

CURTISS WRIGHT CORP
Form 10-Q
May 03, 2018

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018

or

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

Commission File Number 1-134

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

Delaware 13-0612970
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
130 Harbour Place Drive, Suite 300
Davidson, North Carolina 28036
(Address of principal executive offices) (Zip Code)

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

13925 Ballantyne Corporate Place, Suite 400, Charlotte, North Carolina 28277
(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

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

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

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

Common Stock, par value \$1.00 per share: 44,211,431 shares (as of April 30, 2018).

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES

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PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except per share data)	Three Months Ended	
	March 31,	
	2018	2017
Net sales		
Product sales	\$444,687	\$423,229
Service sales	102,835	100,362
Total net sales	547,522	523,591
Cost of sales		
Cost of product sales	299,311	289,610
Cost of service sales	67,020	67,046
Total cost of sales	366,331	356,656
Gross profit	181,191	166,935
Research and development expenses	15,941	15,591
Selling expenses	31,520	29,458
General and administrative expenses	69,232	74,194
Operating income	64,498	47,692
Interest expense	8,204	10,377
Other income, net	4,683	3,847
Earnings before income taxes	60,977	41,162
Provision for income taxes	(17,334)	(8,615)
Net earnings	\$43,643	\$32,547
Net earnings per share:		
Basic earnings per share	\$0.99	\$0.74
Diluted earnings per share	\$0.98	\$0.73
Dividends per share	\$0.15	\$0.13
Weighted-average shares outstanding:		
Basic	44,188	44,246
Diluted	44,678	44,860

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Net earnings	\$43,643	\$32,547
Other comprehensive income		
Foreign currency translation adjustments, net of tax ⁽¹⁾	\$15,411	\$11,224
Pension and postretirement adjustments, net of tax ⁽²⁾	2,622	1,951
Other comprehensive income, net of tax	18,033	13,175
Comprehensive income	\$61,676	\$45,722

⁽¹⁾ The tax benefit included in other comprehensive income for foreign currency translation adjustments for the three months ended March 31, 2018 and 2017 was \$0.7 million and \$0.1 million, respectively.

⁽²⁾ The tax expense included in other comprehensive income for pension and postretirement adjustments for the three months ended March 31, 2018 and 2017 was \$0.9 million and \$1.2 million, respectively.

See notes to condensed consolidated financial statements

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

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 396,518	\$ 475,120
Receivables, net	518,784	494,923
Inventories, net	386,787	378,866
Other current assets	50,688	52,951
Total current assets	1,352,777	1,401,860
Property, plant, and equipment, net	385,287	390,235
Goodwill	1,099,450	1,096,329
Other intangible assets, net	322,856	329,668
Other assets	18,689	18,229
Total assets	\$ 3,179,059	\$ 3,236,321
Liabilities		
Current liabilities:		
Current portion of long-term and short-term debt	\$ 982	\$ 150
Accounts payable	165,413	185,176
Accrued expenses	102,602	150,406
Income taxes payable	8,810	4,564
Deferred revenue	217,959	214,891
Other current liabilities	45,519	35,810
Total current liabilities	541,285	590,997
Long-term debt	813,576	813,989
Deferred tax liabilities, net	58,486	49,360
Accrued pension and other postretirement benefit costs	67,984	121,043
Long-term portion of environmental reserves	14,681	14,546
Other liabilities	104,072	118,586
Total liabilities	1,600,084	1,708,521
Contingencies and commitments (Note 13)		
Stockholders' Equity		
Common stock, \$1 par value, 100,000,000 shares authorized as of March 31, 2018 and December 31, 2017; 49,187,378 shares issued as of March 31, 2018 and December 31, 2017; outstanding shares were 44,235,280 as of March 31, 2018 and 44,123,519 as of December 31, 2017	49,187	49,187
Additional paid in capital	116,221	120,609
Retained earnings	1,979,051	1,944,324
Accumulated other comprehensive loss	(198,807)	(216,840)
Common treasury stock, at cost (4,952,098 shares as of March 31, 2018 and 5,063,859 shares as of December 31, 2017)	(366,677)	(369,480)
Total stockholders' equity	1,578,975	1,527,800
Total liabilities and stockholders' equity	\$ 3,179,059	\$ 3,236,321

See notes to condensed consolidated financial statements

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

(In thousands)	Three Months Ended	
	March 31, 2018	2017
Cash flows from operating activities:		
Net earnings	\$43,643	\$32,547
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation and amortization	24,601	24,926
Gain on divestiture	(2,108)) —
Gain on fixed asset disposals	(697)	) (38)
Deferred income taxes	7,806	) (877)
Share-based compensation	4,591	3,364
Change in operating assets and liabilities, net of businesses acquired:		
Receivables, net	(2,451)	) (7,373)
Inventories, net	(28,652)	) (3,688)
Progress payments	(3,121)	) (797)
Accounts payable and accrued expenses	(79,564)	) (75,676)
Deferred revenue	6,410	3,743
Income taxes payable	1,407	(2,249)
Net pension and postretirement liabilities	(48,704)	) (2,019)
Other current and long-term assets and liabilities	5,577	3,196
Net cash used for operating activities	(71,262)	) (24,941)
Cash flows from investing activities:		
Proceeds from sales and disposals of long lived assets	819	85
Acquisition of intangible assets	(1,500)) —
Additions to property, plant, and equipment	(8,971)	) (10,374)
Acquisition of businesses, net of cash acquired	—	) (239,372)
Net cash used for investing activities	(9,652)	) (249,661)
Cash flows from financing activities:		
Borrowings under revolving credit facilities	3,716	120
Payment of revolving credit facilities	(2,884)	) (209)
Repurchases of common stock	(12,328)	) (12,885)
Proceeds from share-based compensation	6,151	5,195
Other	(181)	) (224)
Net cash used for financing activities	(5,526)	) (8,003)
Effect of exchange-rate changes on cash	7,838	1,663
Net decrease in cash and cash equivalents	(78,602)	) (280,942)
Cash and cash equivalents at beginning of period	475,120	553,848
Cash and cash equivalents at end of period	\$396,518	\$272,906
Supplemental disclosure of non-cash activities:		
Capital expenditures incurred but not yet paid	\$182	\$1,370

See notes to condensed consolidated financial statements

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

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
December 31, 2016	\$ 49,187	\$ 129,483	\$ 1,754,907	\$ (291,756)	\$ (350,630)
Net earnings	—	—	214,891	—	—
Other comprehensive income, net of tax	—	—	—	74,916	—
Dividends paid	—	—	(24,740)	—	—
Restricted stock, net of tax	—	(12,104)	—	—	12,105
Stock options exercised, net of tax	—	(5,724)	—	—	19,902
Share-based compensation	—	11,191	—	—	381
Repurchase of common stock	—	—	—	—	(52,127)
Other	—	(2,237)	(734)	—	889
December 31, 2017	\$ 49,187	\$ 120,609	\$ 1,944,324	\$ (216,840)	\$ (369,480)
Cumulative effect from adoption of ASC 606	—	—	(2,274)	—	—
Net earnings	—	—	43,643	—	—
Other comprehensive income, net of tax	—	—	—	18,033	—
Dividends declared	—	—	(6,642)	—	—
Restricted stock	—	(6,828)	—	—	6,828
Stock options exercised	—	(1,237)	—	—	7,389
Share-based compensation	—	4,402	—	—	189
Repurchase of common stock	—	—	—	—	(12,328)
Other	—	(725)	—	—	725
March 31, 2018	\$ 49,187	\$ 116,221	\$ 1,979,051	\$ (198,807)	\$ (366,677)

See notes to condensed consolidated financial statements

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

1. BASIS OF PRESENTATION

Curtiss-Wright Corporation and its subsidiaries (the "Corporation" or the "Company") is a global, diversified manufacturing and service company that designs, manufactures, and overhauls precision components and provides highly engineered products and services to the aerospace, defense, power generation, and general industrial markets.

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

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

Management is required to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities in the accompanying financial statements. Actual results may differ from these estimates. The most significant of these estimates includes the estimate of costs to complete long-term contracts under the percentage-of-completion accounting methods, the estimate of useful lives for property, plant, and equipment, cash flow estimates used for testing the recoverability of assets, pension plan and postretirement obligation assumptions, estimates for inventory obsolescence, estimates for the valuation and useful lives of intangible assets, legal reserves, and the estimate of future environmental costs. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Accordingly, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. In the three month periods ended March 31, 2018 and 2017, there were no individual significant changes in estimated contract costs. In the opinion of management, all adjustments considered necessary for a fair presentation have been reflected in these financial statements.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's 2017 Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of trends or of the operating results for a full year.

Recent accounting pronouncements adopted

ASU 2014-09 - Revenue from Contracts with Customers - On January 1, 2018, the Corporation adopted ASC 606, Revenue from Contracts with Customers, and the related amendments ("new revenue standard") using the modified retrospective method. The Corporation recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the retained earnings balance as of January 1, 2018. Comparative information for prior periods has not been restated and continues to be reported under the accounting standard in effect for those respective periods.

The cumulative effect from the adoption of the new revenue standard as of January 1, 2018 was as follows:

Balance Sheet (In thousands) As of	Adjustments As of
	due to

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	December	ASU	January
	31, 2017	2014-09	1, 2018
Receivables, net	\$494,923	\$ 18,363	\$513,286
Inventories, net	378,866	(23,555)	355,311
Other assets	18,229	878	19,107
Deferred revenue	214,891	(2,040)	212,851
Retained earnings	1,944,324	(2,274)	1,942,050

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

The impact of adoption on the Corporation's Condensed Consolidated Statement of Earnings and Condensed Consolidated Balance Sheet was as follows:

Statement of Earnings (In thousands)	Three Months Ended March 31, 2018		
	As Reported	Adjustments Increase/(Decrease)	Balances Without Adoption of ASC 606
Product sales	\$444,687	\$ (2,034)	\$442,653
Cost of product sales	299,311	368	299,679
Provision for income taxes	(17,334)	615	(16,719)
Net Income	\$43,643	\$ (1,787)	\$41,856

Balance Sheet (In thousands)	As of March 31, 2018		
	As Reported	Adjustments Increase/(Decrease)	Balances Without Adoption of ASC 606
Receivables, net	\$518,784	\$ (22,668)	\$496,116
Inventories, net	386,787	23,270	410,057
Other assets	18,689	(878)	17,811
Income taxes payable	8,810	(615)	8,195
Deferred revenue	217,959	(148)	217,811
Retained earnings	1,979,051	487	1,979,538

ASU 2017-07, Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost - On January 1, 2018, the Corporation adopted the amendments to ASC 715 that improve the presentation of net periodic pension and postretirement benefit costs. The Corporation retrospectively adopted the presentation of service cost separate from the other components of net periodic costs and included it as a component of employee compensation cost in operating income. The interest cost, expected return on assets, amortization of prior service costs, and net actuarial gain/loss components of net periodic benefit costs have been reclassified from operating income to other income, net. Additionally, the Corporation elected to apply the practical expedient which allows it to reclassify amounts disclosed previously in Note 15 of the Corporation's 2017 Annual Report on Form 10-K as the basis for applying retrospective presentation for comparative periods.

The effect of the retrospective change on the Corporation's Condensed Consolidated Statement of Earnings for the three months ended March 31, 2017, was as follows:

Statement of Earnings (In thousands)	Three Months Ended March 31, 2017		
	Previously Reported	Adjustments Increase/(Decrease)	As Revised
Cost of product sales	\$286,492	\$ 3,118	\$289,610
Cost of service sales	66,324	722	67,046
Research and development expenses	15,298	293	15,591
Selling expenses	28,953	505	29,458

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General and administrative expenses	75,297	(1,103)	74,194
Other income, net	312	3,535		3,847

ASU 2017-01, Business Combinations - Clarifying the Definition of a Business. On January 1, 2018, the Corporation adopted the amendments to ASC 805 which clarifies the definition of a business. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output. The adoption of this standard did not have a financial impact on the Condensed Consolidated Financial Statements.

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

Recent accounting pronouncements to be adopted

Standard	Description	Effect on the condensed consolidated financial statements
ASU 2016-02 Leases	In February 2016, the FASB issued final guidance that will require lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting.	The Corporation is currently evaluating the impact of the adoption of this standard on its Condensed Consolidated Financial Statements.
Date of adoption: January 1, 2019		
ASU 2018-02 Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the 2017 Tax Cuts and Jobs Act (the Tax Act). The standard will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted.	The Corporation is currently evaluating the impact of the adoption of this standard on its Condensed Consolidated Financial Statements.
Date of adoption: January 1, 2019		

Impact from the Tax Act

In accordance with Staff Bulletin No. 118, Income Tax Implications of the Tax Cuts and Jobs Act, the Corporation recognized the income tax effects of the Tax Act in its consolidated financial statements for the year ended December 31, 2017. During the three months ended March 31, 2018, the Corporation recorded additional provisional tax expense of \$6.5 million for foreign withholding taxes associated with the Tax Act. The Corporation expects to finalize any provisional amounts associated with the Tax Act over the next nine months based on ongoing assessment of its tax positions and other relevant data.

2. REVENUE

As discussed in Note 1, the Corporation accounts for revenues in accordance with ASC 606, Revenue from Contracts with Customers, which was adopted as January 1, 2018 on a modified retrospective basis. Under ASC 606, revenue is recognized when control of a promised good and/or service is transferred to a customer in an amount that reflects the consideration that the Corporation expects to be entitled to in exchange for that good and/or service.

Performance Obligations

The Corporation identifies a performance obligation for each promise in a contract to transfer a distinct good or service to the customer. As part of its assessment, the Corporation considers all goods and/or services promised in the contract, regardless of whether they are explicitly stated or implied by customary business practices. The Corporation's contracts may contain either a single performance obligation, including the promise to transfer individual goods or services that are not separately distinct within the context of the respective contracts, or multiple performance obligations. For contracts with multiple performance obligations, the Corporation allocates the overall transaction price to each performance obligation using standalone selling prices, where available, or utilizes estimates for each distinct good or service in the contract where standalone prices are not available.

The Corporation's performance obligations are satisfied either at a point-in-time or on an over-time basis. Revenue recognized on an over-time basis accounted for approximately 31% of total net sales for the three months ended March 31, 2018. Typically, over-time revenue recognition is based on the utilization of an input measure used to measure progress, such as costs incurred to date relative to total estimated costs. Revenue recognized at a point-in-time accounted for approximately 69% of total net sales for the three months ended March 31, 2018. Revenue for these types of arrangements is recognized at the point in time in which control is transferred to the customer, typically based upon the terms of delivery.

Contract backlog represents the remaining performance obligations that have not yet been recognized as revenue. Backlog includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Total backlog was approximately \$2.1 billion as of March 31, 2018, of which the Corporation expects to recognize approximately 88% as net sales over the next 12 -36 months. The remainder will be recognized thereafter.

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

Disaggregation of Revenue

The following table presents the Corporation's total net sales disaggregated by end market and customer type:

Total Net Sales by End Market and Customer Type (In thousands)	Three Months Ended March 31,	
	2018	2017
Defense		
Aerospace	\$75,941	\$65,293
Ground	22,011	19,737
Naval	102,782	90,970
Other	4,581	7,041
Total Defense Customers	\$205,315	\$183,041
Commercial		
Aerospace	\$99,404	\$98,614
Power Generation	99,012	105,551
General Industrial	143,791	136,385
Total Commercial Customers	\$342,207	\$340,550
Total	\$547,522	\$523,591

Contract Balances

Timing of revenue recognition and cash collection may result in billed receivables, unbilled receivables (contract assets), and deferred revenue (contract liabilities) on the Condensed Consolidated Balance Sheet. The Corporation's contract assets primarily relate to its rights to consideration for work completed but not billed as of the reporting date. Contract assets are transferred to billed receivables when the rights to consideration become unconditional. This is typical in situations where amounts are billed as work progresses in accordance with agreed-upon contractual terms or upon achievement of contractual milestones. The Corporation's contract liabilities primarily consist of customer advances received prior to revenue being earned. Revenue recognized during the three months ended March 31, 2018 included in the contract liabilities balance at the beginning of the year was approximately \$36 million. Changes in contract assets and contract liabilities as of March 31, 2018, were not materially impacted by any other factors. Contract assets and contract liabilities are reported in the "Receivables, net" and "Deferred revenue" lines, respectively, within the Condensed Consolidated Balance Sheet.

3. ACQUISITIONS

The Corporation continually evaluates potential acquisitions that either strategically fit within the Corporation's existing portfolio or expand the Corporation's portfolio into new product lines or adjacent markets. The Corporation has completed a number of acquisitions that have been accounted for as business combinations and have resulted in the recognition of goodwill in the Corporation's financial statements. This goodwill arises because the purchase prices for these businesses reflect the future earnings and cash flow potential in excess of the earnings and cash flows attributable to the current product and customer set at the time of acquisition. Thus, goodwill inherently includes the know-how of the assembled workforce, the ability of the workforce to further improve the technology and product offerings, and the expected cash flows resulting from these efforts. Goodwill may also include expected synergies resulting from the complementary strategic fit these businesses bring to existing operations.

The Corporation allocates the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. In the months after closing, as the Corporation obtains additional information about these assets and liabilities, including through tangible and intangible asset appraisals, and as the Corporation learns more about the newly acquired business, it is able to refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. The Corporation will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

No acquisitions were made during the three months ended March 31, 2018. During the three months ended March 31, 2017, the Corporation acquired two businesses for an aggregate purchase price of \$239 million, both of which are described in more detail below.

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

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for those acquisitions consummated during the three months ended March 31, 2017.

(In thousands)	2017
Accounts receivable	\$5,020
Inventory	21,573
Property, plant, and equipment	4,598
Other current and non-current assets	2,815
Intangible assets	89,900
Current and non-current liabilities	(7,354)
Due from seller, net ⁽¹⁾	6,509
Net tangible and intangible assets	123,061
Purchase price, net of cash acquired	239,372
Goodwill	\$116,311

Goodwill deductible for tax purposes \$116,311

⁽¹⁾ Amount is primarily due to working capital adjustments.

2017 Acquisitions

Teletronics Technology Corporation (TTC)

On January 3, 2017, the Corporation acquired 100% of the issued and outstanding capital stock of TTC for \$232.8 million, net of cash acquired. The Share Purchase Agreement contains a purchase price adjustment mechanism and representations and warranties customary for a transaction of this type, including a portion of the purchase price deposited in escrow as security for potential indemnification claims against the seller. TTC is a designer and manufacturer of high-technology data acquisition and comprehensive flight test instrumentation systems for critical aerospace and defense applications. The acquired business operates within the Defense segment.

Para Tech Coating, Inc. (Para Tech)

On February 8, 2017, the Corporation acquired certain assets and assumed certain liabilities of Para Tech for \$6.6 million in cash. The Asset Purchase Agreement contains a purchase price adjustment mechanism and representations and warranties customary for a transaction of this type, including a portion of the purchase price held back as security for potential indemnification claims against the seller. Para Tech is a provider of parylene conformal coating services for aerospace & defense electronic components as well as critical medical devices. The acquired business operates within the Commercial/Industrial segment.

4. RECEIVABLES

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

The composition of receivables is as follows:

(In thousands)	March 31, 2018	December 31, 2017
Billed receivables:		
Trade and other receivables	\$344,310	\$ 363,234
Less: Allowance for doubtful accounts	(7,725)	(7,486)
Net billed receivables	336,585	355,748
Unbilled receivables (Contract Assets):		
Recoverable costs and estimated earnings not billed	202,893	160,727
Less: Progress payments applied	(20,694)	(21,552)
Net unbilled receivables	182,199	139,175
Receivables, net	\$518,784	\$ 494,923

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

5. INVENTORIES

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

(In thousands)	March 31, 2018	December 31, 2017
Raw materials	\$206,004	\$191,855
Work-in-process	75,204	73,937
Finished goods and component parts	117,241	114,307
Inventoried costs related to U.S. Government and other long-term contracts	53,477	65,150
Gross inventories	451,926	445,249
Less: Inventory reserves	(55,238)	(54,638)
Progress payments applied, principally related to long-term contracts	(9,901)	(11,745)
Inventories, net	\$386,787	\$378,866

Inventoried costs related to long-term contracts include capitalized contract development costs related to certain aerospace and defense programs of \$43.1 million and \$35.0 million as of March 31, 2018 and December 31, 2017, respectively. These capitalized costs will be liquidated as control of production units is transferred to the customer. As of March 31, 2018 and December 31, 2017, \$8.6 million and \$5.4 million, respectively, are scheduled to be liquidated under existing firm orders.

6. GOODWILL

The changes in the carrying amount of goodwill for the three months ended March 31, 2018 are as follows:

(In thousands)	Commercial/ Industrial	Defense	Power	Consolidated
December 31, 2017	\$ 448,531	\$460,332	\$187,466	\$1,096,329
Adjustments	—	(1,439)	—	(1,439)
Foreign currency translation adjustment	2,907	1,734	(81)	4,560
March 31, 2018	\$ 451,438	\$460,627	\$187,385	\$1,099,450

7. OTHER INTANGIBLE ASSETS, NET

The following tables present the cumulative composition of the Corporation's intangible assets:

(In thousands)	March 31, 2018			December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Technology	\$244,292	\$ (116,671)	\$127,621	\$243,440	\$ (114,036)	\$129,404
Customer related intangibles	365,149	(182,629)	182,520	367,230	(180,580)	186,650
Other intangible assets	40,749	(28,034)	12,715	40,640	(27,026)	13,614
Total	\$650,190	\$ (327,334)	\$322,856	\$651,310	\$ (321,642)	\$329,668

Total intangible amortization expense for both the three months ended March 31, 2018 and 2017 was \$9.6 million. The estimated amortization expense for the five years ending December 31, 2018 through 2022 is \$38.7 million, \$36.9 million, \$34.9 million, \$33.1 million, and \$30.5 million, respectively.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Forward Foreign Exchange and Currency Option Contracts

The Corporation has foreign currency exposure primarily in the United Kingdom, Europe, and Canada. The Corporation uses financial instruments, such as forward contracts, to hedge a portion of existing and anticipated foreign currency denominated transactions. The purpose of the Corporation's foreign currency risk management program is to reduce volatility in earnings caused

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by exchange rate fluctuations. Guidance on accounting for derivative instruments and hedging activities requires companies to recognize all of the derivative financial instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets based upon quoted market prices for comparable instruments.

Interest Rate Risks and Related Strategies

The Corporation's primary interest rate exposure results from changes in U.S. dollar interest rates. The Corporation's policy is to manage interest cost using a mix of fixed and variable rate debt. The Corporation periodically uses interest rate swaps to manage such exposures. Under these interest rate swaps, the Corporation exchanges, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The Corporation's foreign exchange contracts and interest rate swaps are considered Level 2 instruments which are based on market based inputs or unobservable inputs and corroborated by market data such as quoted prices, interest rates, or yield curves.

Effects on Condensed Consolidated Balance Sheets

As of March 31, 2018 and December 31, 2017, the fair values of the asset and liability derivative instruments are immaterial.

Effects on Condensed Consolidated Statements of Earnings

Undesignated hedges

The location and amount of (gains) and losses recognized in income on forward exchange derivative contracts not designated for hedge accounting for the three months ended March 31, were as follows:

	Three Months Ended March 31,	
(In thousands)	2018	2017
Derivatives not designated as hedging instrument		
Forward exchange contracts:		
General and administrative expenses	\$(353)	\$707

Debt

The estimated fair value amounts were determined by the Corporation using available market information that is primarily based on quoted market prices for the same or similar issuances as of March 31, 2018. Accordingly, all of the Corporation's debt is valued at a Level 2. The fair values described below may not be indicative of net realizable value or reflective of future fair values. Furthermore, the use of different methodologies to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

	March 31, 2018		December 31, 2017	
(In thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
3.84% Senior notes due 2021	100,000	101,165	100,000	102,472
3.70% Senior notes due 2023	225,000	225,407	225,000	228,783
3.85% Senior notes due 2025	100,000	100,123	100,000	102,164

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4.24% Senior notes due 2026	200,000	203,790	200,000	208,873
4.05% Senior notes due 2028	75,000	74,972	75,000	76,997
4.11% Senior notes due 2028	100,000	100,424	100,000	103,226
Other debt	982	982	150	150
Total debt	800,982	806,863	800,150	822,665
Debt issuance costs, net	(796)	(796)	(831)	(831)
Unamortized interest rate swap proceeds	14,372	14,372	14,820	14,820
Total debt, net	\$814,558	\$820,439	\$814,139	\$836,654

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9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The following table is a consolidated disclosure of all domestic and foreign defined benefit pension plans as described in the Corporation's 2017 Annual Report on Form 10-K filed with the SEC.

Pension Plans

The components of net periodic pension cost for the three months ended March 31, 2018 and 2017 are as follows:

(In thousands)	Three Months Ended March 31,	
	2018	2017
Service cost	\$6,506	\$6,471
Interest cost	6,534	6,219
Expected return on plan assets	(14,716)	(13,285)
Amortization of prior service cost	(63)	(25)
Amortization of unrecognized actuarial loss	3,906	3,581
Net periodic benefit cost	\$2,167	\$2,961

During the three months ended March 31, 2018, the Corporation made a \$50 million contribution to the Curtiss-Wright Pension Plan. The Corporation does not expect to make any further contributions in 2018. Contributions to the foreign benefit plans are not expected to be material in 2018.

Defined Contribution Retirement Plan

Effective January 1, 2014, all non-union employees who were not currently receiving final or career average pay benefits became eligible to receive employer contributions in the Corporation's sponsored 401(k) plan. The employer contributions include both employer match and non-elective contribution components, up to a maximum employer contribution of 6% of eligible compensation. During the three months ended March 31, 2018 and 2017, the expense relating to the plan was \$4.2 million and \$3.7 million, respectively. The Corporation made \$9.2 million in contributions to the plan for the first quarter of 2018, and expects to make total contributions of \$14.0 million in 2018.

10. EARNINGS PER SHARE

Diluted earnings per share were computed based on the weighted-average number of shares outstanding plus all potentially dilutive common shares. A reconciliation of basic to diluted shares used in the earnings per share calculation is as follows:

(In thousands)	Three Months Ended March 31,	
	2018	2017
Basic weighted-average shares outstanding	44,188	44,246
Dilutive effect of stock options and deferred stock compensation	490	614
Diluted weighted-average shares outstanding	44,678	44,860

For the three months ended March 31, 2018, there were no anti-dilutive equity-based awards. For the three months ended March 31, 2017, approximately 38,000 shares issuable under equity-based awards were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period.

11. SEGMENT INFORMATION

The Corporation manages and evaluates its operations based on end markets to strengthen its ability to service customers and recognize certain organizational efficiencies. Based on this approach, the Corporation has three reportable segments: Commercial/Industrial, Defense, and Power.

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The Corporation's measure of segment profit or loss is operating income. Interest expense and income taxes are not reported on an operating segment basis as they are not considered in the segments' performance evaluation by the Corporation's chief operating decision-maker, its Chief Executive Officer.

Net sales and operating income by reportable segment were as follows:

(In thousands)	Three Months Ended	
	March 31,	
	2018	2017
Net sales		
Commercial/Industrial	\$296,753	\$279,056
Defense	120,883	114,837
Power	132,158	130,595
Less: Intersegment revenues	(2,272)	(897)
Total consolidated	\$547,522	\$523,591
Operating income (expense)		
Commercial/Industrial	\$39,225	\$30,552
Defense	19,728	11,097
Power	15,342	15,545
Corporate and eliminations ⁽¹⁾	(9,797)	(9,502)
Total consolidated	\$64,498	\$47,692

⁽¹⁾ Corporate and eliminations includes pension and other postretirement benefit expense, certain environmental costs related to remediation at legacy sites, foreign currency transactional gains and losses, and certain other expenses.

Adjustments to reconcile operating income to earnings before income taxes:

(In thousands)	Three Months Ended	
	March 31,	
	2018	2017
Total operating income	\$64,498	\$47,692
Interest expense	8,204	10,377
Other income, net	4,683	3,847
Earnings before income taxes	\$60,977	\$41,162

(In thousands)	March 31,	December
	2018	31, 2017
Identifiable assets		
Commercial/Industrial	\$1,476,555	\$1,444,097
Defense	1,055,115	1,044,776
Power	487,278	482,753
Corporate and Other	160,111	264,695
Total consolidated	\$3,179,059	\$3,236,321

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The cumulative balance of each component of accumulated other comprehensive income (loss), net of tax, is as follows:

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(In thousands)	Foreign currency translation adjustments, net	Total pension and postretirement adjustments, net	Accumulated other comprehensive income (loss)
December 31, 2016	\$ (172,650)	\$ (119,106)	\$ (291,756)
Other comprehensive loss before reclassifications ⁽¹⁾	77,942	(10,831)	67,111
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾	—	7,805	7,805
Net current period other comprehensive loss	77,942	(3,026)	74,916
December 31, 2017	\$ (94,708)	\$ (122,132)	\$ (216,840)
Other comprehensive income (loss) before reclassifications ⁽¹⁾	15,411	(145)	15,266
Amounts reclassified from accumulated other comprehensive income (loss) ⁽¹⁾	—	2,767	2,767
Net current period other comprehensive income	15,411	2,622	18,033
March 31, 2018	\$ (79,297)	\$ (119,510)	\$ (198,807)

⁽¹⁾ All amounts are after tax.

Details of amounts reclassified from accumulated other comprehensive income (loss) are below:

(In thousands)	Amount reclassified from Accumulated other comprehensive income (loss)	Affected line item in the statement where net earnings is presented
Defined benefit pension and other postretirement benefit plans		
Amortization of prior service costs	227	⁽¹⁾
Amortization of actuarial losses	(3,898)	⁽¹⁾
	(3,671)	Total before tax
	904	Income tax
Total reclassifications	\$ (2,767)	Net of tax

⁽¹⁾ These items are included in the computation of net periodic pension cost. See Note 9, Pension and Other Postretirement Benefit Plans.

13. CONTINGENCIES AND COMMITMENTS

Legal Proceedings

The Corporation has been named in a number of lawsuits that allege injury from exposure to asbestos. To date, the Corporation has not been found liable for or paid any material sum of money in settlement in any case. The Corporation believes its minimal use of asbestos in its past operations and the relatively non-friable condition of asbestos in its products makes it unlikely that it will face material liability in any asbestos litigation, whether individually or in the aggregate. The Corporation maintains insurance coverage for these potential liabilities and believes adequate coverage exists to cover any unanticipated asbestos liability.

In December 2013, the Corporation, along with other unaffiliated parties, received a claim from Canadian Natural Resources Limited (CNRL) filed in the Court of Queen's Bench of Alberta, Judicial District of Calgary. The claim pertains to a January 2011 fire and explosion at a delayed coker unit at its Fort McMurray refinery that resulted in the injury of five CNRL employees, damage to property and equipment, and various forms of consequential loss, such as loss of profit, lost opportunities, and business interruption. The fire and explosion occurred when a CNRL employee bypassed certain safety controls and opened an operating coker unit. The total quantum of alleged damages arising from the incident has not been finalized, but is estimated to meet or exceed \$1 billion. The Corporation maintains various forms of commercial, property and casualty, product liability, and other forms of insurance; however, such insurance may not be adequate to cover the costs associated with a judgment against us. In October 2017, all parties agreed in principle to participate in a formal mediation in late 2018 with the intention of settling this claim. In an effort to induce the parties to participate in the formal mediation, CNRL agreed to reduce its claim to approximately \$400 million, which reflects the monetary amount of property damage incurred as a result of the fire and explosion. The Corporation is currently unable to estimate an amount, or range of potential losses, if any, from this matter. The Corporation believes that it has adequate legal defenses and intends to defend

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this matter vigorously. The Corporation's financial condition, results of operations, and cash flows could be materially affected during a future fiscal quarter or fiscal year by unfavorable developments or outcome regarding this claim.

The Corporation is party to a number of other legal actions and claims, none of which individually or in the aggregate, in the opinion of management, are expected to have a material effect on the Corporation's results of operations or financial position.

Westinghouse Bankruptcy

On March 29, 2017, WEC filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Southern District of New York (the Court), Case No. 17-10751. The Court overseeing the Bankruptcy Case approved, on an interim basis, an \$800 million Debtor-in-Possession Financing Facility to help WEC finance its business operations during the reorganization process. On January 4, 2018, WEC announced that it had agreed to be acquired by Brookfield Business Partners L.P (Brookfield) for approximately \$4.6 billion with the acquisition expected to close in the third quarter of 2018. On March 27, 2018, the Court approved the sale to Brookfield. The acquisition is not expected to have a material impact on the Corporation's financial condition or results of operations as WEC plans to continue operating in the ordinary course of business under existing senior management.

The Corporation had approximately \$2.9 million in pre-petition billings outstanding with WEC as of March 31, 2018. On March 27, 2018, the Court approved WEC's Plan of Reorganization, whereby the Corporation is expected to recover substantially all of its general unsecured claims inclusive of pre-petition billings. As it relates to post-petition work, the Corporation will continue to honor its executory contracts and expects to collect all amounts due. The Corporation will continue to monitor and evaluate the status of the WEC bankruptcy for potential impacts on its business.

Letters of Credit and Other Financial Arrangements

The Corporation enters into standby letters of credit agreements and guarantees with financial institutions and customers primarily relating to guarantees of repayment, future performance on certain contracts to provide products and services, and to secure advance payments from certain international customers. As of March 31, 2018 and December 31, 2017, there were \$20.7 million and \$21.3 million of stand-by letters of credit outstanding, respectively, and \$15.0 million and \$14.6 million of bank guarantees outstanding, respectively. In addition, the Corporation is required to provide the Nuclear Regulatory Commission financial assurance demonstrating its ability to cover the cost of decommissioning its Cheswick, Pennsylvania facility upon closure, though the Corporation does not intend to close this facility. The Corporation has provided this financial assurance in the form of a \$56.0 million surety bond.

AP1000 Program

Within the Corporation's Power segment, our Electro-Mechanical Division is the reactor coolant pump (RCP) supplier for the WEC AP1000 nuclear power plants under construction in China and the United States. The terms of the AP1000 China and United States contracts include liquidated damage penalty provisions for failure to meet contractual delivery dates if the Corporation caused the delay and the delay was not excusable. On October 10, 2013, the Corporation received a letter from WEC stating entitlements to the maximum amount of liquidated damages allowable under the AP1000 China contract of approximately \$25 million. The Corporation would be liable for liquidated damages under the contract if certain contractual delivery dates were not met and if the Corporation was deemed responsible for the delay. As of March 31, 2018, the Corporation has not met certain contractual delivery dates under its AP 1000 contracts; however there are significant uncertainties as to which parties are responsible for

the delays. The Corporation believes it has adequate legal defenses and intends to vigorously defend this matter. Given the uncertainties surrounding the responsibility for the delays, no accrual has been made for this matter as of March 31, 2018. As of March 31, 2018, the range of possible loss is \$0 million to \$31 million for the AP1000 U.S. contract, for a total range of possible loss is \$0 million to \$55.5 million.

14. SUBSEQUENT EVENTS

On April 2, 2018, the Corporation acquired the assets of the Dresser-Rand Government Business (Dresser-Rand) for \$212.5 million in cash. Dresser-Rand operates as a business unit of Siemens Government Technologies, which is a wholly-owned U.S. subsidiary of Siemens AG in Germany. Dresser-Rand is a leading designer and manufacturer of mission-critical, high-speed rotating equipment solutions and also acts as the sole supplier of steam turbines and main engine guard valves on all aircraft carrier programs. The acquired business will operate within the Corporation's Power segment.

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PART I- ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
FINANCIAL CONDITION and RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Except for historical information, this Quarterly Report on Form 10-Q may be deemed to contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (a) projections of or statements regarding return on investment, future earnings, interest income, sales, volume, other income, earnings or loss per share, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management, (c) statements of future economic performance, and (d) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates," "believes," "continue," "could," "estimate," "expects," "intend," "may," "might," "outlook," "potential," "predict," "should," "will," as well as variations of any of the foregoing or variations of such terms or comparable terminology, or by discussion of strategy. No assurance may be given that the future results described by the forward-looking statements will be achieved. While we believe these forward-looking statements are reasonable, they are only predictions and are subject to known and unknown risks, uncertainties, and other factors, many of which are beyond our control, which could cause actual results, performance, or achievement to differ materially from anticipated future results, performance, or achievement expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those described in "Item 1A. Risk Factors" of our 2017 Annual Report on Form 10-K, and elsewhere in that report, those described in this Quarterly Report on Form 10-Q, and those described from time to time in our future reports filed with the Securities and Exchange Commission. Such forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, those contained in Item 1. Financial Statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date they were made, and we assume no obligation to update forward-looking statements to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I - ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
FINANCIAL CONDITION and RESULTS OF OPERATIONS, continued

COMPANY ORGANIZATION

Curtiss-Wright Corporation and its subsidiaries is a global, diversified, industrial provider of highly engineered and technologically advanced products and services to a broad range of industries which are reported through our Commercial/Industrial, Defense, and Power segments. We are positioned as a market leader across a diversified array of niche markets through engineering and technological leadership, precision manufacturing, and strong relationships with our customers. We provide products and services to a number of global markets, including the commercial aerospace, defense, power generation, and general industrial markets. Our overall strategy is to be a balanced and diversified company, less vulnerable to cycles or downturns in any one market, and to establish strong positions in profitable niche markets. Approximately 40% of our 2018 revenues are expected to be generated from defense-related markets.

RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the results of operations and financial condition of the Corporation for the three months ended March 31, 2018. The financial information as of March 31, 2018 should be read in conjunction with the financial statements for the year ended December 31, 2017 contained in our Form 10-K.

The MD&A is organized into the following sections: Condensed Consolidated Statements of Earnings, Results by Business Segment, and Liquidity and Capital Resources. Our discussion will be focused on the overall results of operations followed by a more detailed discussion of those results within each of our reportable segments.

Our three reportable segments are generally concentrated in a few end markets; however, each may have sales across several end markets. A market is defined as an area of demand for products and services. The sales trends for the relevant markets will be discussed throughout the MD&A.

Analytical Definitions

Throughout management's discussion and analysis of financial condition and results of operations, the terms "incremental" and "organic" are used to explain changes from period to period. The term "incremental" is used to highlight the impact acquisitions and divestitures had on the current year results. The results of operations for acquisitions are incremental for the first twelve months from the date of acquisition. Additionally, the results of operations of divested businesses are removed from the comparable prior year period for purposes of calculating "organic" or "incremental" results. The definition of "organic" excludes the effect of foreign currency translation.

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FINANCIAL CONDITION and RESULTS OF OPERATIONS, continued

Condensed Consolidated Statements of Earnings (In thousands)	Three Months Ended March 31,		
	2018	2017	% change
Sales			
Commercial/Industrial	\$296,641	\$278,822	6 %
Defense	118,901	114,662	4 %
Power	131,980	130,107	1 %
Total sales	\$547,522	\$523,591	5 %
Operating income			
Commercial/Industrial	\$39,225	\$30,552	28 %
Defense	19,728	11,097	78 %
Power	15,342	15,545	(1 %)
Corporate and eliminations	(9,797)	(9,502)	(3 %)
Total operating income	\$64,498	\$47,692	35 %
Interest expense	8,204	10,377	(21 %)
Other income, net	4,683	3,847	22 %
Earnings before income taxes	60,977	41,162	48 %
Provision for income taxes	(17,334)	(8,615)	101 %
Net earnings	\$43,643	\$32,547	34 %
New orders	\$604,903	\$644,276	(6 %)

Components of sales and operating income increase (decrease):	Three Months Ended March 31, 2018 vs. 2017	
	Sales	Operating Income
Organic	3 %	37 %
Acquisitions	— %	— %
Foreign currency	2 %	(2 %)
Total	5 %	35 %

Three months ended March 31, 2018 compared with three months ended March 31, 2017

Sales for the first three months of 2018 increased \$24 million to \$548 million, compared with the same period in 2017. On a segment basis, sales from the Commercial/Industrial segment, Defense segment, and Power segment increased \$18 million, \$4 million, and \$2 million, respectively. Changes in sales by segment are discussed in further detail in the results by business segment section.

Operating income during the first quarter of 2018 increased \$17 million, or 35%, to \$64 million, and operating margin increased 270 basis points, to 11.8%, from the comparable prior year period. The increases in operating income and operating margin are primarily attributable to higher sales volumes of our industrial vehicles and surface treatment services in the Commercial/Industrial segment, the benefits of our ongoing margin improvement initiatives, and improved profitability in the Defense segment as we moved beyond first year purchase accounting costs from our TTC acquisition.

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Non-segment operating expense of \$10 million was essentially flat compared to the prior period.

Interest expense in the first quarter of 2018 decreased \$2 million, or 21%, to \$8 million from the comparable prior year period, primarily due to maturation of the \$150 million 5.51% Senior Notes, which were repaid in full on December 1, 2017.