

Woodward, Inc.
Form 10-Q
July 26, 2013
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 June 30, 2013

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 0-08408

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 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).

Edgar Filing: Woodward, Inc. - Form 10-Q

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 July 23, 2013, 68,038,373 shares of the common stock with a par value of \$0.001455 per share were outstanding.

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u> (Unaudited)	2
<u>Condensed Consolidated Statements of Earnings</u>	2
<u>Condensed Consolidated Statements of Comprehensive Earnings</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Forward Looking Statements</u>	31
<u>Overview</u>	35
<u>Results of Operations</u>	36
<u>Liquidity and Capital Resources</u>	43
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	46
PART II – OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	47
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 6. <u>Exhibits</u>	48
<u>Signatures</u>	49

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 June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 483,759	\$ 460,241	\$ 1,377,611	\$ 1,336,930
Costs and expenses:				
Cost of goods sold	349,482	329,451	987,155	936,354
Selling, general and administrative expenses	46,747	39,627	120,371	118,984
Research and development costs	35,487	38,958	99,505	107,197
Amortization of intangible assets	9,769	8,139	27,249	24,691
Interest expense	6,723	6,611	20,196	19,471
Interest income	(68)	(265)	(205)	(475)
Other (income) expense, net (Note 15)	122	12	(1,030)	(1,214)
Total costs and expenses	448,262	422,533	1,253,241	1,205,008
Earnings before income taxes	35,497	37,708	124,370	131,922
Income tax expense	11,834	9,406	30,893	36,452
Net earnings	\$ 23,663	\$ 28,302	\$ 93,477	\$ 95,470
Earnings per share (Note 3):				
Basic earnings per share	\$ 0.35	\$ 0.41	\$ 1.36	\$ 1.38
Diluted earnings per share	\$ 0.34	\$ 0.40	\$ 1.34	\$ 1.36
Weighted Average Common Shares Outstanding (Note 3):				
Basic	68,323	68,922	68,506	68,973
Diluted	69,430	70,319	69,698	70,446
Cash dividends per share paid to Woodward common stockholders	\$ 0.08	\$ 0.08	\$ 0.24	\$ 0.23

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

(Unaudited)

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Net earnings	\$ 23,663	\$ 28,302	\$ 93,477	\$ 95,470
Other comprehensive earnings:				
Foreign currency translation adjustments	1,056	(13,565)	(5,002)	(14,018)
Taxes on changes in foreign currency translation adjustments	387	(1,166)	806	2,127
	1,443	(14,731)	(4,196)	(11,891)
Reclassification of realized losses on derivatives to earnings	42	43	128	131
Unrealized gain on derivatives arising during the period	546	-	546	-
Taxes on changes in derivative transactions	(223)	(16)	(256)	(50)
	365	27	418	81
Minimum retirement benefits liability adjustments	587	14	2,618	141
Taxes on changes in minimum retirement liability adjustments	(214)	(5)	(939)	(50)
	373	9	1,679	91
Total comprehensive earnings	\$ 25,844	\$ 13,607	\$ 91,378	\$ 83,751

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	June 30, 2013	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 60,972	\$ 61,829
Accounts receivable, less allowance for losses of \$10,140 and \$7,217, respectively	345,898	354,386
Inventories	447,712	398,229
Income taxes receivable	5,941	7,485
Deferred income tax assets	43,318	40,277
Other current assets	37,612	41,271
Total current assets	941,453	903,477
Property, plant and equipment, net	290,742	234,505
Goodwill	548,725	461,374
Intangible assets, net	287,513	235,563
Deferred income tax assets	8,996	9,129
Other assets	43,919	15,916
Total assets	\$ 2,121,348	\$ 1,859,964
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 35,144	\$ 329
Current portion of long-term debt	100,000	7,500
Accounts payable	141,402	124,914
Income taxes payable	6,433	14,141
Deferred income tax liabilities	800	800
Accrued liabilities	116,419	132,184
Total current liabilities	400,198	279,868
Long-term debt, less current portion	450,000	384,375
Deferred income tax liabilities	81,666	78,163
Other liabilities	126,284	109,443
Total liabilities	1,058,148	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	99,230	97,826
Accumulated other comprehensive loss	(13,822)	(11,723)
Deferred compensation	4,062	4,344
Retained earnings	1,146,867	1,069,811
	1,236,443	1,160,364

Edgar Filing: Woodward, Inc. - Form 10-Q

Treasury stock at cost, 4,929 shares and 4,536 shares, respectively	(169,181)	(147,905)
Treasury stock held for deferred compensation, at cost, 238 shares and 276 shares, respectively	(4,062)	(4,344)
Total stockholders' equity	1,063,200	1,008,115
Total liabilities and stockholders' equity	\$ 2,121,348	\$ 1,859,964

See accompanying Notes to Condensed Consolidated Financial Statements.

4

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine-Months Ended June	
	30,	2012
	2013	2012
Cash flows from operating activities:		
Net earnings	\$ 93,477	\$ 95,470
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	56,220	53,870
Net (gain) loss on sales of assets	(78)	(84)
Stock-based compensation	7,355	6,680
Excess tax benefits from stock-based compensation	(4,755)	(3,778)
Deferred income taxes	(36)	91
Loss on derivatives reclassified from accumulated comprehensive earnings into earnings	128	131
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	24,584	(8,003)
Inventories	(20,164)	(46,918)
Accounts payable and accrued liabilities	(16,320)	(19,284)
Current income taxes	(2,543)	(4,168)
Retirement benefit obligations	(3,290)	(766)
Other	(1,561)	(9,588)
Net cash provided by operating activities	133,017	63,653
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(78,515)	(44,224)
Proceeds from sale of assets	354	231
Business acquisitions, net of cash acquired	(198,860)	-
Net cash used in investing activities	(277,021)	(43,993)
Cash flows from financing activities:		
Cash dividends paid	(16,421)	(15,855)
Proceeds from sales of treasury stock	7,439	5,754
Payments for repurchases of common stock	(45,754)	(31,881)
Excess tax benefits from stock compensation	4,755	3,778
Borrowings on revolving lines of credit and short-term borrowings	97,072	185,129
Payments on revolving lines of credit and short-term borrowings	(62,329)	(180,189)
Proceeds from issuance of long-term debt	200,000	-
Payments of long-term debt	(41,875)	(16,440)
Payments of debt financing costs	-	(2,185)
Net cash provided by (used in) financing activities	142,887	(51,889)
Effect of exchange rate changes on cash and cash equivalents	260	(2,407)
Net change in cash and cash equivalents	(857)	(34,636)
Cash and cash equivalents at beginning of period	61,829	74,539

Cash and cash equivalents at end of period	\$ 60,972	\$ 39,903
--	-----------	-----------

See accompanying Notes to Condensed Consolidated Financial Statements.

5

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Number of shares				Stockholders' equity					Total 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	
Balances as of October 1, 2011	-	72,960	(4,070)	(315)	\$ 106	\$ 81,453	\$ 22,103	\$ (484)	\$ (17,993)	\$ 3,620
Net earnings	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(792)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	418	-	-	(1,295)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	209	-	-	5,238	-	-	-	-
Tax benefit attributable to exercise of stock options	-	-	-	-	-	3,778	-	-	-	-
Stock-based compensation	-	-	-	-	-	6,680	-	-	-	-
Purchases of stock by deferred compensation plan	-	-	3	(4)	-	59	-	-	-	-
	-	-	-	44	-	-	-	-	-	-

Edgar Filing: Woodward, Inc. - Form 10-Q

Distribution of stock from deferred compensation plan										
Foreign currency translation adjustments	-	-	-	-	-	-	(14,018)	-	-	(14,018)
Reclassification of unrecognized derivative losses to earnings	-	-	-	-	-	-	-	131	-	131
Minimum retirement benefits liability adjustments	-	-	-	-	-	-	-	-	141	141
Taxes on changes in accumulated other comprehensive earnings	-	-	-	-	-	-	2,127	(50)	(50)	2,027
Balances as of June 30, 2012	-	72,960	(4,232)	(275)	\$ 106	\$ 95,913	\$ 10,212	\$ (403)	\$ (17,902)	\$ (8,000)
Balances as of October 1, 2012	-	72,960	(4,536)	(276)	\$ 106	\$ 97,826	\$ 17,447	\$ (376)	\$ (28,794)	\$ (11,797)
Net earnings	-	-	-	-	-	-	-	-	-	-