Woodward, Inc.
Form 10-Q
April 23, 2014
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, 2014

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 0-8408
WOODWARD, INC.
(Exact name of registrant as specified in its charter)

Delaware	36-1984010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 East Drake Road, Fort Collins, Colorado	80525
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:

(970) 482-5811

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 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

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 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 Smaller reporting company

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

Yes No

As of April 18, 2014, 66,304,270 shares of the common stock with a par value of $0.001455 per share were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1.Financial Statements

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three-Months Ended March 31, 2014	2013	Six-Months Ended March 31, 2014	2013
Net sales	$ 482,467	$ 485,513	$ 911,509	$ 893,852
Costs and expenses:				
Cost of goods sold	340,028	348,100	655,494	637,673
Selling, general and administrative expenses	35,283	37,206	72,611	73,624
Research and development costs	35,805	34,000	65,229	64,018
Amortization of intangible assets	8,657	9,813	17,141	17,480
Interest expense	6,185	7,017	12,247	13,473
Interest income	(57)	(69)	(116)	(137)
Other (income) expense, net (Note 16)	(190)	(890)	(797)	(1,152)
Total costs and expenses	425,711	435,177	821,809	804,979
Earnings before income taxes	56,756	50,336	89,700	88,873
Income tax expense	11,958	7,890	21,519	19,059
Net earnings	$ 44,798	$ 42,446	$ 68,181	$ 69,814
Earnings per share (Note 3):				
Basic earnings per share	$ 0.67	$ 0.62	$ 1.01	$ 1.02
Diluted earnings per share	$ 0.66	$ 0.61	$ 1.00	$ 1.00
Weighted Average Common Shares Outstanding (Note 3):				
Basic	66,633	68,737	67,182	68,597
Diluted	67,905	69,935	68,463	69,831
Cash dividends per share paid to Woodward common stockholders	$ 0.08	$ 0.08	$ 0.16	$ 0.16

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

(Unaudited)

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2014	2013	2014	2013
Net earnings	$ 44,798	$ 42,446	$ 68,181	$ 69,814
Other comprehensive earnings:				
Foreign currency translation adjustments	(243)	(10,509)	4,231	(6,058)
Taxes on changes in foreign currency translation adjustments	(139)	(193)	294	419
	(382)	(10,702)	4,525	(5,639)
Reclassification of net realized losses on derivatives to earnings	24	43	49	86
Taxes on changes in derivative transactions	(9)	(16)	(18)	(33)
	15	27	31	53
Minimum retirement benefit liability adjustments (Note 18)				
Amortization of:				
Prior service benefit	(22)	(23)	(44)	(46)
Net loss	195	441	389	892
Foreign currency exchange rate changes on minimum retirement benefit liabilities	(124)	1,242	(220)	1,185
Taxes on changes in minimum retirement liability adjustments	(18)	(591)	(45)	(725)
	31	1,069	80	1,306
Total comprehensive earnings	$ 44,462	$ 32,840	$ 72,817	$ 65,534

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	March 31, 2014	September 30, 2013 (a)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 56,665	$ 48,556
Accounts receivable, less allowance for uncollectible amounts of $7,741 and $8,872, respectively	320,492	381,065
Inventories	458,733	431,744
Income taxes receivable	6,820	14,071
Deferred income tax assets	43,027	43,027
Other current assets	43,514	38,650
Total current assets	929,251	957,113
Property, plant and equipment, net	401,050	350,048
Goodwill	562,617	561,458
Intangible assets, net	271,887	288,775
Deferred income tax assets	17,424	13,926
Other assets	56,211	47,198
Total assets	$ 2,238,440	$ 2,218,518
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 21,000	$ -
Current portion of long-term debt	-	100,000
Accounts payable	154,372	145,541
Income taxes payable	13,726	7,848
Deferred income tax liabilities	800	800
Accrued liabilities	128,013	161,741
Total current liabilities	317,911	415,930
Long-term debt, less current portion	584,000	450,000
Deferred income tax liabilities	105,427	104,533
Other liabilities	101,304	105,510
Total liabilities	1,108,642	1,075,973
Commitments and contingencies (Note 20)		
Stockholders' equity:		
Preferred stock, par value $0.003 per share, 10,000 shares authorized, no shares issued	-	-
Common stock, par value $0.001455 per share, 150,000 shares authorized, 72,960 shares issued	106	106
Additional paid-in capital	108,157	101,147
Accumulated other comprehensive earnings	19,751	15,115
Deferred compensation	4,009	4,007
Retained earnings	1,251,314	1,193,887

	1,383,337	1,314,262
Treasury stock at cost, 6,657 shares and 4,883 shares, respectively	(249,530)	(167,710)
Treasury stock held for deferred compensation, at cost, 215 shares and 232 shares, respectively	(4,009)	(4,007)
Total stockholders' equity	1,129,798	1,142,545
Total liabilities and stockholders' equity	$ 2,238,440	$ 2,218,518

(a) Retrospectively adjusted as discussed in Note 4, Business acquisitions
See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six-Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings	$ 68,181	$ 69,814
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	38,835	37,892
Net (gain) loss on sales of assets	136	(230)
Stock-based compensation	6,330	5,379
Excess tax benefits from stock-based compensation	(2,163)	(4,397)
Deferred income taxes	(2,306)	(3,412)
Loss on derivatives reclassified from accumulated comprehensive earnings into earnings	49	86
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	59,408	25,709
Inventories	(27,698)	(24,626)
Accounts payable and accrued liabilities	(23,884)	(16,709)
Current income taxes	15,158	5,814
Retirement benefit obligations	(2,486)	(2,789)
Other	(4,916)	456
Net cash provided by operating activities	124,644	92,987
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(68,560)	(47,184)
Proceeds from sale of assets	154	320
Business acquisitions, net of cash acquired	-	(198,860)
Net cash used in investing activities	(68,406)	(245,724)
Cash flows from financing activities:		
Cash dividends paid	(10,754)	(10,966)
Proceeds from sales of treasury stock	6,147	6,533
Payments for repurchases of common stock	(99,655)	(17,144)
Excess tax benefits from stock compensation	2,163	4,397
Borrowings on revolving lines of credit and short-term borrowings	256,071	40,072
Payments on revolving lines of credit and short-term borrowings	(151,069)	(35,329)
Proceeds from issuance of long-term debt	250,000	200,000
Payments of long-term debt	(300,000)	(41,875)
Payments of debt financing costs	(1,297)	-
Net cash provided by (used in) financing activities	(48,394)	145,688
Effect of exchange rate changes on cash and cash equivalents	265	(122)
Net change in cash and cash equivalents	8,109	(7,171)
Cash and cash equivalents at beginning of period	48,556	61,829

Cash and cash equivalents at end of period	$ 56,665	$ 54,658

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Number of shares				Stockholders' equity					
							Accumulated other comprehensive (loss earnings			
	Preferred stock	Common stock	Treasury stock	Treasury stock held for deferred compensation	Common stock	Additional paid-in capital	Foreign currency translation adjustments	Unrealized derivative gains (losses)	Minimum retirement benefit liability adjustments	Total accum other compr (loss) earnin
Balances as of October 1, 2012	-	72,960	(4,536)	(276)	$ 106	$ 97,826	$ 17,447	$ (376)	$ (28,794)	$ (11,
Net earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	(5,639)	53	1,306	(4,2
Cash dividends paid	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(610)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	693	-	-	(11,766)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	250	-	-	1,923	-	-	-	-
Tax benefit attributable to exercise of stock options	-	-	-	-	-	4,397	-	-	-	-
Stock-based compensation	-	-	-	-	-	5,379	-	-	-	-
Transfer of stock to deferred	-	-	2	(2)	-	23	-	-	-	-

compensation plan										
Purchases of stock by deferred compensation plan	-	-	-	(1)	-	-	-	-	-	-
Distribution of stock from deferred compensation plan	-	-	-	23	-	-	-	-	-	-
Balances as of March 31, 2013	-	72,960	(4,201)	(256)	$ 106	$ 97,782	$ 11,808	$ (323)	$ (27,488)	$ (16,(
Balances as of October 1, 2013	-	72,960	(4,883)	(232)	$ 106	$ 101,147	$ 25,742	$ 43	$ (10,670)	$ 15,1
Net earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	4,525	31	80	4,63
Cash dividends paid	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(2,388)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	354	-	-	(4,203)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	260	-	-	2,837	-	-	-	-
Tax benefit attributable to exercise of stock options	-	-	-	-	-	2,046	-	-	-	-
Stock-based compensation	-	-	-	-	-	6,330	-	-	-	-
Purchases of stock by deferred compensation plan	-	-	-	(6)	-	-	-	-	-	-
Distribution of stock from deferred compensation plan	-	-	-	23	-	-	-	-	-	-
	-	72,960	(6,657)	(215)	$ 106	$ 108,157	$ 30,267	$ 74	$ (10,590)	$ 19,7

Balances as of
March 31, 2014
See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Note 1. Basis of Presentation

The Condensed Consolidated Financial Statements of Woodward, Inc. ("Woodward" or the "Company") as of March 31, 2014 and for the three and six-months ended March 31, 2014 and March 31, 2013, included herein, have not been audited by an independent registered public accounting firm. These Condensed Consolidated Financial Statements reflect all normal recurring adjustments that, in the opinion of management, are necessary to present fairly Woodward's financial position as of March 31, 2014, and the statements of earnings, comprehensive earnings, cash flows, and changes in the statement of stockholders' equity for the periods presented herein. The results of operations for the three and six-months ended March 31, 2014 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year. Dollar amounts contained in these Condensed Consolidated Financial Statements are in thousands, except per share amounts.

The Condensed Consolidated Balance Sheet as of September 30, 2013 was derived from Woodward's Annual Report on Form 10-K for the fiscal year then ended. During the three-months ended December 31, 2013, Woodward completed purchase accounting valuation estimates related to the acquisition of the Duarte Business (as defined below in Note 4, Business acquisitions) and, as a result, retrospectively adjusted the valuations of certain liabilities with a corresponding increase to goodwill and intangible assets as of the acquisition date. The retrospective adjustments amounted to approximately $12,800 and primarily relate to long-term performance obligations and other accrued liabilities. Changes since the acquisition date to the valuations of the assets and liabilities acquired resulted in insignificant changes to Woodward's previously reported earnings and therefore prior reported earnings have not been restated.

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations.

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in Woodward's most recent Annual Report on Form 10-K filed with the SEC and other financial information filed with the SEC.

Management is required to use estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the reported revenues and expenses recognized during the reporting period, and certain financial statement disclosures, in the preparation of the Condensed Consolidated Financial Statements included herein. Significant estimates in these Condensed Consolidated Financial Statements include allowances for losses on receivables, net realizable value of inventories, warranty reserves, cost of sales incentives, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, valuation of identifiable intangible assets and goodwill, income tax and valuation reserves, the valuation of assets and liabilities acquired in business combinations, assumptions used in the determination of the funded status and annual expense of pension and postretirement employee benefit plans, the valuation of stock compensation instruments granted to employees and board members, and contingencies. Actual results could vary materially from Woodward's estimates.

Note 2. Recent accounting pronouncements

From time to time, the Financial Accounting Standards Board ("FASB") or other standards setting bodies issue new accounting pronouncements. Updates to the FASB Accounting Standards Codification ("ASC") are communicated through issuance of an Accounting Standards Update ("ASU").

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in financial statements; however, the amendments require companies to provide information about the amounts reclassified out of accumulated comprehensive income by component. ASU 2013-02 requires a company to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated comprehensive income by respective line items of net income, but only if the amount so reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, a company is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for annual reporting periods beginning after December 15, 2012 (fiscal year 2014 for Woodward). The disclosure requirement of ASU 2013-02, which we have adopted, had no material impact on Woodward's Consolidated Financial Statements.

Note 3. Earnings per share

Basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

Diluted earnings per share reflects the weighted-average number of shares outstanding after consideration of the dilutive effect of stock options.

The following is a reconciliation of net earnings to basic earnings per share and diluted earnings per share:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2014	2013	2014	2013
Numerator:				
Net earnings	$ 44,798	$ 42,446	$ 68,181	$ 69,814
Denominator:				
Basic shares outstanding	66,633	68,737	67,182	68,597
Dilutive effect of stock options and restricted stock	1,272	1,198	1,281	1,234
Diluted shares outstanding	67,905	69,935	68,463	69,831
Income per common share:				
Basic earnings per share	$ 0.67	$ 0.62	$ 1.01	$ 1.02
Diluted earnings per share	$ 0.66	$ 0.61	$ 1.00	$ 1.00

The following stock option grants were outstanding during the three and six-months ended March 31, 2014 and 2013, but were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2014	2013	2014	2013
Options	720	722	244	70
Weighted-average option price	$ 41.02	$ 34.05	$ 41.08	$ 37.48

The weighted-average shares of common stock outstanding for basic and diluted earnings per share included the weighted-average treasury stock shares held for deferred compensation obligations of the following:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2014	2013	2014	2013
Weighted-average treasury stock shares held for deferred compensation obligations	225	266	228	270

Note 4. Business acquisitions

Duarte Business Acquisition

On December 27, 2012, Woodward entered into a definitive asset purchase agreement (the "Asset Purchase Agreement") with GE Aviation Systems LLC (the "Seller") and General Electric Company for the acquisition of substantially all of the assets and certain liabilities related to the Seller's thrust reverser actuation systems business located in Duarte, California (the "Duarte Business") for an aggregate purchase price of $200,000. The acquisition was completed on December 28, 2012 and, based on customary purchase price adjustments, Woodward paid cash at closing in the amount of $198,900. Woodward and the Seller have finalized the purchase price adjustment based on the customary post-closing provisions of the Asset Purchase Agreement.

The purchase price of the Duarte Business was as follows:

Cash paid to Seller	$ 198,900
Less cash acquired	(40)
Total purchase price	$ 198,860

The allocation of the purchase price to the assets acquired and liabilities assumed was accounted for under the purchase method of accounting in accordance with ASC Topic 805, "Business Combinations." Assets acquired and liabilities assumed in the transaction were allocated and recorded at their estimated acquisition date fair values using management's best estimate based on available data. Transaction costs associated with the acquisition were expensed as incurred. The Company incurred transaction costs of $1,707 for the three and six-months ended March 31, 2013, which are included in "Selling, general and administrative expenses" in the Condensed Consolidated Statements of Earnings. No additional transaction costs were incurred in the three and six-months ended March 31, 2014.

During the three-months ended December 31, 2013, Woodward completed its purchase accounting valuation estimates and, as a result, retrospectively adjusted the valuations of certain liabilities with a corresponding increase to goodwill and intangible assets as of the acquisition date. The retrospective adjustments amounted to approximately $12,800 and primarily relate to long-term performance obligations and other accrued liabilities. Changes since the acquisition date to the valuations of the assets and liabilities acquired resulted in insignificant changes to Woodward's previously reported earnings and therefore prior reported earnings have not been restated. The allocation of the purchase price to the assets and liabilities assumed was finalized as of December 27, 2013.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition of the Duarte Business:

Accounts receivable	$ 14,245
Inventories	30,149
Other current assets	10,370
Property, plant, and equipment	11,804
Goodwill	98,310
Intangible assets	89,700
Other noncurrent assets	18,097

Total assets acquired	272,675
Other current liabilities	32,509
Other noncurrent liabilities	41,306
Total liabilities assumed	73,815
Net assets acquired	$ 198,860

Goodwill recorded in connection with the acquisition of the Duarte Business, which is deductible for income tax purposes, represents the estimated value of potential expansion with new customers, the opportunity to further develop sales opportunities with new and acquired Duarte Business customers, and other synergies expected to be achieved through the integration of the Duarte Business into Woodward’s Aerospace segment.

A summary of the estimated intangible assets acquired, weighted-average useful lives, and amortization methods follows:

	Estimated Amounts	Weighted-Average Useful Life		Amortization Method
Customer relationships and contracts	$ 77,000	20	years	Straight-line
Process technology	5,000	25	years	Straight-line
Backlog	7,700	3	years	Accelerated
Total	$ 89,700			

Assumed liabilities include $4,758 and $17,939 of current and long-term performance obligations, respectively, for contractual commitments that are expected to result in future economic losses.

The Asset Purchase Agreement included commitments for the Duarte Business to continue to provide services to the Seller unrelated to the core business acquired, for which Woodward will continue to be paid by the Seller. Assumed liabilities include $12,985 and $23,215 of current and long-term performance obligations, respectively, for services to be provided to the Seller, offset by $8,103 and $18,097 of current and long-term assets, respectively, related to contractual payments due from the Seller.

Net sales for the Duarte Business subsequent to the date it was acquired by Woodward were $37,701 and $69,133 for the three and six-months ended March 31, 2014, respectively, and $35,090 for both the three and six-months ended March 31, 2013. Earnings of the Duarte Business subsequent to the date it was acquired by Woodward for the three and six-months ended March 31, 2014 cannot be determined on a stand-alone basis due to the integration of the Duarte Business into Woodward's Aerospace segment. Earnings of the Duarte Business subsequent to the date it was acquired by Woodward for the three and six-months ended March 31, 2013 were slightly accretive to the consolidated net earnings of Woodward. Due to the timing of the acquisition, there were no net sales or operating expenses from the Duarte Business included in the Condensed Consolidated Statements of Earnings for the three-months ended December 31, 2012.

Pro forma results for Woodward giving effect to the acquisition of the Duarte Business

The following unaudited pro forma financial information presents the combined results of operations of Woodward and the Duarte Business as if the acquisition had occurred as of October 1, 2011, the beginning of fiscal year 2012. The pro forma information is presented for information purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and the borrowings used to finance it had taken place at the beginning of fiscal year 2012. The pro forma information combines the historical results of Woodward with the historical results of the Duarte Business for that period.

Prior to the acquisition of the Duarte Business, the Duarte Business was a wholly owned business of the Seller, and as such was not a stand-alone entity for financial reporting purposes. Accordingly, the historical operating results of the Duarte Business may not be indicative of the results that might have been achieved, historically or in the future, if the Duarte Business had been a stand-alone entity. The unaudited pro forma results for the three and six-months ended March 31, 2014 and March 31, 2013 include amortization charges for acquired intangible assets, eliminations of intercompany transactions, adjustments for depreciation expense for property, plant and equipment, adjustments for acquired performance obligations, transaction costs incurred, adjustments to interest expense, and related tax effects.

The unaudited pro forma results for the three and six-month periods ended March 31, 2014 and March 31, 2013, compared to the actual results reported in these Condensed Consolidated Financial Statements, were as follows:

	Three-Months Ended March 31, 2014		Three-Months Ended March 31, 2013	
	As reported	Pro forma	As reported	Pro forma
Net sales	$ 482,467	$ 482,467	$ 485,513	$ 485,513
Net earnings	44,798	45,138	42,446	45,532
Earnings per share:				
Basic earnings per share	$ 0.67	$ 0.68	$ 0.62	$ 0.66
Diluted earnings per share	0.66	0.66	0.61	0.65

	Six-Months Ended March 31, 2014		Six-Months Ended March 31, 2013	
	As reported	Pro forma	As reported	Pro forma
Net sales	$ 911,509	$ 911,509	$ 893,852	$ 924,252
Net earnings	68,181	68,770	69,814	73,970
Earnings per share:				
Basic earnings per share	$ 1.01	$ 1.02	$ 1.02	$ 1.08
Diluted earnings per share	1.00	1.00	1.00	1.06

Note 5. Financial instruments and fair value measurements

Financial assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheets are categorized based upon a fair value hierarchy established by U.S. GAAP, which prioritizes the inputs used to measure fair value into the following levels:

Level 1: Inputs based on quoted market prices in active markets for identical assets or liabilities at the measurement date.

Level 2: Quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable and can be corroborated by observable market data.

Level 3: Inputs reflect management's best estimates and assumptions of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation of the instruments.

The table below presents information about Woodward's financial assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques Woodward utilized to determine such fair value. Woodward had no financial liabilities required to be measured at fair value on a recurring basis as of March 31, 2014 or September 30, 2013.

	At March 31, 2014				At September 30, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash	$ 36,512	$ -	$ -	$ 36,512	$ 35,839	$ -	$ -	$ 35,839
Investments in money market funds	10,078	-	-	10,078	2,950	-	-	2,950
Investments in reverse repurchase agreements	10,075	-	-	10,075	9,767	-	-	9,767
Equity securities	9,502	-	-	9,502	8,285	-	-	8,285
Total financial assets	$ 66,167	$ -	$ -	$ 66,167	$ 56,841	$ -	$ -	$ 56,841

Investments in money market funds: Woodward sometimes invests excess cash in money market funds not insured by the Federal Deposit Insurance Corporation ("FDIC"). Woodward believes that the investments in money market funds are on deposit with creditworthy financial institutions and that the funds are highly liquid. The investments in money market funds are reported at fair value, with realized gains from interest income realized in earnings and are included in "Cash and cash equivalents." The fair values of Woodward's investments in money market funds are based on the quoted market prices for the net asset value of the various money market funds.

Investments in reverse repurchase agreements: Woodward sometimes invests excess cash in reverse repurchase agreements. Under the terms of Woodward's reverse repurchase agreements, Woodward purchases an interest in a pool of securities and is granted a security interest in those securities by the counterparty to the reverse repurchase agreement. At an agreed upon date, generally the next business day, the counterparty repurchases Woodward's interest in the pool of securities at a price equal to what Woodward paid to the counterparty plus a rate of return determined daily per the terms of the reverse repurchase agreement. Woodward believes that the investments in these reverse repurchase agreements are with creditworthy financial institutions and that the funds invested are highly liquid. The investments in reverse repurchase agreements are reported at fair value, with realized gains from interest income realized in earnings, and are included in "Cash and cash equivalents." Since the investments are generally overnight, the carrying value is considered to be equal to the fair value as the amount is deemed to be a cash deposit with no risk of change in value as of the end of each fiscal quarter.

Equity securities: Woodward holds marketable equity securities, through investments in various mutual funds, related to its deferred compensation program. Based on Woodward's intentions regarding these instruments, marketable equity securities are classified as trading securities. The trading securities are reported at fair value, with realized gains and losses recognized in "Other (income) expense, net." The trading securities are included in "Other assets." The fair values of Woodward's trading securities are based on the quoted market prices for the net asset value of the various mutual funds.

The estimated fair values and carrying costs of financial instruments that are not required to be remeasured at fair value in the Condensed Consolidated Balance Sheets were as follows:

		At March 31, 2014		At September 30, 2013	
	Fair Value Hierarchy Level	Estimated Fair Value	Carrying Cost	Estimated Fair Value	Carrying Cost
Assets:					
Notes receivable from municipalities	2	15,782	14,978	6,718	8,114
Liabilities:					
Short-term borrowings	2	(21,000)	(21,000)	-	-
Long-term debt, including current portion	2	(621,175)	(584,000)	(588,297)	(550,000)

In fiscal years 2013 and 2014, Woodward received long-term notes from a municipality within the state of Illinois in connection with certain economic incentives related to Woodward's development of a second campus in the greater-Rockford, Illinois area for its aerospace business. The fair value of the long-term notes was estimated based on a model that discounted future principal and interest payments received at an interest rate available to the Company at the end of the period for similarly rated municipal notes of similar maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The interest rates used to estimate the fair value of the long-term notes were 3.5% at March 31, 2014 and 4.3% at September 30, 2013.

In fiscal year 2013, Woodward received a long-term note from a municipality within the state of Colorado in connection with certain economic incentives related to Woodward's development of a new campus at its corporate headquarters in Fort Collins, Colorado. The fair value of the long-term note was estimated based on a model that discounted future principal and interest payments received at an interest rate available to the Company at the end of the period for similarly rated municipality notes of similar maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The interest rates used to estimate the fair value of the long-term note were 3.5% at March 31, 2014 and 4.3% at September 30, 2013.

The fair values of short-term borrowings at variable interest rates are assumed to be equal to their carrying amounts because such borrowings are expected to be repaid or settled for their carrying amounts within a short period of time.

The fair value of long-term debt was estimated based on a model that discounted future principal and interest payments at interest rates available to the Company at the end of the period for similar debt of the same maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The weighted-average interest rates used to estimate the fair value of long-term debt were 2.6% and 2.0% as of March 31, 2014 and September 30, 2013, respectively.

Note 6. Derivative instruments and hedging activities

Woodward is exposed to global market risks, including the effect of changes in interest rates, foreign currency exchange rates, changes in certain commodity prices and fluctuations in various producer indices. From time to time, Woodward enters into derivative instruments for risk management purposes only, including derivatives designated as accounting hedges and/or those utilized as economic hedges. Woodward uses interest rate related derivative instruments to manage its exposure to fluctuations of interest rates. Woodward does not enter into or issue derivatives for trading or speculative purposes.

By using derivative and/or hedging instruments to manage its risk exposure, Woodward is subject, from time to time, to credit risk and market risk on those derivative instruments. Credit risk arises from the potential failure of the counterparty to perform under the terms of the derivative and/or hedging instrument. When the fair value of a derivative contract is positive, the counterparty owes Woodward, which creates credit risk for Woodward. Woodward mitigates this credit risk by entering into transactions with only creditworthy counterparties. Market risk arises from the potential adverse effects on the value of derivative and/or hedging instruments that result from a change in interest rates, commodity prices, or foreign currency exchange rates. Woodward minimizes this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Woodward did not enter into any derivatives or hedging transactions during the three or six-months ended March 31, 2014 and March 31, 2013.

The remaining unrecognized gains and losses in Woodward's Condensed Consolidated Balance Sheets associated with derivative instruments that were previously entered into by Woodward, which are classified in accumulated other comprehensive losses ("accumulated OCI"), were net gains of $120 and $71 as of March 31, 2014 and September 30, 2013, respectively.

The following table discloses the impact of derivative instruments in cash flow hedging relationships on Woodward's Condensed Consolidated Statements of Earnings, recognized in interest expense:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2014	2013	2014	2013
Amount of (Income) Expense Recognized in Earnings on Derivative	$ 24	$ 43	$ 49	$ 86
Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	-	-	-	-
Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings	24	43	49	86

Based on the carrying value of the realized but unrecognized gains and losses on terminated derivative instruments designated as cash flow hedges as of March 31, 2014, Woodward expects to reclassify $99 of net unrecognized losses on terminated derivative instruments from accumulated other comprehensive earnings to earnings during the next twelve months.

Note 7. Supplemental statement of cash flows information

	Six-Months Ended March 31,	
	2014	2013
Interest paid, net of amounts capitalized	$ 13,465	$ 12,945
Income taxes paid	14,343	16,765
Income tax refunds received	1,330	2,905
Non-cash activities:		
Purchases of property, plant and equipment on account	8,899	2,868

Common shares issued from treasury for benefit plans (Note 18)	11,193	9,780
Notes receivable from municipalities for economic development incentives	6,596	2,064
Cashless exercise of stock options	715	2,645
Settlement of receivable through cashless acquisition of treasury shares in connection with the cashless exercise of stock options	871	3,447

Note 8. Accounts receivable

Almost all Woodward's sales are made on credit and result in accounts receivable, which are recorded at the amount invoiced. In the normal course of business, not all accounts receivable are collected and, therefore, an allowance for losses of accounts receivable is provided equal to the amount that Woodward believes ultimately will not be collected. In establishing the amount of the allowance, customer-specific information is considered related to delinquent accounts, past loss experience, bankruptcy filings, deterioration in the customer's operating results or financial position, and current economic conditions. Accounts receivable losses are deducted from the allowance, and the related accounts receivable balances are written off when the receivables are deemed uncollectible. Recoveries of accounts receivable previously written off are recognized when received.

Consistent with business practice common in China, Woodward's Chinese subsidiary accepts from Chinese customers, in settlement of certain customer accounts receivable, bank drafts issued by creditworthy Chinese banks. Bank drafts are financial instruments issued by Chinese financial institutions as part of financing arrangements between the financial institution and a customer of the financial institution. Bank drafts represent a commitment by the issuing financial institution to pay a certain amount of money at a specified future maturity date to the legal owner of the bank draft as of the maturity date. The maturity date of bank drafts varies, but it is Woodward's policy to only accept bank drafts with maturity dates no more than 180 days from the date of Woodward's receipt of such draft. The issuing financial institution is the obligor, not Woodward's customers. Upon Woodward's acceptance of a bank draft from a customer, such customer has no further obligation to pay Woodward for the related accounts receivable balance. Woodward only accepts bank drafts issued by creditworthy banks as to which the credit risk associated with the bank draft is assessed to be minimal.

The composition of Woodward's accounts receivable at March 31, 2014 and September 30, 2013 follows:

	March 31, 2014	September 30, 2013
Accounts receivable from:		
Customers	$ 271,440	$ 308,111
Other (Chinese financial institutions)	49,052	72,954
	$ 320,492	$ 381,065

Note 9. Inventories

	March 31, 2014	September 30, 2013
Raw materials	$ 65,399	$ 67,599
Work in progress	93,471	87,808
Component parts (1)	251,065	229,508
Finished goods	48,798	46,829
	$ 458,733	$ 431,744

(1) Component parts include items that can be sold separately as finished goods or included in the manufacture of other products.

Note 10. Property, plant, and equipment

	March 31, 2014	September 30, 2013
Land and land improvements	$ 57,540	$ 57,562
Buildings and improvements	199,314	195,008
Leasehold improvements	20,682	18,924
Machinery and production equipment	320,319	305,692
Computer equipment and software	101,726	97,538
Office furniture and equipment	24,399	24,400
Other	18,849	14,197
Construction in progress	125,761	81,428
	868,590	794,749
Less accumulated depreciation	(467,540)	(444,701)
Property, plant and equipment, net	$ 401,050	$ 350,048

Woodward is developing a second campus in the greater-Rockford, Illinois area for its aerospace business in order to address the growth expected over the next ten years and beyond and to support a substantial number of recently awarded new system platforms, particularly on narrow-body aircraft. Included in construction in progress at March 31, 2014 and September 30, 2013 are $36,201 and $15,691, respectively, of costs associated with the construction of the second campus, including $1,262 and $444, respectively, of capitalized interest.

Woodward is also developing a new campus at its corporate headquarters in Fort Collins, Colorado to support the continued growth of its energy business by supplementing its existing Colorado manufacturing facilities and corporate headquarters. Included in construction in progress at March 31, 2014 and September 30, 2013 are $18,141 and $10,514, respectively, of costs associated with the construction of the new campus, including $864 and $394, respectively, of capitalized interest.

In addition, in September 2013, Woodward invested in a building site in Niles, Illinois. Woodward is building a new facility on this site for its aerospace business and will relocate some of its operations currently residing in nearby Skokie, Illinois to this new facility. Included in construction in progress at March 31, 2014 and September 30, 2013 are $18,887 and $12,067, respectively, of costs associated with the construction of the new facility, including $365 and $0 respectively, of capitalized interest.

For the three and six-months ended March 31, 2014 and March 31, 2013, Woodward recorded depreciation expense of the following:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2014	2013	2014	2013
Depreciation expense	$ 11,062	$ 10,139	$ 21,694	$ 20,412

For the three and six-months ended March 31, 2014 and March 31, 2013, Woodward had capitalized interest that would have otherwise been included in interest expense of the following:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2014	2013	2014	2013
Capitalized interest	$ 1,314	$ 88	$ 2,289	$ 188

Note 11. Goodwill

	September 30, 2013	Effects of Foreign Currency Translation	March 31, 2014

Aerospace	$ 455,107	$ 225	$ 455,332
Energy	106,351	934	107,285
Consolidated	$ 561,458	$ 1,159	$ 562,617

Woodward tests goodwill for impairment at the reporting unit level on an annual basis and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Based on the relevant U.S. GAAP authoritative guidance, Woodward sometimes aggregates components of a single operating segment into a reporting unit, if appropriate. The impairment tests consist of comparing the implied fair value of each reporting unit with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its implied fair value, Woodward compares the implied fair value of goodwill with the recorded carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss would be recognized to reduce the carrying amount to its implied fair value.

Woodward completed its annual goodwill impairment test as of July 31, 2013 during the quarter ended September 30, 2013. At that date, Woodward determined it was appropriate to aggregate certain components of the same operating segment into a single aggregated reporting unit. The fair value of each of Woodward's reporting units was determined using a discounted cash flow method. This method represents a Level 3 input and incorporates various estimates and assumptions, the most significant being projected revenue growth rates, earnings margins, and the present value, based on the discount rate and terminal growth rate, of forecasted cash flows. Management projects revenue growth rates, earnings margins and cash flows based on each reporting unit's current operational results, expected performance and operational strategies over a five or ten-year period. These projections are adjusted to reflect current economic conditions and demand for certain products, and require considerable management judgment.

Forecasted cash flows used in the July 31, 2013 impairment test were discounted using weighted-average cost of capital assumptions ranging from 8.85% to 10.32%. The terminal values of the forecasted cash flows were calculated using the Gordon Growth Model and assumed an annual compound growth rate after five or ten years of 4.25% or 4.50%. These inputs, which are unobservable in the market, represent management's best estimate of what market participants would use in determining the present value of the Company's forecasted cash flows. Changes in these estimates and assumptions can have a significant impact on the fair value of forecasted cash flows. Woodward evaluated the reasonableness of the reporting unit's resulting fair values utilizing a market multiple method.

The results of Woodward's goodwill impairment tests performed as of July 31, 2013 indicated the estimated fair value of each reporting unit was substantially in excess of its carrying value, and accordingly, no impairment existed.

During the three and six-months ended March 31, 2014 there were no events or changes in operation that triggered a need to assess goodwill for possible impairment. As part of the Company's ongoing monitoring efforts, Woodward will continue to consider the global economic environment and its potential impact on Woodward's business in assessing goodwill for possible indications of impairment. There can be no assurance that Woodward's estimates and assumptions regarding forecasted cash flows of certain reporting units, the current economic environment, or the other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

Note 12. Intangible assets, net

	March 31, 2014			September 30, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Customer relationships and contracts:						
Aerospace	$ 282,270	$ (87,319)	$ 194,951	$ 282,225	$ (77,288)	$ 204,937
Energy	42,111	(31,260)	10,851	42,008	(29,711)	12,297
Total	$ 324,381	$ (118,579)	$ 205,802	$ 324,233	$ (106,999)	$ 217,234
Intellectual property:						
Aerospace	$ -	$ -	$ -	$ -	$ -	$ -
Energy	20,310	(15,476)	4,834	20,218	(14,722)	5,496
Total	$ 20,310	$ (15,476)	$ 4,834	$ 20,218	$ (14,722)	$ 5,496
Process technology:						