Woodward, Inc.
Form 10-Q
April 23, 2013
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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)

Delaware36-1984010

(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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   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 Act).

Yes ¨ No x

As of April 19, 2013, 68,759,033 shares of the common stock with a par value of $0.001455 per share were outstanding.

TABLE OF CONTENTS

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,		Six-Months Ended March 31,	
	2013	2012	2013	2012
Net sales	$ 485,513	$ 468,793	$ 893,852	$ 876,689
Costs and expenses:				
Cost of goods sold	348,100	322,492	637,673	606,902
Selling, general and administrative expenses	37,206	40,788	73,624	79,358
Research and development costs	34,000	37,445	64,018	68,239
Amortization of intangible assets	9,813	8,294	17,480	16,552
Interest expense	7,017	6,552	13,473	12,860
Interest income	(69)	(84)	(137)	(210)
Other (income) expense, net (Note 15)	(890)	(732)	(1,152)	(1,226)
Total costs and expenses	435,177	414,755	804,979	782,475
Earnings before income taxes	50,336	54,038	88,873	94,214
Income tax expense	7,890	15,287	19,059	27,046
Net earnings	$ 42,446	$ 38,751	$ 69,814	$ 67,168
Earnings per share (Note 3):				
Basic earnings per share	$ 0.62	$ 0.56	$ 1.02	$ 0.97
Diluted earnings per share	$ 0.61	$ 0.55	$ 1.00	$ 0.95
Weighted Average Common Shares Outstanding (Note 3):				
Basic	68,737	69,077	68,597	68,998
Diluted	69,935	70,624	69,831	70,504
Cash dividends per share paid to Woodward common stockholders	$ 0.08	$ 0.08	$ 0.16	$ 0.15

See accompanying Notes to Condensed Consolidated Financial Statements.

2

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

(Unaudited)

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2013	2012	2013	2012
Net earnings	$ 42,446	$ 38,751	$ 69,814	$ 67,168
Other comprehensive earnings:				
Foreign currency translation adjustments	(10,509)	7,928	(6,058)	(453)
Taxes on changes on foreign currency translation adjustments	(193)	2,348	419	3,293
	(10,702)	10,276	(5,639)	2,840
Reclassification of realized losses on derivatives to earnings	43	43	86	88
Taxes on changes on derivative transactions	(16)	(17)	(33)	(34)
	27	26	53	54
Minimum retirement benefits liability adjustments	1,794	96	2,031	127
Taxes on changes on minimum retirement liability adjustments	(725)	(45)	(725)	(45)
	1,069	51	1,306	82
Total comprehensive earnings	$ 32,840	$ 49,104	$ 65,534	$ 70,144

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	March 31, 2013	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,658	$ 61,829
Accounts receivable, less allowance for losses of $7,639 and $7,217, respectively	343,735	354,386
Inventories	451,730	398,229
Income taxes receivable	5,549	7,485
Deferred income tax assets	41,583	40,277
Other current assets	38,647	41,271
Total current assets	935,902	903,477
Property, plant and equipment, net	270,913	234,505
Goodwill	547,987	461,374
Intangible assets, net	297,215	235,563
Deferred income tax assets	8,703	9,129
Other assets	43,846	15,916
Total assets	$ 2,104,566	$ 1,859,964
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 5,086	$ 329
Current portion of long-term debt	100,000	7,500
Accounts payable	143,500	124,914
Income taxes payable	13,707	14,141
Deferred income tax liabilities	800	800
Accrued liabilities	115,278	132,184
Total current liabilities	378,371	279,868
Long-term debt, less current portion	450,000	384,375
Deferred income tax liabilities	76,173	78,163
Other liabilities	131,841	109,443
Total liabilities	1,036,385	851,849
Commitments and contingencies (Note 19)		
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	97,782	97,826
Accumulated other comprehensive loss	(16,003)	(11,723)
Deferred compensation	4,213	4,344

Retained earnings	1,128,659	1,069,811
	1,214,757	1,160,364
Treasury stock at cost, 4,201 shares and 4,536 shares, respectively	(142,363)	(147,905)
Treasury stock held for deferred compensation, at cost, 256 shares and 276 shares, respectively	(4,213)	(4,344)
Total stockholders' equity	1,068,181	1,008,115
Total liabilities and stockholders' equity	$ 2,104,566	$ 1,859,964

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six-Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net earnings	$ 69,814	$ 67,168
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	37,892	36,234
Net (gain) loss on sales of assets	(230)	(72)
Stock-based compensation	5,379	5,291
Excess tax benefits from stock-based compensation	(4,397)	(3,680)
Deferred income taxes	(3,412)	(1,691)
Loss on derivatives reclassified from accumulated comprehensive earnings into earnings	86	88
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	25,709	(11,252)
Inventories	(24,626)	(35,221)
Accounts payable and accrued liabilities	(16,709)	(32,696)
Current income taxes	5,814	(2,202)
Retirement benefit obligations	(2,789)	(1,164)
Other	456	(8,577)
Net cash provided by operating activities	92,987	12,226
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(47,184)	(30,523)
Proceeds from sale of assets	320	215
Business acquisitions, net of cash acquired	(198,860)	-
Net cash used in investing activities	(245,724)	(30,308)
Cash flows from financing activities:		
Cash dividends paid	(10,966)	(10,343)
Proceeds from sales of treasury stock	6,533	5,118
Payments for repurchases of common stock	(17,144)	(14,312)
Excess tax benefits from stock compensation	4,397	3,680
Borrowings on revolving lines of credit and short-term borrowings	40,072	141,375
Payments on revolving lines of credit and short-term borrowings	(35,329)	(108,935)
Proceeds from issuance of long-term debt	200,000	-
Payments of long-term debt	(41,875)	(14,515)
Payments of debt financing costs	-	(2,185)
Net cash provided by (used in) financing activities	145,688	(117)
Effect of exchange rate changes on cash and cash equivalents	(122)	(11)

Net change in cash and cash equivalents	(7,171)	(18,210)
Cash and cash equivalents at beginning of period	61,829	74,539
Cash and cash equivalents at end of period	$ 54,658	$ 56,329

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 compre (loss) earning
Balances as of October 1, 2011	-	72,960	(4,070)	(315)	$ 106	$ 81,453	$ 22,103	$ (484)	$ (17,993)	$ 3,62
Net earnings	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(345)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	390	-	-	(1,324)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	209	-	-	5,238	-	-	-	-
Tax benefit attributable to exercise of stock options	-	-	-	-	-	3,680	-	-	-	-
Stock-based compensation	-	-	-	-	-	5,291	-	-	-	-
Purchases of stock by deferred compensation plan	-	-	3	(4)	-	59	-	-	-	-
Distribution of stock from deferred	-	-	-	26	-	-	-	-	-	-

compensation plan										
Foreign currency translation adjustments	-	-	-	-	-	-	(453)	-	-	(453
Reclassification of unrecognized derivative losses to earnings	-	-	-	-	-	-	-	88	-	88
Minimum retirement benefits liability adjustments	-	-	-	-	-	-	-	-	127	127
Taxes on changes in accumulated other comprehensive earnings	-	-	-	-	-	-	3,293	(34)	(45)	3,21
Balances as of March 31, 2012	-	72,960	(3,813)	(293)	$ 106	$ 94,397	$ 24,943	$ (430)	$ (17,911)	$ 6,60
Balances as of October 1, 2012	-	72,960	(4,536)	(276)	$ 106	$ 97,826	$ 17,447	$ (376)	$ (28,794)	$ (11,
Net earnings	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-
Purchases of stock by deferred compensation	-	-	2	(3)	-	23	-	-	-	-

plan										
Distribution of stock from deferred compensation plan	-	-	-	23	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(6,058)	-	-	(6,05
Reclassification of unrecognized derivative losses to earnings	-	-	-	-	-	-	-	86	-	86
Minimum retirement benefits liability adjustments	-	-	-	-	-	-	-	-	2,031	2,03
Taxes on changes in accumulated other comprehensive earnings	-	-	-	-	-	-	419	(33)	(725)	(339
Balances as of March 31, 2013	-	72,960	(4,201)	(256)	$ 106	$ 97,782	$ 11,808	$ (323)	$ (27,488)	$ (16,

See accompanying Notes to Condensed Consolidated Financial Statements.

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, 2013 and for the three and six-months ended March 31, 2013 and March 31, 2012, 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, 2013, and the statements of earnings, comprehensive earnings, cash flows, and changes in the statement of stockholders' equity for the periods presented herein. The Condensed Consolidated Balance Sheet as of September 30, 2012 was derived from Woodward's Annual Report on Form 10-K for the fiscal year then ended. The results of operations for the three and six-months ended March 31, 2013 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 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 reporting periods beginning after December 15, 2012 (fiscal 2014 for Woodward). As the requirements of ASU 2013-02 are disclosure related only, it is not expected to have a material impact on Woodward's Consolidated Financial Statements.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment." ASU 2011-08 allows companies to perform a "qualitative" assessment to determine whether or not the current two-step quantitative testing method, in which a company compares the fair value of reporting units to its carrying amount including goodwill, must be followed. If a qualitative assessment indicates that it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, then the quantitative impairment test is not required. A company may choose to use the qualitative assessment on none, some, or all if its reporting units or to bypass the qualitative assessment and proceed directly to the two-step quantitative testing method. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (fiscal 2013 for Woodward). The adoption of ASU 2011-08 is not expected to have a 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,	
	2013	2012	2013	2012
Numerator:				
Net earnings	$ 42,446	$ 38,751	$ 69,814	$ 67,168
Denominator:				
Basic shares outstanding	68,737	69,077	68,597	68,998
Dilutive effect of stock options	1,198	1,547	1,234	1,506
Diluted shares outstanding	69,935	70,624	69,831	70,504
Income per common share:				
Basic earnings per share	$ 0.62	$ 0.56	$ 1.02	$ 0.97
Diluted earnings per share	$ 0.61	$ 0.55	$ 1.00	$ 0.95

The following stock option grants were outstanding during the three and six-months ended March 31, 2013 and 2012, 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,	
	2013	2012	2013	2012
Options	722	6	70	39
Weighted-average option price	$ 34.05	$ 40.60	$ 37.48	$ 34.63

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,	
	2013	2012	2013	2012
Weighted-average treasury stock shares held for deferred compensation obligations	266	304	270	307

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 sale was completed on December 28, 2012 and based on customary purchase price adjustments, Woodward paid cash at closing in the amount of $198,900. The purchase price remains subject to certain additional customary post-closing adjustments.

The Duarte Business develops and manufactures motion control technologies and platforms, more specifically thrust reverser actuation systems. The Duarte Business serves customers such as Airbus, Boeing, General Electric, Safran and the U.S. Government. Its products are used primarily on commercial aircraft such as the Boeing 737, 747 and 777, and the Airbus A320. The Duarte Business is being integrated into Woodward’s Aerospace segment.

The Duarte Business employs approximately 350 people, of which approximately 65% are union employees. The collective bargaining agreements with Woodward’s union employees are generally renewed through contract renegotiations prior to the contract expiration date. The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and Local No. 509 contract, which covers the unionized Duarte Business employees, expires May 25, 2013 and is in the process of being renegotiated.

The Company believes the Duarte Business provides it with expanded motion control technologies and platforms, and that there will be operating synergies and significant opportunities to share technologies and leverage the customer base. Goodwill recorded in connection with the acquisition of the Duarte Business, which is deductible for income tax purposes, represents the estimated value of such future opportunities, the 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.

The preliminary purchase price of the Duarte Business is as follows:

Cash paid to Seller	$ 198,900
Less cash acquired	(40)
Total preliminary 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 recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The Company's preliminary allocation was based on an evaluation of the appropriate fair values and represents management's best estimate based on available data.

Woodward is currently working with the Seller to finalize purchase price adjustments customary to these types of transactions and, therefore, has not finalized the valuations of all assets acquired and liabilities assumed.

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

Accounts receivable	$ 15,916
Inventories	30,149
Other current assets	10,369
Property, plant, and equipment	14,647
Goodwill	87,719
Intangible assets	79,300
Other noncurrent assets	18,097
Total assets acquired	256,197
Other current liabilities	28,739
Other noncurrent liabilities	28,598
Total liabilities assumed	57,337
Net assets acquired	$ 198,860

Assumed liabilities include $4,758 and $15,383 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 be paid by the Seller. Assumed liabilities include $12,985 and $13,215 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.

In connection with the acquisition of the Duarte Business, Woodward did not assume the postretirement benefit obligations of the Duarte Business' defined benefit pension plan. Under the terms of the Asset Purchase Agreement, Woodward is obligated to establish a new defined benefit pension plan for the Duarte Business employees who were beneficiaries of the Seller's defined benefit pension plan. Woodward's new defined benefit pension plan will provide for similar benefits as those provided by the Seller. Woodward is in the process of establishing the new defined benefit pension plan.

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

	Estimated Amounts	Weighted-Average Useful Life	Amortization Method

Customer relationships and contracts	$ 67,000	20	years	Straight-line
Process technology	4,600	25	years	Straight-line
Backlog	7,700	3	years	Accelerated
Total	$ 79,300			

Future amortization expense associated with the acquired intangibles is expected to be:

10

Year Ending September 30:	
2013 (remaining)	$ 4,316
2014	5,588
2015	4,003
2016	3,663
2017	3,663
Thereafter	55,910
	$ 77,143

Net sales and segment earnings for the Duarte Business subsequent to the date it was acquired by Woodward for the three and six-months ended March 31, 2013 were as follows. Segment earnings exclude interest income, interest expense and income tax expense.

	Three-Months Ended March 31, 2013	Six-Months Ended March 31, 2013
Net sales	$ 35,090	$ 35,090
Segment earnings	1,312	1,312

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 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 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-month periods ended March 31, 2013 and March 31, 2012 include amortization charges for acquired intangible assets, adjustments for depreciation expense for property, plant and equipment, 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, 2013 and March 31, 2012, compared to the actual results reported in these Condensed Consolidated Financial Statements, follow:

	Three-Months Ended March 31, 2013		Three-Months Ended March 31, 2012	
	As reported	Pro forma	As reported	Pro forma
Net sales	$ 485,513	$ 485,513	$ 468,793	$ 498,168
Net earnings	42,446	45,673	38,751	36,108
Earnings per share:				
Basic earnings per share	$ 0.62	$ 0.66	$ 0.56	$ 0.52
Diluted earnings per share	0.61	0.65	0.55	0.51

	Six-Months Ended March 31, 2013		Six-Months Ended March 31, 2012	
	As reported	Pro forma	As reported	Pro forma
Net sales	$ 893,852	$ 924,252	$ 876,689	$ 930,182
Net earnings	69,814	74,235	67,168	60,686
Earnings per share:				
Basic earnings per share	$ 1.02	$ 1.08	$ 0.97	$ 0.88
Diluted earnings per share	1.00	1.06	0.95	0.86

These pro forma results do not reflect the favorable impact of various long-term agreements with customers of the Duarte Business that were recently renegotiated by the Seller prior to the acquisition and effective on or before January 1, 2013. Collectively, the renegotiation of the agreements would have had a significant positive impact on prior operating results of the Duarte Business if implemented earlier.

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.

Note 5. Financial instruments and fair value measurements

The estimated fair values of Woodward’s financial instruments were as follows:

	At March 31, 2013		At September 30, 2012	
	Estimated Fair Value	Carrying Cost	Estimated Fair Value	Carrying Cost
Cash and cash equivalents	$ 54,658	$ 54,658	$ 61,829	$ 61,829
Investments in deferred compensation program	8,280	8,280	7,316	7,316
Note receivable from municipality	2,621	2,064	-	-
Short-term borrowings	(5,086)	(5,086)	(329)	(329)
Long-term debt, including current portion	(595,779)	(550,000)	(443,827)	(391,875)

The fair values of cash and cash equivalents, which include investments in money market funds and reverse repurchase agreements for the overnight investment of excess cash in U.S. Government and government agency obligations, are assumed to be equal to their carrying amounts. Cash and cash equivalents have short-term maturities and market interest rates. Woodward’s cash and cash equivalents include funds deposited or invested in the United States and overseas that are not insured by the Federal Deposit Insurance Corporation (“FDIC”). Woodward believes that its deposited and invested funds are held by or invested with creditworthy financial institutions or counterparties.

Investments related to the deferred compensation program used to provide deferred compensation benefits to certain employees are carried at market value.

In fiscal 2013, Woodward received a long-term note from a municipal corporation 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 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 the same maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The interest rate used to estimate the fair value of the long-term note was 3.1% at March 31, 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 2.2% and 2.1% as of March 31, 2013 and September 30, 2012, respectively.

Financial assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheet 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, 2013 or September 30, 2012.

	At March 31, 2013				At September 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash	$ 36,249	$ -	$ -	$ 36,249	$ 32,688	$ -	$ -	$ 32,688
Investments in money market funds	7,850	-	-	7,850	14,791	-	-	14,791
Investments in reverse repurchase agreements	10,559	-	-	10,559	14,350	-	-	14,350
Equity securities	8,280	-	-	8,280	7,316	-	-	7,316
Total financial assets	$ 62,938	$ -	$ -	$ 62,938	$ 69,145	$ -	$ -	$ 69,145

Investments in money market funds: Woodward sometimes invests excess cash in money market funds not insured by the 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 with excess cash 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 earnings. 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.

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 hedging transactions during the three or six-months ended March 31, 2013 or 2012. As of March 31, 2013 and September 30, 2012, all previous derivative instruments that Woodward had entered into were settled or terminated.

The remaining unrecognized losses in Woodward’s Condensed Consolidated Balance Sheets associated with terminated derivative instruments that were previously entered into by Woodward, which are classified in accumulated other comprehensive loss, were $521 and $607 as of March 31, 2013 and September 30, 2012, respectively.

The following tables disclose the impact of derivative instruments on Woodward’s Condensed Consolidated Statements of Earnings:

		Three-Months Ended March 31, 2013			Three-Months Ended March 31, 2012		
Derivatives in:	Location of (Gain) Loss Recognized in Earnings	Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings	Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings
Fair value hedging relationships	Interest expense	$ -	$ -	$ -	$ -	$ -	$ -
Cash flow hedging relationships	Interest expense	43	-	43	43	-	43

		$ 43	$ -	$ 43	$ 43	$ -	$ 43

		Six-Months Ended March 31, 2013			Six-Months Ended March 31, 2012		
Derivatives in:	Location of (Gain) Loss Recognized in Earnings	Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings	Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings
Fair value hedging relationships	Interest expense	$ -	$ -	$ -	$ (3)	$ -	$ -
Cash flow hedging relationships	Interest expense	86	-	86	88	-	88
		$ 86	$ -	$ 86	$ 85	$ -	$ 88

Based on the carrying value of the unrecognized gains and losses on terminated derivative instruments designated as cash flow hedges as of March 31, 2013, Woodward expects to reclassify $171 of net unrecognized losses on terminated

14

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, 2013	2012
Interest paid, net of amounts capitalized	$ 12,945	$ 13,021
Income taxes paid	16,765	31,343
Income tax refunds received	2,905	1,711
Non-cash activities:		
Purchases of property, plant and equipment on account	2,868	3,294
Common shares issued from treasury for benefit plans (Note 17)	9,780	9,335
Note receivable from municipality for economic development incentives	2,064	-
Cashless exercise of stock options	2,645	-
Settlement of receivable through purchase of treasury shares in connection with the cashless exercise of stock options	3,447	-

Note 8. Inventories

	March 31, 2013	September 30, 2012
Raw materials	$ 67,094	$ 31,209
Work in progress	88,669	85,942
Component parts and finished goods	295,967	281,078
	$ 451,730	$ 398,229

Note 9. Property, plant, and equipment, net

March 31, 2013	September 30, 2012

Land	$ 23,857	$ 17,560
Buildings and improvements	202,809	199,692
Leasehold improvements	20,671	20,821
Machinery and production equipment	286,117	284,494
Computer equipment and software	88,216	89,565
Office furniture and equipment	22,936	23,272
Other	14,287	2,444
Construction in progress	45,325	27,643
	704,218	665,491
Less accumulated depreciation	(433,305)	(430,986)
Property, plant and equipment, net	$ 270,913	$ 234,505

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2013	2012	2013	2012
Depreciation expense	$ 10,139	$ 9,513	$ 20,412	$ 19,682

For the three and six-months ended March 31, 2013 and March 31, 2012, 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,	
	2013	2012	2013	2012
Capitalized interest	$ 88	$ 124	$ 188	$ 428

Note 10. Goodwill

	September 30, 2012	Additions	Effects of Foreign Currency Translation	March 31, 2013
Aerospace	$ 356,773	$ 87,719	$ (465)	$ 444,027
Energy	104,601	-	(641)	103,960
Consolidated	$ 461,374	$ 87,719	$ (1,106)	$ 547,987

On December 28, 2012, Woodward completed the acquisition of the Duarte Business (Note 4, Business acquisitions), which resulted in the recognition of $87,719 in goodwill. The operations of the Duarte Business are being integrated into Woodward's Aerospace segment.

Woodward tests goodwill for impairment at the individual or aggregated 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 an individual or aggregated reporting unit below its carrying amount. Woodward aggregates reporting units that are components of the same operating segment if aggregation is appropriate based on the relevant U.S. GAAP authoritative guidance. The impairment tests consist of comparing the implied fair value of each of the individual or aggregated reporting units with its carrying amount including goodwill. If the carrying amount of the individual or aggregated 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, 2012 during the quarter ended September 30, 2012. 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 individual or aggregated 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 individual or aggregated 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, 2012 impairment test were discounted using weighted-average cost of capital assumptions ranging from 8.88% to 9.60%. 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 4.05%. 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 individual or aggregated reporting units resulting fair values utilizing a market multiple method.

The results of Woodward's goodwill impairment tests performed as of July 31, 2012 indicated the estimated fair value of each individual or aggregated reporting unit was substantially in excess of its carrying value, and accordingly, no impairment existed.

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. During the second quarter of fiscal 2013, the sequestration of U.S. federal government appropriations took effect under the Budget Control Act of 2011. Woodward will continue to assess any long-term impacts of the resulting decrease in the level of U.S. defense spending on its aerospace business, but believes that it is well aligned with national defense and other priorities; therefore, it does not believe that this will significantly affect the valuations of its individual or aggregated reporting units given that Woodward's direct and indirect sales to the U.S. government were 18% of total sales in fiscal year 2012. 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 11. Other intangibles, net

	March 31, 2013			September 30, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Customer relationships and contracts:						

Aerospace	$ 272,127	$ (68,118)	$ 204,009	$ 205,221	$ (59,297)	$ 145,924
Energy	41,745	(28,105)	13,640	41,770	(26,623)	15,147
Total	$ 313,872	$ (96,223)	$ 217,649	$ 246,991	$ (85,920)	$ 161,071
Intellectual property:						
Aerospace	$ -	$ -	$ -	$ -	$ -	$ -
Energy	19,949	(13,874)	6,075	20,001	(13,229)	6,772
Total	$ 19,949	$ (13,874)	$ 6,075	$ 20,001	$ (13,229)	$ 6,772
Process technology:						
Aerospace	$ 76,269	$ (23,334)	$ 52,935	$ 71,716	$ (20,622)	$ 51,094
Energy	23,114	(10,737)	12,377	23,166	(9,706)	13,460
Total	$ 99,383	$ (34,071)	$ 65,312	$ 94,882	$ (30,328)	$ 64,554
Other intangibles:						
Aerospace	$ 47,323	$ (40,196)	$ 7,127	$ 39,649	$ (37,718)	$ 1,931
Energy	2,533	(1,481)	1,052	2,538	(1,303)	1,235
Total	$ 49,856	$ (41,677)	$ 8,179	$ 42,187	$ (39,021)	$ 3,166
Total intangibles:						
Aerospace	$ 395,719	$ (131,648)	$ 264,071	$ 316,586	$ (117,637)	$ 198,949
Energy	87,341	(54,197)	33,144	87,475	(50,861)	36,614
Consolidated Total	$ 483,060	$ (185,845)	$ 297,215	$ 404,061	$ (168,498)	$ 235,563

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2013	2012	2013	2012
Amortization expense	$ 9,813	$ 8,294	$ 17,480	$ 16,552

Future amortization expense associated with intangibles is expected to be:

Year Ending September 30:	
2013 (remaining)	$ 19,436
2014	32,860
2015	28,770
2016	27,063
2017	25,319
Thereafter	163,767
	$ 297,215

Note 12. Credit facilities, short-term borrowings and long-term debt

Under the terms of the Company's Third Amended and Restated Credit Agreement, Woodward has a revolving credit facility with a syndicate of nine lenders led by JPMorgan Chase Bank, N.A., as administrative agent, with a borrowing capacity of $400,000 (the "Revolving Credit Facility"). The Third Amended and Restated Credit Agreement provides for an option to increase available borrowings under the Revolving Credit Facility to up to $600,000, subject to the lenders' participation. Borrowings under the Revolving Credit Facility generally bear interest at the London Interbank Rate

("LIBOR") plus 0.95% to 1.525%. There were no outstanding borrowings under the Revolving Credit Facility as of March 31, 2013.

The Third Amended and Restated Credit Agreement contains certain covenants customary with such agreements, which are generally consistent with the covenants applicable to Woodward's long-term debt agreements, and contains customary events of default, including certain cross default provisions related to Woodward's other outstanding debt arrangements in excess of $30,000, the occurrence of which would permit the lenders to accelerate the amounts due thereunder. In addition, the Third Amended and Restated Credit Agreement requires that Woodward's consolidated net worth at any time equal or exceed $725,000, plus 50% of Woodward's positive net income for the prior fiscal year and plus 50% of Woodward's net cash proceeds resulting from certain issuances of stock, subject to certain adjustments.

Woodward's obligations under the Third Amended and Restated Credit Agreement are guaranteed by Woodward FST, Inc., MPC Products Corporation and Woodward HRT, Inc., each of which is a wholly owned subsidiary of Woodward.

A Chinese subsidiary of Woodward has a local credit facility with the Hong Kong and Shanghai Banking Company under which it has the ability to borrow up to either $22,700, or the local currency equivalent of $22,700. Any cash borrowings under the local Chinese credit facility are secured by a parent guarantee from Woodward. The Chinese subsidiary may utilize the local facility for cash borrowings to support its local operating cash needs. Local currency borrowings on the Chinese credit facility are charged interest at the prevailing interest rate offered by the People's Bank of China on the date of borrowing, plus a margin equal to 25% of that prevailing rate. U.S. dollar borrowings on the credit facility are charged interest at the lender's cost of borrowing rate at the date of borrowing, plus a margin of 3%. The Chinese subsidiary had $5,086 in outstanding cash borrowings against the local credit facility at March 31, 2013 and had no outstanding cash borrowings under the local credit facility at September 30, 2012.

Woodward also has other foreign lines of credit and foreign overdraft facilities at various financial institutions, which are generally reviewed annually for renewal and are subject to the usual terms and conditions applied by the financial institutions. Pursuant to the terms of the related facility agreements, Woodward's foreign performance guarantee facilities are limited in use to providing performance guarantees to third parties. There were no borrowings outstanding as of March 31, 2013 and $329 of borrowings outstanding as of September 30, 2012 on Woodward's other foreign lines of credit and foreign overdraft facilities.

Long-term debt consisted of the following:

	March 31, 2013	September 30, 2012
2008 Term loan – Variable rate of 1.47% at September 30, 2012, matures October 2013; unsecured	$ -	$ 41,875
Series B notes – 5.63%, due October 2013; unsecured	100,000	100,000
Series C notes – 5.92%, due October 2015; unsecured	50,000	50,000
Series D notes – 6.39%, due October 2018; unsecured	100,000	100,000
Series E notes – 7.81%, due April 2016; unsecured	57,000	57,000
Series F notes – 8.24%, due April 2019; unsecured	43,000	43,000
Long-term borrowings under Line of Credit - Variable rate of 1.12% at March 31, 2013	200,000	