marty Benante – Curtiss-Wright Corp.>: It's mix.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. So then why does it improve in the second half? Does mix significantly improve?

<A – Marty Benante – Curtiss-Wright Corp.>: No, what happens in the second half is they have $80 million, almost $90 million of increased sales. They also have their restructuring, and we don't have the AP1000 charges that were $7 million in the first half.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: I guess I'm looking more on a year-on-year basis, last year's second half versus this year's second half?

<A – Marty Benante – Curtiss-Wright Corp.>: Can't get you there, sorry about that.

<A – Glenn Tynan – Curtiss-Wright Corp.>: Well, nothing I picked out.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. I guess the last one for me, Metal Treatment, the $12 million of restructuring in 2012. What is the – remind me and you may have mentioned it, I apologize – the payoff period for the $12 million for the benefits to be realized?

<A – Marty Benante – Curtiss-Wright Corp.>: What we're saying is that $2 million of those really is cash, and the payoff is next year, $4 million of improved. As parts have moved across the sea, some of our United States facilities have become less profitable, so basically what we're doing is taking the action of closing them down.

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Sorry, just so I can clarify. So it's a $4 million benefit to 2013 on an annualized run rate?

<A – Marty Benante – Curtiss-Wright Corp.>: That's correct.

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

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. So at a baseline level, you would take 2012, clearly the absence of the $12 million restructuring plus the $4 million benefit, so $16 million would be kind of your bare minimum year-on-year on a flat sale basis?

<A – Marty Benante – Curtiss-Wright Corp.>: That's correct.

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

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay. That's great.

<A – Glenn Tynan – Curtiss-Wright Corp.>: And I think we said, I think we said when we first announced them, though, we expect next year, barring any other changes, to be very similar to what our guidance was originally for this year. We're going to be right back on track, which I think you just did that math.

<A – Marty Benante – Curtiss-Wright Corp.>: Right. Yeah, the mid-teens and upper mid-teens.

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

<Q – Myles Walton – Deutsche Bank Securities, Inc.>: Okay, all right. Thanks a lot.

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

Operator: And moving on, we'll hear next from Michael Ciarmoli from KeyBanc Capital Markets.

<Q – Michael Ciarmoli – KeyBanc Capital Markets>: Quickly on maybe, Glenn or Marty, if you could just comment on some of the real-time trends you're seeing in some of your shorter cycle businesses? I think you mentioned that Europe was a pressure point. And sort of how you're planning the second half of the year?

I know you took down the revenue guidance a bit, and I'm assuming you had some scenarios in there. But what sort of are your businesses telling you right now about the health of those end markets?

<A – Marty Benante – Curtiss-Wright Corp.>: Right now, as far as Europe is concerned, most of our businesses were Airbus, when you really look at between the service technologies and the products, it's with Airbus. So there's not really a slowdown there. We have not really been affected by the slowdown in Europe that much, except for in some of the commercial items that we use our sensors in. And that's $10 million of quite a large business, so it's not really that significant.

<Q – Michael Ciarmoli – KeyBanc Capital Markets>: Okay. And then what about in terms of the Metal Treatment? Obviously that's a business, no backlog, I mean, relatively speaking, industrial...

<A – Marty Benante – Curtiss-Wright Corp.>: Again, because Airbus is up, they're up, because a lot of the revenues that they have are tied to; a lot of shot peening and laser peening and wing forming. The only area that they've had a little bit of depression is in the automotive sales in Europe.

But obviously automotive sales in the United States has picked up quite a bit. So it's definitely – has done better in auto this year compared to last year.

<Q – Michael Ciarmoli – KeyBanc Capital Markets>: Okay. And then just, I mean, you've got I guess 34% general industrial exposure in there. Kind of the business trends are looking, broadly across all geographies, looking fairly healthy then?

<A – Marty Benante – Curtiss-Wright Corp.>: They are. It's just that it's not booming growth except for a commercial aerospace, but it's still growth.

<Q – Michael Ciarmoli – KeyBanc Capital Markets>: Okay, fair enough. And then just if you can elaborate, I think you mentioned you've got some contingency plans for outcomes on defense and sequestration. Can you give us a sense as to how your business would be impacted or what sort of contingency plans you're putting in place?

<A – Marty Benante – Curtiss-Wright Corp.>: As I said with the contingency plan, we have, first of all, most of the restructuring we're doing in Controls is in the embedded computing and in sensors, which we obviously sell a lot of embedded computing products to the government. So one of the reasons why we did restructuring this year was to take into account that we're going to have reduced government sales one way or the other next year.

The other is, when we put up our plant in Mexico for the overflow of Boeing, if JSF were to be cut down, as I indicated before, it's the same plant we build the Boeing products. So we would just hire less people than we had anticipated for next year if the JSF doesn't get cut.

So those are basically the contingency, but obviously until we understand what it is, it's very hard for us to predict what that will be. But obviously whenever we have a reduction or a change, we react to it very quickly, as you can see what we've done in embedded computing.

<Q – Michael Ciarmoli – KeyBanc Capital Markets>: Sure.

<A – Marty Benante – Curtiss-Wright Corp.>: And the restructuring there.

<Q – Michael Ciarmoli – KeyBanc Capital Markets>: Very good. Thank you very much, guys.

<A – Marty Benante – Curtiss-Wright Corp.>: Okay.

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

Operator: And moving on, we'll hear from Yair Reiner from Oppenheimer.

<Q – Yair Reiner – Oppenheimer Securities>: Thank you. I was wondering on the Flow Controls business, can you remind us of the revenue recognition dynamics around the AP1000 deliveries in the back half of the year?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Yeah, I mean the rev rec is on both contracts, domestic and U.S., is generally over a five-year period. So China began in 2007 and the domestic began in 2008. And it's somewhat like a bell curve. Over that five-year period it ramps up, it plateaus, and then winds down.

So what we're seeing this year is the intersection of the two. You've got China winding down to the end, and the domestic beginning to ramp up, with the domestic, I believe, exceeding the decline in China. So that's kind of where we're at. We're beginning the new bell curve on – or ramping up the bell curve on domestic over the next year or two.

<**Q – Yair Reiner – Oppenheimer Securities**>**:** And is that shift what's accounting for the much stronger second half? I think you're estimating a run rate of about $30 million more per quarter than you had in the first half. Or if not, what are the factors that are driving that growth in Flow Controls?

<**A – Glenn Tynan – Curtiss-Wright Corp.**>**:** Well, it's, some of it's the AP1000 domestic I just mentioned, and the other bigger piece is a pickup in the support of the operating reactors on the nuclear side. And then there's some increase in our non-U.S. Navy, which was the helicopters – the systems for the helicopter landing systems. Those are the three, probably the big three. There're also some – we're expecting a couple of large orders in oil and gas as well in the second half.

<**Q – Yair Reiner – Oppenheimer Securities**>**:** Got it. And so is that kind of $310, $320 top line, is that the new run rate going forward? Or should we expect kind of a pull-back in the first half of 2013?

<**A – Glenn Tynan – Curtiss-Wright Corp.**>**:** You know what, I'm not really going to comment on 2013 now. But they're a little skewed to the second half like they normally are. So the only thing I would say is probably we will have the same type of profile next year. We always – always at this point of the year we go through the half/half analysis with you guys, because we have that phenomena in both our Motion Control and Flow Control businesses, but I can't tell you what 2013's going to be yet.

<**Q – Yair Reiner – Oppenheimer Securities**>**:** Okay, and then just one on interest expense. It's running $6.5 million per quarter for the first half. Guidance implies that it goes up to $8 million. I don't think you've added any additional debt. What accounts for the higher interest expense in the back half?

<**A – Glenn Tynan – Curtiss-Wright Corp.**>**:** Well, I will say that the first half of the year did better. We entered into interest rate swap agreements in the beginning of the year in the first quarter, and they've actually been pretty favorable for us in the first half of the year.

And I have not – we have not forecasted that into our interest expense forecast yet, as yet, because it's pretty volatile. It does change from time to time. We've been lucky. It's been favorable for us for the first half, and it could be favorable again for us in the second half. We just not, have not – conservatively have not put it into our guidance yet.

<**Q – Yair Reiner – Oppenheimer Securities**>**:** Okay, thank you.

<**A – Glenn Tynan – Curtiss-Wright Corp.**>**:** You're welcome.

Operator: [Operator Instructions] Our next question comes from Tyler Hojo from Sidoti & Company.

<**Q – Tyler Hojo – Sidoti & Co. LLC**>**:** Yeah, hi, good morning, Marty and Glenn. Just first question on the defense market, you guys are now guiding 2% to 4% growth for the year. I'm just kind of wondering, I mean just from a backlog standpoint, how much visibility do you have into that? And how much needs to be booked and shipped in the back half of the year to kind of meet that growth objective?

<**A – Marty Benante – Curtiss-Wright Corp.**>**:** There's very little. Most of our backlog – most of the defense is in backlog. You have embedded computing and some sensors. But for larger programs, especially what we're projecting for Flow Control, are already in backlog.

<**Q – Tyler Hojo – Sidoti & Co. LLC**>**:** Okay. When you say most, I mean could you narrow that down a little bit?

<A – Glenn Tynan – Curtiss-Wright Corp.>: Really, we don't have it exactly like that, Tyler. But we're 70% of our second half sales overall is in backlog, and it's a much higher percentage in the defense because they're long-term contracts. Most of that 30% we don't have is in the commercial businesses like general industrial and those businesses. So it's well north of the 70%; that's about all I can say.

<A – Marty Benante – Curtiss-Wright Corp.>: Yes.

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

<Q – Tyler Hojo – Sidoti & Co. LLC>: Okay. Very helpful. And then I was also wondering, you've kind of revised your power generation forecast for 2012. Last we spoke, three months ago, I think you were indicating about a third of that was going to come from new build. It seems like that would have shifted with your updated guidance here, but perhaps you could speak to that a little bit?

<A – Marty Benante – Curtiss-Wright Corp.>: So there's two things. One of the shifts is, we're seeing a little bit of a slowdown for spares out of – from the current operating reactors. They're getting ready to put in the Tier 1 recommendations that the NRC has come out after the results of the Fukushima crisis. Remember I talked about the double-edged sword that we'll get more revenue, but it may tighten up the purse strings of the current spares.

<Q – Tyler Hojo – Sidoti & Co. LLC>: Okay. All right.

<A – Marty Benante – Curtiss-Wright Corp.>: And we'll also have slightly lower China AP1000. What happened is, when we originally expected that we would have the pumps ready for shipment by the middle of June, end of May, middle of June, and we end up having a problem where we risk-release some parts. It was later determined by the ASME, which is a third-party inspector for China and Westinghouse on our pumps, indicated we needed to perform some inspections that we wouldn't normally do on other pumps that we build.

And we ended up having to go through and cut off five stator jackets and having to do additional assembly and test. And that's one of the reasons for the charge. So what happened is, we expect to get less shipments out the door out of our pump company because of that delay, and that's how – why we have lower sales on the power generation side.

<Q – Tyler Hojo – Sidoti & Co. LLC>: Okay, great. Thanks for the clarification there. And then just lastly, you mentioned in your prepared remarks that you anticipated I think a ramp-up in the super vessel business in the back half of the year.

<A – Marty Benante – Curtiss-Wright Corp.>: Yes.

<Q – Tyler Hojo – Sidoti & Co. LLC>: Just curious, I mean, are those orders in hand? And if not, what kind of lead times do you need on them?

<A – Marty Benante – Curtiss-Wright Corp.>: We do have backlog there, but the thing is, is that lead time are about a year. But again, when you take a look at some of the vessel – or possibilities out there, are tens of millions of dollars. And we're looking to get additional sales of $10 million in the back half of the year by both vessels and from our DeltaValve product. So it's not just super vessels.

<Q – Tyler Hojo – Sidoti & Co. LLC>: Okay, great. All right, great. That's all I had. Thanks a lot.

<A – Marty Benante – Curtiss-Wright Corp.>: Okay.

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

Operator: And that does conclude our conference – our Q&A session today. Gentlemen, I'll turn the conference back over to you.

Martin R. Benante, Chairman and Chief Executive Officer

Okay, great. Well, thank everybody for joining us today. We look forward to speaking with you again in our third quarter earnings call. Thank you very much. Have a good one.

Glenn E. Tynan, Vice President and Chief Financial Officer

Bye bye.

Operator: Thank you. That does conclude our conference for today. Thank you all for your participation.