

Woodward, Inc.
Form 10-Q
April 27, 2011

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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, 2011
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)

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, 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

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

As of April 22, 2011, 68,784,253 shares of the registrant's common stock with a par value of \$0.001455 per share were outstanding.

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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 Ending March 31, | | Six-Months Ending March 31, | |
|---|--|---------------|--|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | \$ 418,866 | \$ 349,352 | \$ 783,941 | \$ 688,660 |
| Costs and expenses: | | | | |
| Cost of goods sold | 292,520 | 244,316 | 553,697 | 483,868 |
| Selling, general and administrative expenses | 38,445 | 34,130 | 71,111 | 66,965 |
| Research and development costs | 27,050 | 19,698 | 50,788 | 38,012 |
| Amortization of intangible assets | 8,542 | 8,655 | 17,085 | 17,836 |
| Interest expense | 6,299 | 7,324 | 12,800 | 15,575 |
| Interest income | (85) | (120) | (208) | (230) |
| Other (income) expense, net | (392) | (469) | 706 | (674) |
| Total costs and expenses | 372,379 | 313,534 | 705,979 | 621,352 |
| Earnings before income taxes | 46,487 | 35,818 | 77,962 | 67,308 |
| Income tax expense | 14,397 | 11,642 | 23,473 | 20,686 |
| Net earnings | 32,090 | 24,176 | 54,489 | 46,622 |
| Earnings attributable to noncontrolling interest, net of taxes | | (108) | | (198) |
| Net earnings attributable to Woodward | \$ 32,090 | \$ 24,068 | \$ 54,489 | \$ 46,424 |
| Earnings per share (Note 3): | | | | |
| Basic earnings per share attributable to Woodward | \$ 0.47 | \$ 0.35 | \$ 0.79 | \$ 0.68 |
| Diluted earnings per share attributable to Woodward | \$ 0.46 | \$ 0.34 | \$ 0.78 | \$ 0.66 |
| Weighted Average Common Shares Outstanding (Note 3): | | | | |
| Basic | 68,752 | 68,436 | 68,782 | 68,398 |
| Diluted | 70,107 | 69,876 | 70,140 | 69,830 |
| Cash dividends per share paid to Woodward common stockholders | \$ 0.07 | \$ 0.06 | \$ 0.13 | \$ 0.12 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In thousands)
(Unaudited)

| | Three-Months Ending | | Six-Months Ending | |
|--|----------------------------|-------------|--------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Comprehensive earnings attributable to Woodward: | | | | |
| Net earnings attributable to Woodward | \$ 32,090 | \$ 24,068 | \$ 54,489 | \$ 46,424 |
| Other comprehensive earnings: | | | | |
| Foreign currency translation adjustments | 11,009 | (10,720) | 8,629 | (13,820) |
| Reclassification of realized losses on derivatives to earnings | 56 | 70 | 115 | 141 |
| Minimum retirement benefit liability adjustment | (246) | 471 | (274) | 480 |
| Taxes on changes in other comprehensive earnings | (979) | 116 | (863) | 563 |
| Comprehensive earnings attributable to Woodward | 41,930 | 14,005 | 62,096 | 33,788 |
| Comprehensive earnings attributable to noncontrolling interest: | | | | |
| Net earnings attributable to noncontrolling interest | | 108 | | 198 |
| Foreign currency translation adjustments, net of tax | | 41 | | 83 |
| Comprehensive earnings attributable to noncontrolling interest | | 149 | | 281 |
| Total comprehensive earnings | \$ 41,930 | \$ 14,154 | \$ 62,096 | \$ 34,069 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(Unaudited)

| | March 31, 2011 | September 30, 2010 |
|---|---------------------------|-------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 60,819 | \$ 105,579 |
| Accounts receivable, less allowance for losses of \$1,944 and \$2,228, respectively | 256,379 | 248,513 |
| Inventories | 357,780 | 295,034 |
| Income taxes receivable | 16,139 | 18,170 |
| Deferred income tax assets | 32,704 | 33,689 |
| Other current assets | 24,933 | 18,157 |
| | | |
| Total current assets | 748,754 | 719,142 |
| Property, plant and equipment, net | 195,133 | 193,524 |
| Goodwill | 439,554 | 438,594 |
| Intangible assets, net | 275,332 | 292,149 |
| Deferred income tax assets | 6,301 | 8,623 |
| Other assets | 15,742 | 11,201 |
| | | |
| Total assets | \$ 1,680,816 | \$ 1,663,233 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Short-term borrowings | \$ 570 | \$ 22,099 |
| Current portion of long-term debt | 18,470 | 18,493 |
| Accounts payable | 104,507 | 107,468 |
| Income taxes payable | 6,991 | 5,453 |
| Accrued liabilities | 105,776 | 109,052 |
| | | |
| Total current liabilities | 236,314 | 262,565 |
| Long-term debt, less current portion | 410,680 | 425,250 |
| Deferred income tax liabilities | 89,530 | 88,249 |
| Other liabilities | 87,105 | 83,975 |
| | | |
| Total liabilities | 823,629 | 860,039 |
| | | |
| Commitments and contingencies (Note 17) | | |
| Stockholders equity: | | |

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| | | |
|---|--------------|--------------|
| 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 | 78,534 | 73,915 |
| Accumulated other comprehensive earnings | 13,949 | 6,342 |
| Deferred compensation | 4,721 | 4,888 |
| Retained earnings | 881,460 | 835,919 |
| | 978,770 | 921,170 |
| Treasury stock at cost, 4,202 shares and 4,223 shares, respectively | (116,862) | (113,088) |
| Treasury stock held for deferred compensation, at cost, 334 shares and 356 shares, respectively | (4,721) | (4,888) |
| Total stockholders equity | 857,187 | 803,194 |
| Total liabilities and stockholders equity | \$ 1,680,816 | \$ 1,663,233 |

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 Ending | |
|--|--------------------------|-------------|
| | March 31, | |
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 54,489 | \$ 46,622 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 37,409 | 37,994 |
| Net loss on sales of assets | 1 | 57 |
| Stock-based compensation | 4,113 | 3,883 |
| Excess tax benefits from stock-based compensation | (2,236) | (541) |
| Deferred income taxes | 3,690 | 7,528 |
| Loss on derivatives reclassified from accumulated comprehensive earnings into earnings | 115 | 141 |
| Changes in operating assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (7,712) | 10,517 |
| Inventories | (59,883) | 8,330 |
| Accounts payable and accrued liabilities | (7,279) | 15,933 |
| Current income taxes | 5,789 | 2,027 |
| Retirement benefit obligations | (1,980) | (52) |
| Other | (6,340) | (6,458) |
| Net cash provided by operating activities | 20,176 | 125,981 |
| Cash flows from investing activities: | | |
| Payments for property, plant and equipment | (20,124) | (14,136) |
| Proceeds from the sale of other assets | 20 | 246 |
| Business acquisitions, net of cash acquired | | (25,000) |
| Proceeds from disposal of Fuel & Pneumatics product line | | 660 |
| Net cash used in investing activities | (20,104) | (38,230) |
| Cash flows from financing activities: | | |
| Cash dividends paid | (8,948) | (8,207) |
| Proceeds from sales of treasury stock | 1,308 | 1,655 |
| Payments for repurchases of common stock | (6,837) | |
| Excess tax benefits from stock compensation | 2,236 | 541 |
| Borrowings on revolving lines of credit and short-term borrowings | 28,207 | 32,715 |
| Payments on revolving lines of credit and short-term borrowings | (46,278) | (32,715) |
| Payments of long-term debt | (14,569) | (108,569) |

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| | | |
|--|-----------|-----------|
| Net cash used in financing activities | (44,881) | (114,580) |
| Effect of exchange rate changes on cash and cash equivalents | 49 | (1,474) |
| Net change in cash and cash equivalents | (44,760) | (28,303) |
| Cash and cash equivalents at beginning of period | 105,579 | 100,863 |
| Cash and cash equivalents at end of period | \$ 60,819 | \$ 72,560 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

| Number of shares | Stockholders' equity | | | | | | | | | | | | | |
|------------------|--|-------------------------|-----------------------|--------------|-----------------|--|---------------------------|--|--|-----------------------|-------------------|------------------------|------------------------|-------------------------|
| | Accumulated other comprehensive earnings | | | | | | | | | | | Treasury stock at cost | | |
| Common stock | Treasury stock held for | Treasury stock held for | Deferred compensation | Common stock | Paid-in capital | Foreign currency translation adjustments | Unrealized gains (losses) | Minimum retirement liability adjustments | Total accumulated other comprehensive earnings | Deferred compensation | Retained earnings | | Treasury stock at cost | Treasury stock held for |
| | | | | | | | | | | | | Additional | | |
| 72,960 | (4,621) | (389) | \$ 106 | \$ 73,197 | \$ 29,464 | \$ (801) | \$ (18,534) | \$ 10,129 | \$ 4,904 | \$ 741,505 | \$ (115,478) | \$ (115,478) | \$ (4,904) | \$ 2,000 |
| | | | | | | | | | | 46,424 | | | | 1,809 |
| | | | | | | | | | | (8,207) | | | | |
| | 131 | | | | (215) | | | | | | | | | |
| | | | | | 541 | | | | | | | | | |
| | | | | | 3,883 | | | | | | | | | |
| | 3 | (2) | | | 22 | | | | | 119 | | | 40 | (119) |
| | | | | | | | | | | | | | | |
| | | | | | | | | | | (308) | | | | 308 |
| | | | | | | | | | | | | | | |
| | | | | | | (13,820) | | | | (13,820) | | | | |
| | | | | | | | 141 | | | 141 | | | | |

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480 480

849 (54) (232) 563

72,960 (4,487) (365) \$ 106 \$ 77,428 \$ 16,493 \$ (714)\$ (18,286)\$ (2,507)\$ 4,715 \$ 779,722 \$ (113,629) \$ (4,715) \$ 2,3

72,960 (4,223) (356) \$ 106 \$ 73,915 \$ 23,152 \$ (627)\$ (16,183)\$ 6,342 \$ 4,888 \$ 835,919 \$ (113,088) \$ (4,888) \$ 54,489

(8,948)

(242)

(7,961)

261

(1,763)

4,187

2,236

4,113

2

(2)

33

107

(107)

24

(274)

274

8,629

8,629

115

115

(274) (274)

(916) (43) 96 (863)

72,960 (4,202) (334) \$ 106 \$ 78,534 \$ 30,865 \$(555)\$(16,361)\$ 13,949 \$ 4,721 \$ 881,460 \$(116,862) \$(4,721) \$

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**Note 1. Basis of presentation**

The Condensed Consolidated Financial Statements of Woodward, Inc. (Woodward or the Company) as of March 31, 2011 and for the three and six-months ending March 31, 2011 and March 31, 2010, included herein, have not been audited by an independent registered public accounting firm. These Condensed Consolidated Financial Statements reflect all normal recurring adjustments which, in the opinion of management, are necessary to present fairly Woodward's financial position as of March 31, 2011, and the results of operations, cash flows, and changes in equity for the periods presented herein. The Condensed Consolidated Balance Sheet as of September 30, 2010 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 ending March 31, 2011 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. Significant estimates in these Condensed Consolidated Financial Statements include allowances for doubtful accounts, net realizable value of inventories, warranty reserves, percentage complete on long-term contracts, cost of sales incentives, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, 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 contingencies. Actual results could vary materially from Woodward's estimates.

The Condensed Consolidated Statement of Cash Flows for the six-months ending March 31, 2010 has been adjusted to conform to the six-months ending March 31, 2011 presentation. The change in Retirement benefit obligations presented in Cash flows from operating activities has been reclassified from Other.

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 October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements and ASU 2009-14, Certain Revenue Arrangements That Include Software Elements. ASU 2009-13 and ASU 2009-14 are required to be adopted concurrently in fiscal years beginning on or after June 15, 2010 (fiscal year 2011 for Woodward).

ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available.

ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software is essential to the tangible product's functionality.

ASU 2009-13 and ASU 2009-14 were adopted by Woodward on October 1, 2010. The adoption did not impact the identification of or the accounting for units of accounting, including the pattern and timing of revenue recognition and is not expected to have a significant impact on Woodward's financial position, results of operations or cash flows in

future periods. Woodward does not generally sell its products and services through arrangements that include multiple-deliverable arrangements, and the Company had no significant multiple-deliverable arrangements as of March 31, 2011.

In April 2010, the FASB issued ASU 2010-17, Milestone Method of Revenue Recognition. ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions, and requires certain disclosures regarding the use of the milestone method.

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ASU 2010-17 was adopted by Woodward on October 1, 2010. The adoption did not impact the pattern and timing of revenue recognition and is not expected to have a significant impact on Woodward's financial position, results of operations or cash flows in future periods. For certain development services provided to customers under funded long and short-term development contracts, Woodward recognizes revenue based on completion of substantive milestones determined based on the individual facts and circumstances of each arrangement. Total revenues recognized by Woodward based upon completion of substantive milestones as proscribed by ASU 2010-17 was \$966 and \$1,330 for the three and six-months ending March 31, 2011, respectively.

Note 3. Earnings per share

Basic earnings per share attributable to Woodward 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 attributable to Woodward reflects the weighted average number of shares outstanding after the assumed conversion of all dilutive securities.

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

| | Three-Months Ending March 31, | | Six-Months Ending March 31, | |
|---|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Numerator: | | | | |
| Net earnings attributable to Woodward | \$ 32,090 | \$ 24,068 | \$ 54,489 | \$ 46,424 |
| Denominator: | | | | |
| Basic shares outstanding | 68,752 | 68,436 | 68,782 | 68,398 |
| Dilutive effect of employee stock options | 1,355 | 1,440 | 1,358 | 1,432 |
| Diluted shares outstanding | 70,107 | 69,876 | 70,140 | 69,830 |
| Income per common share: | | | | |
| Basic earnings per share attributable to Woodward | \$ 0.47 | \$ 0.35 | \$ 0.79 | \$ 0.68 |
| Diluted earnings per share attributable to Woodward | \$ 0.46 | \$ 0.34 | \$ 0.78 | \$ 0.66 |

The following stock option grants were outstanding during the three and six-months ending March 31, 2011 and 2010, but were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive:

| | Three-Months Ending March 31, | | Six-Months Ending March 31, | |
|-------------------------------|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Options | 680 | 1,102 | 678 | 447 |
| Weighted-average option price | \$ 32.03 | \$ 26.92 | \$ 32.02 | \$ 32.52 |

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

| | Three-Months Ending March 31, | Six-Months Ending March 31, |
|--|--|--|
|--|--|--|

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| | 2011 | 2010 | 2011 | 2010 |
|--|-------------|-------------|-------------|-------------|
| Weighted average treasury stock shares held for deferred compensation obligation | 345 | 376 | 348 | 380 |

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

| | At March 31, 2011 | | At September 30, 2010 | |
|--|----------------------------|------------------|----------------------------|------------------|
| | Estimated Fair Value | Carrying Cost | Estimated Fair Value | Carrying Cost |
| Cash and cash equivalents | \$ 60,819 | \$ 60,819 | \$ 105,579 | \$ 105,579 |
| Investments in deferred compensation program | 6,460 | 6,460 | 5,633 | 5,633 |
| Short-term borrowings | (570) | (570) | (22,099) | (22,099) |
| Long-term debt, including current portion | (488,025) | (429,114) | (506,120) | (443,673) |

The fair values of cash and cash equivalents, which include investments in money market funds, 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 U.S. 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 credit worthy financial institutions or counterparties.

Investments related to the deferred compensation program used to provide deferred compensation benefits to certain employees are assumed to be equal to their carrying amounts because the assets are marked to market value each reporting period.

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 within a short period of time, for the carrying amount of the obligation.

The fair value of long-term debt at fixed interest rates 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. The weighted-average interest rates used to estimate the fair value of long-term debt at fixed interest rates were as follows:

| | March 31, 2011 | September 30, 2010 |
|--|-------------------|--------------------------|
| Weighted-average interest rate used to estimate fair value | 3.1% | 2.9% |

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.

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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, 2011 or September 30, 2010.

| | At March 31, 2011 | | | | At September 30, 2010 | | | |
|-----------------------------------|-------------------|---------|---------|-----------|-----------------------|---------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | | | | | |
| Investments in money market funds | \$ 9,585 | \$ | \$ | \$ 9,585 | \$ 50,360 | \$ | \$ | \$ 50,360 |
| Equity securities | 6,460 | | | 6,460 | 5,633 | | | 5,633 |
| Foreign exchange forward contract | | | | | | 579 | | 579 |
| Total financial assets | \$ 16,045 | \$ | \$ | \$ 16,045 | \$ 55,993 | \$ 579 | \$ | \$ 56,572 |

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 Woodward's Condensed Consolidated Balance Sheet under the caption 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.

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 Woodward's Condensed Consolidated Balance Sheet under the caption Other current 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.

Forward contracts: As of September 30, 2010, Woodward was a party to a forward contract. The fair value of the derivative instrument was derived from published foreign currency exchange rates as of September 30, 2010. The forward contract was settled in December 2010, resulting in a realized loss of \$1,033.

Note 5. 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 credit worthy 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 mitigates 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 ending March 31, 2011 and was not a party to any derivative instruments as of March 31, 2011.

In September 2010, Woodward entered into a foreign currency exchange rate contract to purchase 39,000 for approximately \$52,549 in early December 2010. The objective of this derivative instrument, which was not designated as an accounting hedge, was to limit the risk of foreign currency exchange rate fluctuations on a short-term intercompany loan balance. An unrealized gain of \$579 on this derivative was carried at fair market value in Woodward's Condensed Consolidated Balance Sheet under the caption Other current assets as of September 30, 2010. In December 2010, a loss of \$1,033 was realized on the settlement of this forward contract.

The resulting foreign currency gain realized on the repayment of the short-term intercompany loan balance was recorded in selling, general and administrative expenses and offset the corresponding realized loss on the foreign currency exchange rate contract.

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The following table discloses the remaining unrecognized gains and losses and recognized gains associated with derivative instruments in Woodward's Condensed Consolidated Balance Sheets:

| | March 31, 2011 | September 30, 2010 |
|--|---------------------------------|--------------------------|
| Derivatives designated as hedging instruments | Unrecognized Gain (Loss) | |
| Classified in accumulated other comprehensive earnings | \$ (895) | \$ (1,011) |
| Classified in current and long-term debt | 36 | 70 |
| | \$ (859) | \$ (941) |
| Derivatives not designated as hedging instruments | Recognized Gain | |
| Classified in other current assets | \$ | \$ 579 |

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

| | | Three-Months Ending March 31, 2011 | | | Three-Months Ending March 31, 2010 | | |
|----------------------------------|--|---|---|---|---|---|---|
| | | Amount of Income Recognized in Accumulated Earnings on Derivative | Amount of (Loss) Gain Recognized in Accumulated OCI on Derivative | Amount of Gain Reclassified from Accumulated OCI into Earnings | Amount of Income Recognized in Accumulated Earnings on Derivative | Amount of (Loss) Gain Recognized in Accumulated OCI on Derivative | Amount of Gain Reclassified from Accumulated OCI into Earnings |
| Derivatives in: | Location of Gain (Expense) Recognized | | | | | | |
| Fair value hedging relationships | Interest expense | \$ 15 | \$ | \$ | \$ 31 | \$ | \$ |
| Cash flow hedging relationships | Interest expense | (56) | (56) | (56) | (70) | (70) | (70) |
| Foreign currency relationships | Other income (expense) | (41) | (56) | (56) | (39) | (70) | (70) |
| | | \$ (41) | \$ (56) | \$ (56) | \$ (39) | \$ (70) | \$ (70) |
| | | Six-Months Ending March 31, 2011 | | | Six-Months Ending March 31, 2010 | | |
| | | Amount of | | | Amount of | | |

| | | Amount of Income Recognized in Accumulated Earnings on Derivative | Amount of Gain (Loss) Recognized in Accumulated OCI on Derivative | Gain (Loss) Reclassified from Accumulated OCI into Earnings | Amount of Income (Expense) Recognized in Accumulated Earnings on Derivative | Amount of Gain (Loss) Recognized in Accumulated OCI on Derivative | Gain (Loss) Reclassified from Accumulated OCI into Earnings |
|----------------------------------|------------------------|---|---|---|--|---|---|
| Derivatives in: | | | | | | | |
| Fair value hedging relationships | Interest expense | \$ 34 | \$ | \$ | \$ 64 | \$ | \$ |
| Cash flow hedging relationships | Interest expense | (115) | | (115) | (141) | | (141) |
| Foreign currency relationships | Other income (expense) | (1,612) | | | 102 | | |
| | | \$ (1,693) | \$ | \$ (115) | \$ 25 | \$ | \$ (141) |

Based on the carrying value of the unrecognized gains and losses on terminated derivative instruments designated as cash flow hedges as of March 31, 2011, Woodward expects to reclassify \$202 of net unrecognized losses on terminated derivative instruments from accumulated other comprehensive earnings to earnings during the next twelve months.

Table of Contents**Note 6. Supplemental statements of cash flows information**

| | Six-Months Ending March 31, | |
|-----------------------------|--|-------------|
| | 2011 | 2010 |
| Interest paid | \$ 13,156 | \$ 15,609 |
| Income taxes paid | 17,731 | 17,285 |
| Income tax refunds received | 5,920 | 8,691 |

Non-cash activities:

| | | |
|--|-------|-----|
| Purchases of property, plant and equipment on account | 1,942 | 629 |
| Cashless exercise of stock options | 1,124 | |
| Reduction of accounts receivable and short-term borrowing due to the settlement of accounts receivable previously sold with recourse | 3,228 | |
| Reduction of accounts payable due to the assignment of accounts receivable with recourse | 570 | |
| Reduction to goodwill due to favorable resolution of lease termination recorded in restructuring reserve | 103 | |
| Payment of director fees through issuance of treasury stock | 24 | |

During the first quarter of fiscal 2011, Woodward negotiated a lease settlement that was favorable in comparison to the previously recorded restructuring accrual established in purchase accounting in connection with the fiscal year 2009 acquisition of MPC Products Corporation (MPC Products) and Techni-Core, Inc. (Techni-Core and together with MPC Products, MPC). The resulting benefit of \$103 was recorded as a reduction to goodwill.

MPC Products, one of Woodward's subsidiaries acquired in fiscal year 2009, was previously subject to an investigation by the Department of Justice (DOJ) regarding certain of its government contract pricing practices prior to June 2005. In the three-months ending December 31, 2009, MPC settled the criminal and civil claims related to the DOJ's investigation and paid \$25,000 in compensation and fines. The purchase price Woodward paid in connection with the acquisition of MPC was reduced by \$25,000 at the time of the acquisition, which represents the amounts discussed above. Payment of this amount during the six-months ending March 31, 2010 is reflected as an investing activity in the accompanying Condensed Consolidated Statements of Cash Flows.

Note 7. Inventories

| | March 31, 2011 | September 30, 2010 |
|------------------------------------|---------------------------|-------------------------------|
| Raw materials | \$ 39,614 | \$ 19,457 |
| Work in progress | 89,457 | 86,438 |
| Component parts and finished goods | 228,709 | 189,139 |
| | \$ 357,780 | \$ 295,034 |

Table of Contents**Note 8. Property, plant, and equipment net**

| | March 31, 2011 | September 30, 2010 |
|------------------------------------|---------------------------|-------------------------------|
| Land | \$ 11,586 | \$ 11,372 |
| Buildings and improvements | 172,908 | 171,257 |
| Leasehold improvements | 18,141 | 17,884 |
| Machinery and production equipment | 271,162 | 270,126 |
| Computer equipment and software | 58,441 | 57,518 |
| Other | 23,427 | 22,854 |
| Construction in progress | 28,450 | 13,125 |
| | 584,115 | 564,136 |
| Less accumulated depreciation | (388,982) | (370,612) |
| Property, plant and equipment, net | \$ 195,133 | \$ 193,524 |

| | Three-Months Ending March 31, | | Six-Months Ending March 31, | |
|----------------------|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Depreciation expense | \$ 9,970 | \$ 10,403 | \$ 20,324 | \$ 20,158 |

During fiscal 2010, Woodward began construction of a new 48,000 square foot system test facility in Rockford, Illinois. The test facility will support product development primarily for Woodward's Turbine Systems segment. Included in construction in progress at March 31, 2011 and September 30, 2010 are \$14,312 and \$4,836, respectively, of costs associated with the construction of the test facility, including \$556 and \$165, respectively, of capitalized interest.

In addition at March 31, 2011 and September 30, 2010, Woodward recognized in construction in progress, \$4,968 and \$1,604, respectively, of costs associated with the development of a new Enterprise Resource Planning (ERP) system for its Airframe Systems segment. These costs included capitalized interest of \$116 and \$24, respectively.

For the three and six-months ending March 31, 2011 and March 31, 2010, Woodward had capitalized interest that would have otherwise been included in interest expense of the following:

| | Three-Months Ending March 31, | | Six-Months Ending March 31, | |
|----------------------|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Capitalized interest | \$ 315 | \$ 16 | \$ 513 | \$ 25 |

Table of Contents**Note 9. Goodwill**

| | September 30, 2010 | Additions / Adjustments | Effects of Currency Translation | March 31, 2010 |
|--------------------------|-----------------------------------|------------------------------------|--|---------------------------|
| Turbine Systems | \$ 86,565 | \$ | \$ | \$ 86,565 |
| Airframe Systems | 294,557 | (103) | 156 | 294,610 |
| Electrical Power Systems | 16,534 | | 677 | 17,211 |
| Engine Systems | 40,938 | | 230 | 41,168 |
| Consolidated | \$ 438,594 | \$ (103) | \$ 1,063 | \$ 439,554 |

During the first quarter of fiscal 2011, Woodward negotiated a lease settlement that was favorable in comparison to the previously recorded restructuring accrual established in purchase accounting in connection with the fiscal year 2009 acquisition of MPC. The resulting benefit of \$103 was recorded as a reduction to goodwill.

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. The impairment tests consist of comparing the fair value of each identified reporting unit with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, Woodward compares the implied value of goodwill with its carrying amount. 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 during the quarter ended March 31, 2011. As a part of that test, Woodward determined its Turbine Systems, Airframe Systems and Engine Systems operating segments represented individual reporting units. Woodward determined its Electrical Power Systems operating segment was represented through three discrete identifiable reporting units. 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, operating earnings margins, and forecasted cash flows based on the discount rate and the terminal growth rate. Management projects revenue growth rates, operating earnings margins and cash flows based on each reporting unit's current operational results, expected performance and operational strategies over a five-year period. These projections are adjusted to reflect current economic conditions and demand for certain products and require considerable management judgement. Forecasted cash flows were discounted using an 11.3% weighted average cost of capital assumption. The terminal value of the forecasted cash flows assumed an annual compound growth rate after five years of 4.4% and was calculated using the Gordon Growth Model. These inputs, which are unobservable in the market, represent management's 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 resulting fair values of its reporting units by comparing the aggregate fair value to its market capitalization and assessing the reasonableness of any resulting premium.

The results of Woodward's fiscal year 2011 annual goodwill impairment test performed as of March 31, 2011 indicated the estimated fair value of each reporting unit was in excess of its carrying value, and accordingly, no impairment existed. At March 31, 2011 the goodwill impairment test for Woodward's Airframe Systems reporting unit, which has a significant concentration of business in the business jet and regional jet market segments which have lagged in the economic recovery, indicates the closest premium, as compared to this reporting unit's carrying value, while each of Woodward's remaining reporting units had resulting fair values significantly in excess of their carrying

values. Increasing the discount rate by 10%, decreasing the growth rate by 10%, or decreasing forecasted cash flow by 10%, as it relates to the Airframe Systems operating segment, would not result in an impairment charge. However, an increase in the discount rate by approximately 11%, decreasing the growth rate by approximately 38%, or decreasing forecasted cash flow by approximately 15%, as it relates to the Airframe Systems operating segment, would result in an impairment charge.

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 recoverability. There can be no assurance that Woodward's estimates and assumptions regarding forecasted cash flows of certain reporting units, the period or strength of the current economic recovery or the other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

Table of Contents**Note 10. Other intangibles net**

| | March 31, 2011 | | | September 30, 2010 | | |
|--------------------------------|----------------------------|-----------------------------|---------------------------|----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Amount | Gross Carrying Value | Accumulated Amortization | Net Carrying Amount |
| Customer relationships: | | | | | | |
| Turbine Systems | \$ 44,327 | \$ (18,962) | \$ 25,365 | \$ 44,327 | \$ (18,223) | \$ 26,104 |
| Airframe Systems | 176,666 | (21,066) | 155,600 | 176,634 | (13,162) | 163,472 |
| Electrical Power Systems | 2,248 | (993) | 1,255 | 2,156 | (844) | 1,312 |
| Engine Systems | 20,675 | (14,519) | 6,156 | 20,675 | (13,577) | 7,098 |
| Total | \$ 243,916 | \$ (55,540) | \$ 188,376 | \$ 243,792 | \$ (45,806) | \$ 197,986 |
| Intellectual property: | | | | | | |
| Turbine Systems | \$ | \$ | \$ | \$ | \$ | \$ |
| Airframe Systems | | | | | | |
| Electrical Power Systems | 7,800 | (3,919) | 3,881 | 7,616 | (3,567) | 4,049 |
| Engine Systems | 12,615 | (7,406) | 5,209 | 12,599 | (6,988) | 5,611 |
| Total | \$ 20,415 | \$ (11,325) | \$ 9,090 | \$ 20,215 | \$ (10,555) | \$ 9,660 |
| Process technology: | | | | | | |
| Turbine Systems | \$ 11,941 | \$ (5,108) | \$ 6,833 | \$ 11,941 | \$ (4,909) | \$ 7,032 |
| Airframe Systems | 62,983 | (9,151) | 53,832 | 62,967 | (6,797) | 56,170 |
| Electrical Power Systems | | | | | | |
| Engine Systems | 12,593 | (5,302) | 7,291 | 12,593 | (4,787) | 7,806 |
| Total | \$ 87,517 | \$ (19,561) | \$ 67,956 | \$ 87,501 | \$ (16,493) | \$ 71,008 |
| Other intangibles: | | | | | | |
| Turbine Systems | \$ | \$ | \$ | \$ | \$ | \$ |
| Airframe Systems | 39,647 | (31,133) | 8,514 | 39,638 | (27,595) | 12,043 |
| Electrical Power Systems | 1,574 | (464) | 1,110 | 1,510 | (389) | 1,121 |
| Engine Systems | 460 | (174) | 286 | 460 | (129) | 331 |
| Total | \$ 41,681 | \$ (31,771) | \$ 9,910 | \$ 41,608 | \$ (28,113) | \$ 13,495 |
| Total intangibles: | | | | | | |
| Turbine Systems | \$ 56,268 | \$ (24,070) | \$ 32,198 | \$ 56,268 | \$ (23,132) | \$ 33,136 |

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| | | | | | | |
|--------------------------|------------|--------------|------------|------------|--------------|------------|
| Airframe Systems | 279,296 | (61,350) | 217,946 | 279,239 | (47,554) | 231,685 |
| Electrical Power Systems | 11,622 | (5,376) | 6,246 | 11,282 | (4,800) | 6,482 |
| Engine Systems | 46,343 | (27,401) | 18,942 | 46,327 | (25,481) | 20,846 |
| Consolidated Total | \$ 393,529 | \$ (118,197) | \$ 275,332 | \$ 393,116 | \$ (100,967) | \$ 292,149 |

| | Three-Months Ending March 31, | | Six-Months Ending March 31, | |
|----------------------|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Amortization expense | \$ 8,542 | \$ 8,655 | \$ 17,085 | \$ 17,836 |

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Future amortization expense associated with intangibles is expected to be:

Year Ending September 30:

| | |
|------------------|------------|
| 2011 (remaining) | \$ 17,095 |
| 2012 | 31,383 |
| 2013 | 29,140 |
| 2014 | 26,042 |
| 2015 | 23,610 |
| Thereafter | 148,062 |
| | \$ 275,332 |

Note 11. Accrued liabilities

| | March 31, 2011 | September 30, 2010 |
|--|---------------------------|-------------------------------|
| Salaries and other member benefits | \$ 35,261 | \$ 43,598 |
| Current portion of restructuring and other charges | 3,150 | 4,862 |
| Warranties | 13,621 | 10,851 |
| Interest payable | 11,615 | 11,925 |
| Accrued retirement benefits | 2,731 | 2,748 |
| Deferred revenues | 12,280 | 12,376 |
| Taxes, other than income | 5,536 | 4,618 |
| Other | 21,582 | 18,074 |
| | \$ 105,776 | \$ 109,052 |

Warranties

Provisions of Woodward's sales agreements include product warranties customary to these types of agreements. Accruals are established for specifically identified warranty issues that are probable to result in future costs. Warranty costs are accrued on a non-specific basis whenever past experience indicates a normal and predictable pattern exists. Changes in accrued product warranties were as follows:

| | |
|---|-----------|
| Warranties, September 30, 2010 | \$ 10,851 |
| Increases to accruals related to warranties during the period | 4,009 |
| Settlements of amounts accrued | (1,535) |
| Foreign currency exchange rate changes | 296 |
| Warranties, March 31, 2011 | \$ 13,621 |

Restructuring and other charges

The main components of accrued non-acquisition related restructuring charges include workforce management costs associated with the early retirement and the involuntary separation of employees in connection with a strategic realignment of global workforce capacity. Restructuring charges related to business acquisitions include a number of

items such as those associated with integrating similar operations, workforce management, vacating certain facilities, and the cancellation of some contracts.

During the three-months ending December 31, 2010, Woodward negotiated a lease settlement that was favorable in comparison to the previously recorded restructuring accrual established in purchase accounting in connection with the fiscal year 2009 acquisition of MPC. The resulting benefit of \$103 was recorded as a non-cash charge to restructuring and a reduction to goodwill previously established at the time of the acquisition of MPC. During the three-months ending December 31, 2010, Woodward also modified its exit plan related to its Pacoima, California location. As a result, the Company intends to occupy and continue operating from the Pacoima location for a longer period than originally anticipated. Accordingly, Woodward has reduced the anticipated exit costs by \$1,513 for the Pacoima location.

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The summary of the activity in accrued restructuring charges during the three and six-months ending March 31, 2011 is as follows:

| | Restructuring Charges | Business Acquisitions | Total |
|---|----------------------------------|----------------------------------|--------------|
| Accrued restructuring charges, September 30, 2010 | \$ 667 | \$ 5,446 | \$ 6,113 |
| Payments | (42) | (400) | (442) |
| Non-cash adjustments | (15) | (1,616) | (1,631) |
| Foreign currency exchange rates | (2) | | (2) |
| Accrued restructuring charges, December 31, 2010 | 608 | 3,430 | 4,038 |
| Payments | (103) | (300) | (403) |
| Non-cash adjustments | (16) | 123 | 107 |
| Foreign currency exchange rates | 8 | | 8 |
| Accrued restructuring charges, March 31, 2011 | \$ 497 | \$ 3,253 | \$ 3,750 |

Other liabilities included the following amounts of accrued restructuring charges not expected to be settled within twelve months:

| | March 31, 2011 | September 30, 2010 |
|---|---------------------------|-------------------------------|
| Non-current accrued restructuring charges | \$ 600 | \$ 1,251 |
| Note 12. Other liabilities | | |
| | March 31, 2011 | September 30, 2010 |
| Net accrued retirement benefits, less amounts recognized within accrued liabilities | \$ 65,354 | \$ 66,288 |
| Uncertain tax positions, net of offsetting benefits, less amounts recognized within accrued liabilities (Note 14) | 9,798 | 8,720 |
| Other | 11,953 | 8,967 |
| | \$ 87,105 | \$ 83,975 |

Table of Contents**Note 13. Other (income) expense, net**

| | Three-Months Ending | | Six-Months Ending | |
|--|----------------------------|-------------|--------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net (gain) loss on sale of assets | \$ (11) | \$ (97) | \$ 1 | \$ 57 |
| Rent income | (126) | (130) | (307) | (265) |
| Net gain on investments in deferred compensation program | (233) | (218) | (568) | (399) |
| Net (income) expense recognized in earnings on foreign currency derivatives (Note 5) | | | 1,612 | (102) |
| Other | (22) | (24) | (32) | 35 |
| | \$ (392) | \$ (469) | \$ 706 | \$ (674) |

For additional information regarding Net (income) expense recognized in earnings on foreign currency derivatives refer to Note 5, *Derivative instruments and hedging activities*.

Note 14. Income taxes

U.S. GAAP requires that the interim period tax provision be determined as follows:

At the end of each quarter, Woodward estimates the tax that will be provided for the current fiscal year stated as a percentage of estimated ordinary income. The term ordinary income refers to earnings from continuing operations before income taxes, excluding significant unusual or infrequently occurring items.

The estimated annual effective rate is applied to the year to date ordinary income at the end of each quarter to compute the estimated year to date tax applicable to ordinary income. The tax expense or benefit related to ordinary income in each quarter is the difference between the most recent year to date and the prior quarter year to date computations. The tax effects of significant unusual or infrequently occurring items are recognized as discrete items in the interim period in which the events occur. The impact of changes in tax laws or rates on deferred tax amounts, the effects of changes in judgment about beginning of the year valuation allowances, and changes in tax reserves resulting from the finalization of tax audits or reviews are examples of significant unusual or infrequently occurring items that are recognized as discrete items in the interim period in which the event occurs.

The determination of the annual effective tax rate is based upon a number of significant estimates and judgments, including the estimated annual pretax income of Woodward in each tax jurisdiction in which it operates, and the development of tax planning strategies during the year. In addition, as a global commercial enterprise, Woodward's tax expense can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions. The following table sets forth the tax expense and the effective tax rate for Woodward's income from operations:

| | Three-Months Ending | | Six-Months Ending | |
|------------------------------|----------------------------|-------------|--------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Earnings before income taxes | \$ 46,487 | \$ 35,818 | \$ 77,962 | \$ 67,308 |
| Income tax expense | 14,397 | 11,642 | \$ 23,473 | \$ 20,686 |
| Effective tax rate | 31.0% | 32.5% | 30.1% | 30.7% |

Income taxes for the six-months ending March 31, 2011 included an expense reduction of \$1,890 related to the retroactive extension of the U.S. research and experimentation tax credit.

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Worldwide unrecognized tax benefits were as follows:

| | March 31, 2011 | September 30, 2010 |
|---|---------------------------|-------------------------------|
| Gross liability | \$ 11,519 | \$ 10,586 |
| Amount that would impact Woodward's effective tax rate, if recognized, net of expected offsetting adjustments | 9,798 | 8,720 |

At this time, Woodward estimates that it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as \$2,045 in the next twelve months due to the completion of reviews by tax authorities and the expiration of certain statutes of limitations.

Woodward recognizes interest and penalties related to unrecognized tax benefits in tax expense. Woodward had accrued interest and penalties of the following:

| | March 31, 2011 | September 30, 2010 |
|--------------------------------|---------------------------|-------------------------------|
| Accrued interest and penalties | \$ 1,824 | \$ 1,431 |

Woodward's tax returns are audited by U.S., state, and foreign tax authorities and these audits are at various stages of completion at any given time. Fiscal years remaining open to examination in significant foreign jurisdictions include 2003 and forward. Woodward has been subject to U.S. Federal income tax examinations for fiscal years through 2008; however, certain subsidiaries have open tax years back to 2007, which pre-dates the inclusion of these subsidiaries in the Woodward consolidated return filing group. Woodward is subject to U.S. state income tax examinations for fiscal years 2005 and forward.

Note 15. Retirement benefits

Woodward provides various benefits to eligible members of the Company, including contributions to various defined contribution plans, pension benefits associated with defined benefit plans, postretirement medical benefits and postretirement life insurance benefits. Eligibility requirements and benefit levels vary depending on employee location. A September 30 measurement date is utilized to value plan assets and obligations for all Woodward defined benefit pension and other postretirement benefit plans.

U.S. GAAP requires that, for obligations outstanding as of September 30, 2010, the funded status reported in interim periods shall be the same asset or liability recognized in the previous year end statement of financial position adjusted for (a) subsequent accruals of net periodic benefit cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (b) contributions to a funded plan, or benefit payments.

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The components of the net periodic retirement pension costs recognized are as follows:

| | Three-Months Ending March 31, | | | | | |
|---|--------------------------------------|-----------------|-----------------------|---------------|---------------|---------------|
| | United States | | United Kingdom | | Japan | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Service cost | \$ 859 | \$ 912 | \$ 117 | \$ 98 | \$ 107 | \$ 96 |
| Interest cost | 1,411 | 1,223 | 518 | 505 | 44 | 60 |
| Expected return on plan assets | (1,674) | (1,190) | (562) | (530) | (65) | (60) |
| Amortization of: | | | | | | |
| Transition obligation | | | | | | 22 |
| Net actuarial loss | 78 | 132 | 162 | 132 | 62 | 55 |
| Prior service cost (benefit) | 18 | (65) | | | (2) | (2) |
| Net periodic retirement pension cost | \$ 692 | \$ 1,012 | \$ 235 | \$ 205 | \$ 146 | \$ 171 |
| Contributions | \$ | \$ | \$ 488 | \$ 447 | \$ | \$ |

| | Six-Months Ending March 31, | | | | | |
|---|------------------------------------|-----------------|-----------------------|---------------|---------------|---------------|
| | United States | | United Kingdom | | Japan | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Service cost | \$ 1,717 | \$ 1,824 | \$ 232 | \$ 200 | \$ 214 | \$ 195 |
| Interest cost | 2,823 | 2,445 | 1,029 | 1,035 | 88 | 120 |
| Expected return on plan assets | (3,347) | (2,380) | (1,116) | (1,086) | (130) | (120) |
| Amortization of: | | | | | | |
| Transition obligation | | | | | | 43 |
| Net actuarial loss | 156 | 264 | 322 | 271 | 123 | 111 |
| Prior service cost (benefit) | 37 | (130) | | | (4) | (4) |
| Net periodic retirement pension cost | \$ 1,386 | \$ 2,023 | \$ 467 | \$ 420 | \$ 291 | \$ 345 |
| Contributions | \$ | \$ | \$ 940 | \$ 926 | \$ 2,250 | \$ 913 |

The components of the net periodic other postretirement benefit costs recognized are as follows:

| | Three-Months Ending | | Six-Months Ending | |
|---------------|----------------------------|-------------|--------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Service cost | \$ 23 | \$ 30 | \$ 46 | \$ 60 |
| Interest cost | 494 | 521 | 987 | 1,041 |

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| | | | | |
|--|--------|--------|----------|----------|
| Amortization of: | | | | |
| Net actuarial loss | 32 | 47 | 64 | 94 |
| Prior service benefit | (217) | (312) | (435) | (624) |
| Net periodic other postretirement cost | \$ 332 | \$ 286 | \$ 662 | \$ 571 |
| Contributions | \$ 817 | \$ 911 | \$ 1,594 | \$ 1,466 |

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The amount of cash contributions made to these plans in any year is dependent upon a number of factors, including minimum funding requirements in the jurisdictions in which Woodward operates and arrangements made with trustees of certain foreign plans. As a result, the actual funding in fiscal 2011 may differ from the current estimate. Woodward estimates its remaining cash contributions in fiscal 2011 will be as follows:

| | |
|-------------------------------|----------|
| Retirement pension benefits: | |
| United States | \$ 2,580 |
| United Kingdom | 896 |
| Japan | |
| Other postretirement benefits | 1,057 |

Note 16. Stock-based compensation**Stock options**

Woodward's 2006 Omnibus Incentive Plan (the "2006 Plan"), which is stockholder-approved, provides for the grant of up to 7,410 stock options to its members and directors. Woodward believes that such awards better align the interest of its members with those of its stockholders. Stock option awards are granted with an exercise price equal to the market price of Woodward's stock at the date of grant, and generally with a four-year vesting schedule at a vesting rate of 25% per year and a term of 10 years.

The fair value of each stock option award is estimated on the date of grant using a lattice-based option valuation model that uses the assumptions in the following table. Because the lattice-based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of Woodward's stock, and other factors. Woodward uses historical data to estimate stock option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of stock options granted is derived from the output of the option valuation model and represents the period of time that stock options granted are expected to be outstanding; the range given below results from certain participating groups exhibiting different behavior. The risk-free rate for periods within the contractual life of the stock option is based on the U.S. Treasury yield curve in effect at the time of grant.

| | Three-Months Ending | | Six-Months Ending | |
|--------------------------|----------------------------|-------------|--------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Expected term | 5.8 years | 6.5 years | 5.8 - 8.7 years | 6.5 years |
| Estimated volatility | 54.0% | 51.0% | 48.0% - 54.0% | 51.0% |
| Estimated dividend yield | 1.1% | 1.4% | 1.1% - 1.3% | 1.4% |
| Risk-free interest rate | 2.6% | 3.0% | 1.9% - 2.6% | 3.4% |
| Forfeiture rate | 10.6% | 10.8% | 0% - 10.6% | 8.1% |

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The following is a summary of the activity for stock option awards during the three and six-months ending March 31, 2011:

| | Number of options | Weighted- Average Exercise Price per Share |
|-------------------------------|------------------------------|---|
| Balance at September 30, 2010 | 4,011 | \$ 16.87 |
| Options granted | 678 | 32.04 |
| Options exercised | (253) | 8.70 |
| Options expired unexercised | | n/a |
| Options forfeited | (12) | 25.54 |
| | | |
| Balance at December 31, 2010 | 4,424 | 19.64 |
| Options granted | 4 | 35.00 |
| Options exercised | (8) | 20.93 |
| Options expired unexercised | | n/a |
| Options forfeited | (2) | 32.89 |
| | | |
| Balance at March 31, 2011 | 4,418 | \$ 19.65 |

As of March 31, 2011, there was \$12,119 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the 2002 Stock Option Plan (for which no further grants will be made) and the 2006 Plan. The remaining unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 2.8 years.

Restricted stock

In connection with Woodward's acquisition of MPC Products, restricted stock awards were granted with a two-year graded vesting schedule. The restricted stock shares participated in dividends during the vesting period. On October 1, 2010, the remaining 70 outstanding restricted stock awards vested and there were no outstanding restricted stock awards as of March 31, 2011.

Note 17. Commitments and contingencies

Woodward is currently involved in claims, pending or threatened litigation or other legal proceedings, investigations or regulatory proceedings arising in the normal course of business, including, among others, those relating to product liability claims, employment matters, workman's compensation claims, contractual disputes, product warranty claims and alleged violations of various laws and regulations. Woodward has accrued for individual matters that it believes are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss.

Woodward is partially self-insured in the U.S. for healthcare and workman's compensation up to predetermined amounts, above which third party insurance applies. Management regularly reviews the probable outcome of these claims and proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for liabilities.

While the outcome of pending claims, proceedings and investigations cannot be predicted with certainty, management believes that any liabilities that may result from these claims, proceedings and investigations will not have a material adverse effect on Woodward's liquidity, financial condition, or results of operations.

In connection with the sale of the Fuel & Pneumatic product line during fiscal year 2009, Woodward assigned to a subsidiary of the purchaser its rights and responsibilities related to certain contracts with the U.S. Government.

Woodward provided to the U.S. Government a customary guarantee of the purchaser's subsidiary's performance obligations under the contracts. The purchaser and its affiliates have agreed to indemnify Woodward for any liability

incurred with respect to the guarantee.

In the event of a change in control of Woodward, as defined in change-in-control agreements with its current corporate officers, Woodward may be required to pay termination benefits to such officers.

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Woodward has four operating business segments – Turbine Systems, Airframe Systems, Electrical Power Systems, and Engine Systems. Woodward uses segment information internally to manage its business, including the assessment of business segment performance and making decisions on the allocation of resources between segments.

The Company's four operating business segments are strategic business units separately identified by the products and services they offer and by the markets in which they operate. Intersegment sales and transfers are made at established intersegment selling prices generally intended to approximate selling prices to unrelated parties. The Chief Executive Officer evaluates segment profit or loss based on internal performance measures for each business in a given period.

In connection with that assessment, the Chief Executive Officer excludes matters such as charges for restructuring costs, interest income and expense, and certain gains and losses from asset dispositions.

A summary of consolidated net sales by segment follows:

| | Three-Months Ending | | Six-Months Ending | |
|-------------------------------------|----------------------------|-------------|--------------------------|-------------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Segment net sales: | | | | |
| Turbine Systems | | | | |
| External net sales | \$ 166,899 | \$ 144,844 | \$ 317,853 | \$ 284,930 |
| Intersegment sales | 3,024 | 2,269 | 5,734 | 4,599 |
| Total segment net sales | 169,923 | 147,113 | 323,587 | 289,529 |
| Airframe Systems | | | | |
| External net sales | 96,984 | 90,260 | 179,711 | 181,309 |
| Intersegment sales | 473 | 613 | 1,385 | 1,291 |
| Total segment net sales | 97,457 | 90,873 | 181,096 | 182,600 |
| Electrical Power Systems | | | | |
| External net sales | 57,153 | 43,664 | 105,379 | 92,545 |
| Intersegment sales | 15,727 | 10,863 | 29,128 | 18,785 |
| Total segment net sales | 72,880 | 54,527 | 134,507 | 111,330 |
| Engine Systems | | | | |
| External net sales | 97,830 | 70,584 | 180,998 | 129,876 |
| Intersegment sales | 10,333 | 7,639 | 19,224 | 16,226 |
| Total segment net sales | 108,163 | 78,223 | 200,222 | 146,102 |
| Consolidated | | | | |
| External net sales | 418,866 | 349,352 | 783,941 | 688,660 |
| Intersegment sales | 29,557 | 21,384 | 55,471 | 40,901 |

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| | | | | |
|-------------------------|------------|------------|------------|------------|
| Total segment net sales | \$ 448,423 | \$ 370,736 | \$ 839,412 | \$ 729,561 |
|-------------------------|------------|------------|------------|------------|

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A summary of consolidated earnings follows:

| | Three-Months Ending | | Six-Months Ending | |
|---|---------------------|-----------|-------------------|-----------|
| | March 31, | | March 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Segment earnings (loss): | | | | |
| Turbine Systems | \$ 40,618 | \$ 32,355 | \$ 77,084 | \$ 64,429 |
| Airframe Systems | 4,044 | 4,976 | (977) | 7,385 |
| Electrical Power Systems | 5,286 | 4,859 | 10,196 | 12,182 |
| Engine Systems | 10,234 | 6,147 | 18,296 | 9,382 |
| | | | | |
| Total segment earnings | 60,182 | 48,337 | 104,599 | 93,378 |
| Nonsegment expenses | (7,481) | (5,315) | (14,045) | (10,725) |
| Interest expense, net | (6,214) | (7,204) | (12,592) | (15,345) |
| | | | | |
| Consolidated earnings before income taxes | \$ 46,487 | \$ 35,818 | \$ 77,962 | \$ 67,308 |

Segment assets consist of accounts receivable, inventories, property, plant and equipment - net, goodwill, and other intangibles net. A summary of consolidated total assets by segment follows:

| | March 31, | September 30, |
|--|--------------|---------------|
| | 2011 | 2010 |
| Segment assets: | | |
| Turbine Systems | \$ 367,190 | \$ 347,188 |
| Airframe Systems | 742,245 | 748,297 |
| Electrical Power Systems | 179,560 | 156,788 |
| Engine Systems | 224,703 | 204,495 |
| | | |
| Total segment assets | 1,513,698 | 1,456,768 |
| Unallocated corporate property, plant and equipment, net | 6,536 | 6,111 |
| Other unallocated assets | 160,582 | 200,354 |
| | | |
| Consolidated total assets | \$ 1,680,816 | \$ 1,663,233 |

Note 19. Subsequent events

On April 15, 2011, the Company completed the previously announced acquisition of all of the outstanding stock of Integral Drive Systems AG and its European companies, including their respective holding companies (IDS) and a portion of the assets of IDS business in China for a total of approximately \$39,500, which includes approximately \$6,500 in marketable securities. In addition, the Company has agreed to purchase the remainder of the assets of IDS business in China, for approximately \$5,500 subject to specified terms and conditions (together with the acquisition of IDS, the IDS Acquisition). The purchase price remains subject to certain customary post-closing adjustments. The IDS Acquisition is being financed by the Company with borrowings from its \$225,000 revolving credit facility. Transaction costs of \$1,720 for the three and six-months ending March 31, 2011 are included in selling, general and administrative expenses.

IDS is a leader in innovative power electronic systems predominantly in utility scale wind turbines and photovoltaic plants. Additionally, IDS offers key products in power distribution, marine propulsion systems and specialized solutions. Besides wind turbines and photovoltaic plants, its products are used in offshore oil and gas platforms, energy storage and distribution systems, and a variety of industrial applications. IDS will be integrated into Woodward's Electrical Power Systems business segment.

The Company believes the IDS Acquisition expands its presence in wind converter offerings and reduces its time to market with expansion of solar energy, energy storage, and marine drives.

Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. As a result, Woodward is unable at this time to provide the amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed, pre-acquisition contingencies and goodwill. In addition, the Company is unable at this time to provide the pro forma revenues and earnings of the combined entity. This information is expected to be included in Woodward's Form 10-Q for the third quarter ending June 30, 2011.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Amounts in thousands, except per share amounts)

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are statements that are deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of management. Words such as anticipate, believe, estimate, seek, goal, expect, forecast, intend, continue, outlook, plan, project, target, strive, can, could, may, should, will, would, variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characteristics of future events or circumstances are forward-looking statements.

Forward-looking statements may include, among others, statements relating to:

- future sales, earnings, cash flow, uses of cash, and other measures of financial performance;*
- description of our plans and expectations for future operations;*
- the effect of economic downturns or growth in particular regions;*
- the effect of changes in the level of activity in particular industries or markets;*
- the availability and cost of materials, components, services, and supplies;*
- the scope, nature, or impact of acquisition activity and integration into our businesses;*
- the development, production, and support of advanced technologies and new products and services;*
- new business opportunities;*
- restructuring costs and savings;*
- our plans, objectives, expectations and intentions with respect to recent acquisitions and expected business opportunities that may be available to us;*
- the outcome of contingencies;*
- future repurchases of common stock;*
- future levels of indebtedness and capital spending; and*
- pension plan assumptions and future contributions.*

Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including:

- a decline in business with, or financial distress of, our significant customers;*
- the instability in the financial markets and prolonged unfavorable economic and other industry conditions;*
- our ability to obtain financing, on acceptable terms or at all, to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to business pressures;*
- the long sales cycle, customer evaluation process, and implementation period of some of our products and services;*
- our ability to implement, and realize the intended effects of, our restructuring efforts;*
- our ability to successfully manage competitive factors, including prices, promotional incentives, industry consolidation, and commodity and other input cost increases;*
- our ability to manage our expenses while responding to sales increases or decreases;*
- the ability of our subcontractors to perform contractual obligations and our suppliers to provide us with materials of sufficient quality or quantity required to meet our production needs at favorable prices or at all;*
- the success of, or expenses associated with, our product development activities;*

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our ability to integrate acquisitions and manage costs related thereto;
our debt obligations, our debt service requirements, and our ability to operate our business, pursue business strategies and incur additional debt in light of covenants contained in our outstanding debt agreements;
risks related to our U.S. Government contracting activities, including risk of decline in the level of U.S. defense spending;
future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets;
future subsidiary results or changes in domestic or international tax statutes;
environmental liabilities related to manufacturing activities;
our continued access to a stable workforce and favorable labor relations with our employees;
the geographical location of a significant portion of our Airframe Systems business in California, which historically has been susceptible to natural disasters;
our ability to successfully manage regulatory, tax, and legal matters (including product liability, patent, and intellectual property matters);
liabilities resulting from legal and regulatory proceedings, inquiries, or investigations by private or U.S. Government persons or entities;
risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates, and changes in the legal and regulatory environments of countries in which we operate;
fair value of defined benefit plan assets and assumptions used in determining our retirement pension and other postretirement benefit obligations and related expenses including, among others, discount rates and investment return on pension assets; and
certain provisions of our charter documents and Delaware law that could discourage or prevent others from acquiring our company.

These factors are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed or forecast in our forward-looking statements. Other factors are discussed under Risk Factors in our Securities and Exchange Commission (SEC) filings and are incorporated herein by reference.

Therefore, actual results could differ materially and adversely from those expressed in any forward-looking statements. For additional information regarding factors that may affect our actual financial condition and results of operations, see the information under the caption Risk Factors in Part I, Item 1A in our most recent Annual Report on Form 10-K filed with the SEC (our Form 10-K). We undertake no obligation to revise or update any forward-looking statements for any reason.

Unless we have indicated otherwise or the context otherwise requires, references in this Quarterly Report on Form 10-Q to Woodward, the Company, we, us, and our refer to Woodward, Inc. and its consolidated subsidiaries.

Amounts presented in this Quarterly Report on Form 10-Q are in thousands except per share amounts.

This discussion should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC and the Condensed Consolidated Financial Statements and Notes included in this report.

Non-U.S. GAAP Financial Measures

Earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA) and free cash flow are financial measures not prepared and presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Management uses EBIT to evaluate Woodward's operating performance without the impacts of financing and tax related considerations. Management uses EBITDA in evaluating Woodward's operating performance; making business decisions, including developing budgets, managing expenditures, forecasting future periods; and evaluating capital structure impacts of various strategic scenarios. Management uses free cash flow, which is derived from cash flows provided by operating activities, in reviewing the financial performance of Woodward's various business segments and evaluating cash generation levels. Securities analysts, investors, and others frequently use EBIT, EBITDA and free cash flow in their evaluation of companies,

particularly those with significant property, plant, and equipment, and intangible assets that are subject to amortization. The use of these non-U.S. GAAP financial measures is not intended to be considered in isolation of, or as a substitute for, the financial information prepared and presented in accordance with U.S. GAAP. Because EBIT and EBITDA exclude certain financial information compared with net earnings, the most comparable U.S. GAAP financial measure, users of this financial information should consider the information that is excluded. Free cash flow does not necessarily represent funds available for discretionary use and is not necessarily a measure of our ability to fund our cash needs. Our calculations of EBIT, EBITDA and free cash flow may differ from similarly titled measures used by other companies, limiting their usefulness as comparative measures.

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EBIT and EBITDA for the three and six-months ending March 31, 2011 and March 31, 2010 were as follows:

| | Three-Months Ending March 31, | | Six-Months Ending March 31, | |
|-----------------------------------|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net earnings | \$ 32,090 | \$ 24,176 | \$ 54,489 | \$ 46,622 |
| Income taxes | 14,397 | 11,642 | 23,473 | 20,686 |
| Interest expense | 6,299 | 7,324 | 12,800 | 15,575 |
| Interest income | (85) | (120) | (208) | (230) |
| | | | | |
| EBIT | 52,701 | 43,022 | 90,554 | 82,653 |
| Amortization of intangible assets | 8,542 | 8,655 | 17,085 | 17,836 |
| Depreciation expense | 9,970 | 10,403 | 20,324 | 20,158 |
| | | | | |
| EBITDA | \$ 71,213 | \$ 62,080 | \$ 127,963 | \$ 120,647 |

Free cash flow for the six-months ending March 31, 2011 and March 31, 2010 was as follows:

| | Six-Months Ending March 31, | |
|---|--|-------------|
| | 2011 | 2010 |
| Net cash provided by operating activities | \$ 20,176 | \$ 125,981 |
| Capital expenditures | (20,124) | (14,136) |
| | | |
| Free cash flow | \$ 52 | \$ 111,845 |

OVERVIEW**Operational Highlights**Quarterly Highlights

Net sales for the second quarter of fiscal 2011 were \$418,866, an increase of 19.9% from \$349,352 for the second quarter of the prior fiscal year. We saw sales growth across all of our business segments, predominantly as a result of the overall global economic recovery, as compared to the second quarter of fiscal 2010.

Sequentially, net sales for the second quarter of fiscal 2011 increased by \$53,791, or 14.7%, to \$418,866 from \$365,075 for the first quarter of fiscal 2011. Historically, net sales in the first quarter have generally been lower than the remaining three quarters of the fiscal year due to customer buying patterns and the observance of various holidays. Net earnings attributable to Woodward for the second quarter of fiscal 2011 were \$32,090, or \$0.46 per diluted share, compared to \$24,068, or \$0.34 per diluted share, for the second quarter of fiscal 2010. Net earnings were positively affected by increased volume, partially offset by increased variable compensation and investment in research and development.

EBIT for the second quarter of fiscal 2011 was \$52,701, up 22.5% from \$43,022 in the same period of fiscal 2010, primarily due to increased sales volume.

Year to Date Highlights

Net sales for the first half of fiscal 2011 were \$783,941, an increase of 13.8% from \$688,660 for the first half of the prior fiscal year. On a year to date basis, we saw growth across all of our business segments except our Airframe Systems segment, which was down slightly as compared to the prior fiscal year.

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Net earnings attributable to Woodward for the first half of fiscal 2011 were \$54,489, or \$0.78 per diluted share, compared to \$46,424, or \$0.66 per diluted share, for the first half of fiscal 2010. Net earnings were positively affected by increased sales volumes, partially offset by increased investment in research and development, increased variable compensation and a reduction in customer funded development revenue. Net earnings attributable to Woodward for the first half of fiscal 2011, also included a charge of approximately \$2,300, or \$0.03 per share, net of approximately \$1,300 tax benefit, related to a change in the estimate of future workman's compensation costs.

EBIT for the first half of fiscal 2011 was \$90,554, up 9.6% from \$82,653 in the same period of fiscal 2010.

Liquidity Highlights

Net cash provided by operating activities for the first half of fiscal 2011 was \$20,176 compared to \$125,981 for the same period of fiscal 2010, reflecting the utilization of working capital primarily associated with an investment in increased inventory levels to support future sales growth.

Free cash flow for the first half of fiscal 2011 was \$52 compared to \$111,845 for the same period of fiscal 2010.

EBITDA increased by \$7,316 to \$127,963 for the first half of fiscal 2011 from \$120,647 for the same period of fiscal 2010.

On April 15, 2011, we completed the previously announced acquisition of all of the outstanding stock of Integral Drive Systems AG and its European companies, including their respective holding companies (IDS) and a portion of the assets of IDS business in China for a total of approximately \$39,500, which includes approximately \$6,500 in marketable securities. In addition, we have agreed to purchase the remainder of the assets of IDS business in China, for approximately \$5,500 subject to specified terms and conditions (together with the acquisition of IDS, the IDS Acquisition). The purchase price remains subject to certain customary post-closing adjustments. The IDS Acquisition is being financed by the Company with borrowings from our \$225,000 revolving credit facility.

At March 31, 2011, we held \$60,819 in cash and cash equivalents, and had total outstanding debt of \$429,684. At March 31, 2011, under our \$225,000 revolving credit facility, we had additional borrowing availability of \$219,818, net of outstanding letters of credit, and additional borrowing capacity of \$24,774 under various foreign credit facilities. As of April 21, 2011, we had total outstanding debt of \$491,699 with additional borrowing availability of \$159,692 under our \$225,000 revolving credit facility, net of outstanding letters of credit, and additional borrowing availability of \$26,252 under various foreign credit facilities.

RESULTS OF OPERATIONS

The following table sets forth selected consolidated statements of earnings data as a percentage of net sales for each period indicated:

| | Three-Months Ending | | | | Six-Months Ending | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | March 31, 2011 | % of Net Sales | March 31, 2010 | % of Net Sales | March 31, 2011 | % of Net Sales | March 31, 2010 | % of Net Sales |
| Net sales | \$ 418,866 | 100.0% | \$ 349,352 | 100.0% | \$ 783,941 | 100.0% | \$ 688,660 | 100.0% |
| Cost of goods sold | 292,520 | 69.8 | 244,316 | 69.9 | 553,697 | 70.6 | 483,868 | 70.3 |
| Selling, general, and administrative expenses | 38,445 | 9.2 | 34,130 | 9.8 | 71,111 | 9.1 | 66,965 | 9.7 |
| Research and development costs | 27,050 | 6.5 | 19,698 | 5.6 | 50,788 | 6.5 | 38,012 | 5.5 |
| Amortization of intangible assets | 8,542 | 2.0 | 8,655 | 2.5 | 17,085 | 2.2 | 17,836 | 2.6 |
| Interest expense | 6,299 | 1.5 | 7,324 | 2.1 | 12,800 | 1.6 | 15,575 | 2.3 |
| Interest income | (85) | (0.0) | (120) | (0.0) | (208) | (0.0) | (230) | (0.0) |
| Other (income) expense, net | (392) | (0.1) | (469) | (0.1) | 706 | 0.1 | (674) | (0.1) |
| | 372,379 | 88.9 | 313,534 | 89.7 | 705,979 | 90.1 | 621,352 | 90.2 |

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Consolidated costs and expenses

| | | | | | | | | |
|---|-----------|------|-----------|-------|-----------|------|-----------|-------|
| Earnings before income taxes | 46,487 | 11.1 | 35,818 | 10.3 | 77,962 | 9.9 | 67,308 | 9.8 |
| Income tax expense | 14,397 | 3.4 | 11,642 | 3.3 | 23,473 | 3.0 | 20,686 | 3.0 |
| Net earnings | 32,090 | 7.7 | 24,176 | 6.9 | 54,489 | 7.0 | 46,622 | 6.8 |
| Net earnings attributable to noncontrolling interest, net | | | (108) | (0.0) | | | (198) | (0.0) |
| Net earnings attributable to Woodward | \$ 32,090 | 7.7% | \$ 24,068 | 6.9% | \$ 54,489 | 7.0% | \$ 46,424 | 6.7% |

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Other select financial data:

| | March 31, 2011 | September 30, 2010 |
|----------------------------|---------------------------|-------------------------------|
| Working capital | \$ 512,440 | \$ 456,577 |
| Short-term borrowings | 570 | 22,099 |
| Total debt | 429,720 | 465,842 |
| Total stockholders' equity | 857,187 | 803,194 |

Net sales

Consolidated net sales for the second quarter and first half of fiscal 2011 increased by \$69,514, or 19.9%, and \$95,281, or 13.8%, respectively, compared to the same periods of fiscal 2010. Details of the changes in consolidated net sales are as follows:

| | Three-Month Period | Six-Month Period |
|---|-------------------------------|-----------------------------|
| Consolidated net sales for the period ending March 31, 2010 | \$ 349,352 | \$ 688,660 |
| Turbine Systems volume changes | 18,055 | 27,301 |
| Airframe Systems volume changes | 8,194 | 5,151 |
| Airframe Systems customer funded development | (1,470) | (6,749) |
| Electrical Power Systems volume changes | 14,401 | 18,369 |
| Engine Systems volume changes | 25,669 | 49,385 |
| Price changes | 2,761 | 3,994 |
| Effects of changes in foreign currency rates | 1,904 | (2,170) |
| Consolidated net sales for the period ending March 31, 2011 | \$ 418,866 | \$ 783,941 |

The increase in net external sales in the second quarter and first half of fiscal 2011 was attributable to sales volume increases across all our segments, offset partially by decreased customer funded development project revenue within Airframe Systems. Net external sales for the second quarter and first half of fiscal 2011 were also impacted by favorable price changes. For the first half of fiscal 2011, the effect of favorable foreign currency exchange rates during the second quarter partially offset the effect of unfavorable foreign currency exchange rates during the first quarter of fiscal 2011.

As part of their component and system offerings, Turbine Systems and Engine Systems in some cases sell electronic controls manufactured by Electrical Power Systems. Engine Systems also manufactures certain components of larger systems ultimately sold by Turbine Systems. These intersegment activities have historically increased growth in our Turbine Systems, Electrical Power Systems and Engine Systems segments. Further integration of our Airframe Systems segment is also expected to result in the manufacture of additional electronic controls by Electrical Power Systems for Airframe Systems.

Price changes: Increases in selling prices across several products in Turbine Systems and Engine Systems were partially offset by decreases in selling prices for some wind related Electrical Power Systems' products. Selling price changes were in response to prevailing market conditions.

Foreign currency exchange rates: Our worldwide sales activities are primarily denominated in U.S. dollars (USD), European Monetary Units (the Euro), Great Britain pounds (GBP), Japanese yen (JPY) and Chinese yuan (CNY). As the USD, Euro, GBP, JPY, and CNY fluctuate against each other and other currencies, we are exposed to gains or losses on sales transactions. If the CNY, which the Chinese government has not historically allowed to fluctuate significantly against USD, is allowed to fluctuate against USD in the future, we would be exposed to gains or losses on sales transactions denominated in CNY. For additional information on foreign currency exchange rate risk refer to the risks summarized under the caption Risk Factors in Part I, Item 1A of our most recent Annual Report on Form 10-K filed with the SEC.

Costs and Expenses

Cost of goods sold increased by \$48,204 to \$292,520, or 69.8% of net sales, for the second quarter of fiscal 2011 from \$244,316, or 69.9% of net sales, for the second quarter of fiscal 2010. Cost of goods sold increased to \$553,697, or 70.6% of net sales, for the first half of fiscal 2011 from \$483,868, or 70.3% of net sales, for the first half of fiscal 2010. Correspondingly, gross margins (as measured by net sales less cost of goods sold, divided by net sales) were relatively flat at 30.2% and 29.4% for the second quarter and first half of fiscal 2011, respectively, compared to 30.1% and 29.7%, respectively, for the same periods of the prior year.

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Selling, general, and administrative expenses increased by \$4,315, or 12.6%, to \$38,445 for the second quarter of fiscal 2011 as compared to \$34,130 for the same period of fiscal 2010. Selling, general and administrative expenses decreased as a percentage of net sales to 9.2% for the second quarter of fiscal 2011 as compared to 9.8% for the same period of fiscal 2010. Selling, general, and administrative expenses increased by \$4,146, or 6.2%, to \$71,111 for the first half of fiscal 2011 as compared to \$66,965 for the same period of fiscal 2010. Selling, general and administrative expenses decreased as a percentage of net sales to 9.1% for the first half of fiscal 2011 as compared to 9.7% for the same period of fiscal 2010.

Research and development costs increased by \$7,352, or 37.3%, to \$27,050 for the second quarter of fiscal 2011 as compared to \$19,698 for the same period of fiscal 2010. Research and development costs increased by \$12,776, or 33.6%, to \$50,788 for the first half of fiscal 2011 as compared to \$38,012 for the same period of fiscal 2010. Research and development costs increased as a percentage of net sales to 6.5% for both the second quarter and first half of fiscal 2011 as compared to 5.6% and 5.5% for the same respective periods of fiscal 2010. The increase in research and development costs is primarily due to our investment in development of next generation technology and successful capture of new product platforms. Our research and development activities extend across almost our entire customer base. In order to accommodate the development of next generation technology and to satisfy new platform design requirements, spending on research and development is expected to increase somewhat in the second half of fiscal 2011 as compared to the first half of the same period.

Amortization of intangible assets decreased slightly to \$8,542 and \$17,085 for the second quarter and first half of fiscal 2011, respectively, compared to \$8,655 and \$17,836 for the same periods in fiscal 2010. As a percentage of net sales, amortization of intangible assets decreased to 2.0% and 2.2% for the second quarter and first half of fiscal 2011, respectively, as compared to 2.5% and 2.6% for the same periods of the prior year.

Interest expense decreased to \$6,299, or 1.5% of net sales, and \$12,800, or 1.6% of net sales, for the second quarter and first half of fiscal 2011, respectively, compared to \$7,324, or 2.1% of net sales, and \$15,575, or 2.3% of net sales, for the same periods of the prior fiscal year. The decrease in interest expense is due to related debt reductions.

Income taxes were provided at an effective rate on earnings before income taxes of 31.0% and 30.1% for the second quarter and first half of fiscal 2011, respectively, compared to 32.5% and 30.7% for the same periods of fiscal 2010. The change in the effective tax rate (as a percentage of earnings before income taxes) was attributable to the following:

| | Three-Month Period | Six-Month Period |
|---|-------------------------------|-----------------------------|
| Effective tax rate for the period ending March 31, 2010 | 32.5% | 30.7% |
| Research credit in fiscal 2011 as compared to fiscal 2010 | (1.6) | (3.0) |
| Adjustment of tax issues recorded in the period ending March 31, 2010 | 1.1 | 2.4 |
| Adjustment of tax issues recorded in the period ending March 31, 2011 | (1.6) | (0.2) |
| Domestic production activities deduction | (0.8) | (0.8) |
| Foreign tax rate differences | 1.3 | 1.3 |
| Other changes, net | 0.1 | (0.3) |
| | | |
| Effective tax rate for the period ending March 31, 2011 | 31.0% | 30.1% |

On December 17, 2010, legislation was enacted that retroactively extended the U.S. research tax credit, which had expired as of December 31, 2009. As a result of this extension, we recognized a tax benefit of \$1,890 in first half of fiscal 2011 related to the prior year impact.

In January 2011, the State of Illinois increased its corporate income tax rate from 7.3% to 9.5% effective January 1, 2011. This tax rate increase is not expected to have a material impact on Woodward's Consolidated Financial Statements.

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The following table presents sales by segment:

| | Three-Months Ending March 31, | | | | Six-Months Ending March 31, | | | |
|-------------------------------------|-------------------------------|---------------|-------------------|---------------|-----------------------------|---------------|-------------------|---------------|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| Segment net sales: | | | | | | | | |
| Turbine Systems | \$ 169,923 | 40.6% | \$ 147,113 | 42.1% | \$ 323,587 | 41.3% | \$ 289,529 | 42.0% |
| Airframe Systems | 97,457 | 23.3 | 90,873 | 26.0 | 181,096 | 23.1 | 182,600 | 26.5 |
| Electrical Power Systems | 72,880 | 17.4 | 54,527 | 15.6 | 134,507 | 17.2 | 111,330 | 16.2 |
| Engine Systems | 108,163 | 25.8 | 78,223 | 22.4 | 200,222 | 25.5 | 146,102 | 21.2 |
| Total segment net sales | 448,423 | 107.1 | 370,736 | 106.1 | 839,412 | 107.1 | 729,561 | 105.9 |
| Less intersegment net sales: | | | | | | | | |
| Turbine Systems | (3,024) | (0.7) | (2,269) | (0.6) | (5,734) | (0.7) | (4,599) | (0.7) |
| Airframe Systems | (473) | (0.1) | (613) | (0.2) | (1,385) | (0.2) | (1,291) | (0.2) |
| Electrical Power Systems | (15,727) | (3.8) | (10,863) | (3.1) | (29,128) | (3.7) | (18,785) | (2.7) |
| Engine Systems | (10,333) | (2.5) | (7,639) | (2.2) | (19,224) | (2.5) | (16,226) | (2.4) |
| Total intersegment net sales | (29,557) | (7.1) | (21,384) | (6.1) | (55,471) | (7.1) | (40,901) | (5.9) |
| Consolidated net sales | \$ 418,866 | 100.0% | \$ 349,352 | 100.0% | \$ 783,941 | 100.0% | \$ 688,660 | 100.0% |

The following table presents earnings by segment:

| | Three-Months Ending March 31, | | Six-Months Ending March 31, | |
|---|-------------------------------|-----------|-----------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Turbine Systems | \$ 40,618 | \$ 32,355 | \$ 77,084 | \$ 64,429 |
| Airframe Systems | 4,044 | 4,976 | (977) | 7,385 |
| Electrical Power Systems | 5,286 | 4,859 | 10,196 | 12,182 |
| Engine Systems | 10,234 | 6,147 | 18,296 | 9,382 |
| Total segment earnings | 60,182 | 48,337 | 104,599 | 93,378 |
| Nonsegment expenses | (7,481) | (5,315) | (14,045) | (10,725) |
| Interest expense, net | (6,214) | (7,204) | (12,592) | (15,345) |
| Consolidated earnings before income taxes | 46,487 | 35,818 | 77,962 | 67,308 |
| Income tax expense | (14,397) | (11,642) | (23,473) | (20,686) |
| Consolidated net earnings | \$ 32,090 | \$ 24,176 | \$ 54,489 | \$ 46,622 |

The following table presents earnings by segment as a percentage of segment net sales, which includes intersegment sales:

| | Three-Months Ending March | | Six-Months Ending March | |
|--------------------------|---------------------------|-------|-------------------------|-------|
| | 2011 | 2010 | 2011 | 2010 |
| Turbine Systems | 23.9% | 22.0% | 23.8% | 22.3% |
| Airframe Systems | 4.1 | 5.5 | (0.5) | 4.0 |
| Electrical Power Systems | 7.3 | 8.9 | 7.6 | 10.9 |
| Engine Systems | 9.5 | 7.9 | 9.1 | 6.4 |

Turbine Systems

Turbine Systems segment net sales (including intersegment sales) were \$169,923 and \$323,587 for the second quarter and first half of fiscal 2011, respectively, compared to \$147,113 and \$289,529 for the same periods of fiscal 2010. Sales were higher in both aerospace and industrial turbine markets during the second quarter and first half of fiscal 2011. Sales for the aerospace aftermarket, in the second quarter and first half of fiscal 2011, benefited from increased passenger and cargo air traffic, which favorably affected aftermarket sales, and the production of new aircraft platforms on which Turbine Systems products are used. In addition, the second quarter of fiscal 2011 experienced additional favorable aftermarket sales related to commercial and military fleets as airlines increase fleet capacity, and as our military customers have continuing involvement in global conflicts driving repair requirements.

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We believe the fleet dynamics of commercial aircraft platforms on which we have content, such as the Airbus A320, the Boeing 777, the Embraer and the Bombardier 70- to 90-seat regional jets, allowed our aftermarket business to be somewhat less negatively impacted by the effects of the recent economic down-cycle than some of our competitors and has supported sales growth as a result of the more recent rebound in air traffic. Commercial original equipment manufacturer (OEM) aircraft deliveries of narrow-body and wide-body aircraft have increased based on an increase in production rates and orders. Sales in the power generation market have benefited from the continued recovery of the global economy. As a result, demand for industrial turbine equipment has strengthened, particularly in emerging markets and Japan.

Turbine Systems segment earnings increased by \$8,263, or 25.5%, and \$12,655, or 19.6%, for the second quarter and first half of fiscal 2011, as compared to the same periods of fiscal 2010 due to the following:

| | Three-Month Period | Six-Month Period |
|---|-------------------------------|-----------------------------|
| Earnings for the period ending March 31, 2010 | \$ 32,355 | \$ 64,429 |
| Sales volume changes | 7,329 | 9,868 |
| Selling price changes | 3,408 | 5,466 |
| Sales mix | 2,172 | 7,070 |
| Investments in engineering and research and development | (1,704) | (4,221) |
| Changes in variable compensation | (2,275) | (2,903) |
| Increased costs to support sales growth | (234) | (1,357) |
| Effects of changes in foreign currency rates | (616) | (520) |
| Other, net | 183 | (748) |
| Earnings for the period ending March 31, 2011 | \$ 40,618 | \$ 77,084 |

Turbine Systems segment earnings increased in the second quarter and first half of fiscal 2011 compared to the same periods of fiscal 2010 primarily as a result of sales volume increases, selling price changes and a more favorable sales mix due to increased levels of aftermarket sales, partially offset by increased variable compensation and costs associated with new product development. The sales mix during the second quarter of fiscal 2011 continued to include a higher proportion of aftermarket sales than the same period in fiscal 2010 as a result of increased air traffic. Earnings as a percentage of sales increased to 23.9% and 23.8% in the second quarter and first half of fiscal 2011, respectively, compared to 22.0% and 22.3% for the same periods of fiscal 2010.

Construction is underway on a new 48,000 square foot system test facility in Rockford, Illinois. The facility, which will house numerous environmental system test cells and a vibration lab, will support, among other development projects, Turbine Systems development efforts of next generation fuel systems for aircraft turbines. The test facility is expected to be completed and placed into service in early fiscal year 2012.

Airframe Systems

Airframe Systems segment net sales (including intersegment sales) were \$97,457 and \$181,096 for the second quarter and first half of fiscal 2011, respectively, compared to \$90,873 and \$182,600 for the same periods of fiscal 2010. The increase in sales for the second quarter reflects recovering demand for business and regional jets and a steady level of military sales, partially offset by reduced levels of customer funded development revenue. We have begun to see increased military sales, both sequentially from the first quarter of fiscal 2011 and from the second quarter of the prior fiscal year, primarily in our guided weapons products. The slight decrease in sales for the first half of fiscal 2011, as compared to the same period of the previous year, is attributable to increased OEM sales, primarily for rotocraft and business and regional jets, offset by reduced demand for various military applications, which occurred in the first quarter of fiscal 2011, and decreased funding for customer development projects.

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Airframe Systems segment earnings decreased to \$4,044 and a loss of \$977 in the second quarter and first half of fiscal 2011, respectively, from earnings of \$4,976 and \$7,385 for the same periods of fiscal 2010 due to the following:

| | Three-Month Period | Six-Month Period |
|---|-------------------------------|-----------------------------|
| Earnings for the period ending March 31, 2010 | \$ 4,976 | \$ 7,385 |
| Sales volume changes | 2,230 | 188 |
| Sales mix | 307 | (1,978) |
| Customer funded development revenue | (1,470) | (6,749) |
| Investments in engineering and research and development | (1,075) | (1,075) |
| Changes in variable compensation | (1,388) | (1,330) |
| Savings related to workforce management | | 2,369 |
| Workman's compensation costs | | (2,232) |
| Restructuring costs | 198 | 1,411 |
| Other, net | 266 | 1,034 |
| Earnings (losses) for the period ending March 31, 2011 | 4,044 | (977) |

The decrease in Airframe Systems segment earnings for the second quarter of fiscal 2011 was primarily due to decreases in customer funded development revenue and increases in variable compensation and investment in research and development projects, partially offset by increases in sales volume and favorable sales mix. The decrease in Airframe Systems segment earnings for the first half of fiscal 2011 is due to decreased customer funded development revenue, a less favorable sales mix, a charge related to a change in the estimate of future workman's compensation costs and investment in research and development, partially offset by savings related to workforce management and a reversal of previously accrued restructuring costs attributable to the early termination of a leased facility.

Electrical Power Systems

Electrical Power Systems segment net sales (including intersegment sales) were \$72,880 and \$134,507 for the second quarter and first half of fiscal 2011, respectively, compared to \$54,527 and \$111,330 for the same periods of fiscal 2010. During the second quarter fiscal 2011, wind turbine converter sales increased as a result of increased market share, primarily in China and Germany, and an increase in demand from existing wind turbine converter customers. The second quarter of fiscal 2011 also experienced sales increases in non-wind power generation and distribution equipment and sales related to power station projects, partially offset by price decreases. Sales for the first half of fiscal 2011 increased principally due to increased demand for our wind turbine converters and non-wind power generation and distribution equipment, with sales related to power station projects flat as compared to the same period of fiscal 2010.

Although wind turbine converter sales were up in the first half of fiscal 2011 as compared to the same period in fiscal 2010, wind converter demand continues to be impacted by tight lender requirements for project financing and uncertainty regarding government stimulus programs due to a lack of clear policy direction in the U.S. and elsewhere. Intersegment sales increased to \$15,727 and \$29,128 in the second quarter and first half of fiscal 2011, respectively, from \$10,863 and \$18,785 for the same periods of fiscal 2010 reflecting the strength in demand from Engine Systems and Turbine Systems customers.

Foreign currency exchange rates had essentially no impact on segment net sales for the second quarter of fiscal 2011. During the first half of fiscal 2011, segment net sales were negatively impacted by approximately \$3,400 due to changes in foreign currency exchange rates as compared to the same period of fiscal 2010.

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Electrical Power Systems segment earnings increased by \$427, or 8.8%, for the second quarter of fiscal 2011 and decreased by \$1,986, or 16.3%, for the first half of fiscal 2011, as compared to the same periods of fiscal 2010 due to the following:

| | Three-Month Period | Six-Month Period |
|---|-------------------------------|-----------------------------|
| Earnings for the period ending March 31, 2010 | \$ 4,859 | \$ 12,182 |
| Sales volume changes | 7,105 | 10,947 |
| Selling price changes | (892) | (2,162) |
| Sales mix | (925) | (1,548) |
| Investments in engineering and research and development | (603) | (1,136) |
| Changes in variable compensation | (1,198) | (1,631) |
| Increase in global expansion efforts | (588) | (3,625) |
| Quality costs | (1,388) | (1,249) |
| Effects of changes in foreign currency rates | (383) | (1,015) |
| Other, net | (701) | (567) |
| Earnings for the period ending March 31, 2011 | \$ 5,286 | \$ 10,196 |

The increase in Electrical Power Systems segment earnings for the second quarter of fiscal 2011 as compared to the same period in the prior year was due to increased volume, which was partially offset by increased variable compensation costs, costs associated with field quality issues experienced, strategic price reductions to support market share gains and unfavorable sales mix. The decrease in Electrical Power Systems segment earnings for the first half of fiscal 2011 as compared to the same period in the prior year was driven mainly by increased global expansion effort costs, strategic price reductions to support market share gains and costs associated with field quality issues experienced. These negative factors associated with the first half of fiscal 2011 were partially offset by increased sales volume of both wind turbine converters and non-wind power generation and distribution equipment.

Engine Systems

Engine Systems segment net sales (including intersegment sales) were \$108,163 and \$200,222 for the second quarter and first half of fiscal 2011, respectively, compared to \$78,223 and \$146,102 for the same periods of fiscal 2010.

The overall increase in sales for both the second quarter and the first half of fiscal 2011 compared to the same periods of fiscal 2010 was driven by increased sales volume in all markets served by Engine Systems. The strongest growth continued to be recognized in the sales of energy control solutions used in small diesel and natural gas engine applications, which serve primarily the construction, agricultural and on highway natural gas vehicles. Sales increases of energy control solutions used in large engine applications, which serve the power generation marine and process markets, were primarily attributable to increased demand for engines burning specialty fuels or for new power projects.

Engine Systems segment earnings increased by \$4,087, or 66.5%, and \$8,914, or 95.0%, for the second quarter and first half of fiscal 2011, respectively, as compared to the same periods of fiscal 2010 due to the following:

| | Three-Month Period | Six-Month Period |
|---|-------------------------------|-----------------------------|
| Earnings for the period ending March 31, 2010 | \$ 6,147 | \$ 9,382 |
| Sales volume changes | 10,656 | 19,333 |
| Selling price changes | 245 | 690 |
| Sales mix | (3,231) | (4,481) |
| Investments in engineering and research and development | (2,440) | (3,615) |
| Changes in variable compensation | (1,349) | (1,723) |

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| | | |
|---|-----------|-----------|
| Freight and duty costs | (703) | (1,312) |
| Effects of changes in foreign currency rates | (61) | 561 |
| Other, net | 970 | (539) |
| Earnings for the period ending March 31, 2011 | \$ 10,234 | \$ 18,296 |

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For both the second quarter and the first half of fiscal 2011, increased segment earnings, compared to the same periods in fiscal 2010, were primarily driven by higher sales volumes, partially offset by investment in research and development, unfavorable sales mix and increases in variable compensation.

Nonsegment expenses

Nonsegment expenses for the second quarter and first half of fiscal 2011 increased to \$7,481, or 1.8% of net sales, and \$14,045, or 1.8% of net sales, respectively, compared to \$5,315, or 1.5% of net sales, and \$10,725, or 1.6% of net sales, for the same periods of fiscal 2010. The increase in nonsegment expenses for the second quarter and first half of fiscal 2011 resulted primarily from increased variable compensation. Also included were costs related to the IDS Acquisition, which were offset by the revaluation of previously recorded provisions.

LIQUIDITY AND CAPITAL RESOURCES

We believe liquidity and cash generation are important to our strategy of self-funding our ongoing operating needs. Historically, we have been able to satisfy our working capital needs, including capital expenditures, product development and other liquidity requirements associated with our operations, with cash flow provided by operating activities. We expect that cash generated from our operating activities will be sufficient to fund our continuing operating needs.

In the event we are unable to generate sufficient cash flows from operating activities, we have a revolving credit facility comprised of unsecured financing arrangements with a syndicate of U.S. banks totaling \$225,000. Under the revolving credit facility, we have an option to increase our available borrowings by \$125,000 to \$350,000, subject to the lenders' participation. In addition, we have various foreign lines of credit, some of which are tied to net amounts on deposit at certain foreign financial institutions: these are generally reviewed annually for renewal. Historically, we have used borrowings under these foreign lines of credit to finance certain local operations on a periodic basis. At March 31, 2011, we had no borrowings outstanding under our revolving credit facility and had foreign short-term borrowings outstanding of \$570. Our aggregate cash and cash equivalents were \$60,819 and \$105,579 and our working capital was \$512,440 and \$456,577 at March 31, 2011 and September 30, 2010, respectively. Short-term borrowing activity during the six-months ending March 31, 2011 follows:

| | |
|---|-----------|
| Maximum daily balance during the period | \$ 26,717 |
| Average daily balance during the period | 5,966 |
| Weighted average interest rate on average daily balance | 1.22% |

At March 31, 2011, we had total outstanding debt of \$429,684 with additional borrowing availability of \$219,818 under our \$225,000 revolving credit facility, net of outstanding letters of credit, and additional borrowing availability of \$24,774 under various foreign credit facilities. As of April 21, 2011, we had total outstanding debt of \$491,699 with additional borrowing availability of \$159,692 under our \$225,000 revolving credit facility, net of outstanding letters of credit, and additional borrowing availability of \$26,252 under various foreign credit facilities.

We were in compliance with all covenants under our revolving credit facility and long-term debt agreements during the six-months ending March 31, 2011.

In addition to utilizing our cash resources to fund the working capital needs of our business, we evaluate additional strategic uses of our funds, including the repurchase of our stock, payment of dividends, and consideration of strategic acquisitions and other potential uses of cash.

We believe we have adequate access to several sources of contractually committed borrowings and other available credit facilities. However, we could be adversely affected if the banks supplying our short-term borrowing requirements refuse to honor their contractual commitments, cease lending, or declare bankruptcy. While we believe the lending institutions participating in our credit arrangements are financially capable, recent events in the global credit markets, including the failure, takeover or rescue by various government entities of major financial institutions, have created uncertainty with respect to credit availability.

Our ability to service our long-term debt, to remain in compliance with the various restrictions and covenants contained in our debt agreements and to fund working capital, capital expenditures and product development efforts will depend on our ability to generate cash from operating activities which in turn is subject to, among other things, future operating performance as well as general economic, financial, competitive, legislative, regulatory, and other

conditions, some of which may be beyond our control.

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| | Six-Months Ending March 31, | |
|--|--|-------------|
| | 2011 | 2010 |
| Net cash provided by operating activities | \$ 20,176 | \$ 125,981 |
| Net cash used in investing activities | (20,104) | (38,230) |
| Net cash used in financing activities | (44,881) | (114,580) |
| Effect of exchange rate changes on cash and cash equivalents | 49 | (1,474) |
| | | |
| Net change in cash and cash equivalents | (44,760) | (28,303) |
| Cash and cash equivalents at beginning of period | 105,579 | 100,863 |
| | | |
| Cash and cash equivalents at end of period | \$ 60,819 | \$ 72,560 |

Net cash flows provided by operating activities for the first half of fiscal 2011 was \$20,176 compared to the same period of fiscal 2010 of \$125,981. The decline of \$105,805 is attributable to the utilization of working capital primarily associated with increases in inventory levels and accounts receivable. The increase in inventory is due to anticipated deliveries scheduled for coming quarters as well as the effect of some sourcing inefficiencies.

Net cash flows used in investing activities for the first half of fiscal 2011 was \$20,104 compared to the same period of fiscal 2010 of \$38,230. Cash paid for capital expenditures was \$20,124 during the first half of fiscal 2011, compared to \$14,136 during the same period of fiscal 2010. Cash flows used in investing activities for the first half of fiscal 2010 included a \$25,000 settlement with the Department of Justice (DOJ) associated with a liability assumed in the acquisition of MPC Products Corporation (MPC Products) and Techni-Core, Inc. (Techni-Core) and together with MPC Products, MPC). The purchase price we paid in connection with the acquisition of MPC was reduced by a corresponding amount and the payment was recognized as cash used for business acquisition.

On April, 15, 2011, we completed the acquisition of all the outstanding stock of Integral Drive Systems AG and its European companies (IDS), and a portion of the assets of IDS business in China. The total acquisition cost approximates \$39,500, which includes approximately \$6,500 for marketable securities. In addition, we agreed to purchase the remainder of the assets of IDS business in China for approximately \$5,500 subject to specified terms and conditions. The purchase price remains subject to certain customary post-closing adjustments. The IDS Acquisition is being financed by the Company with borrowings from our \$225,000 revolving credit facility.

Net cash flows used in financing activities for the first half of fiscal 2011 was \$44,881 as compared to net cash flows the same period of fiscal 2010 of \$114,580. During the first half of fiscal 2011, we repaid \$18,071 in short-term borrowings and \$14,569 in scheduled long-term debt reductions. In addition, during this same period, we utilized \$6,837 to repurchase 208 shares of our common stock. During the first half of fiscal 2010, we repaid \$108,569 of outstanding long-term debt, including unscheduled prepayments of \$82,000 and did not have any repurchases of our common stock.

Contractual Obligations

We have various contractual obligations, including obligations related to long-term debt, operating leases, purchases, retirement pension benefit plans, and other postretirement benefit plans. These contractual obligations are summarized and discussed more fully in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC. There have been no material changes to our various contractual obligations during the first half of fiscal 2011.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Note 1, *Operations and summary of significant accounting policies*, to the Consolidated Financial Statements in our most recent Annual Report on Form 10-K filed with the SEC describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Our critical accounting estimates, identified in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC include the discussion of estimates used for revenue recognition, purchase accounting, inventory valuation, postretirement benefit obligations, reviews for impairment of goodwill, and our provision for income taxes. Such accounting policies and estimates require significant judgments and assumptions to be used in the preparation of the Condensed Consolidated Financial Statements, and actual results could differ materially from the amounts reported.

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Goodwill is tested 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. The impairment tests consist of comparing the fair value of each identified reporting unit with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, we compare the implied value of goodwill with its carrying amount. 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.

We completed our annual goodwill impairment test during the quarter ended March 31, 2011. As a part of that test, we determined our Turbine Systems, Airframe Systems and Engine Systems operating segments represented individual reporting units. We determined our Electrical Power Systems operating segment was represented through three discrete identifiable reporting units. The fair value of each of our 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, operating earnings margins, and forecasted cash flows based on the discount rate and terminal growth rate. Management projects revenue growth rates, operating earnings margins and cash flows based on each reporting unit's current operational results, expected performance and operational strategies over a five-year period. These projections are adjusted to reflect current economic conditions and demand for certain products and require considerable management judgement.

Forecasted cash flows were discounted using an 11.3% weighted average cost of capital assumption. The terminal value of the forecasted cash flows assumed an annual compound growth rate after five years of 4.4% and was calculated using the Gordon Growth Model. These inputs, which are unobservable in the market, represent management's 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. We evaluated the reasonableness of the resulting fair values of our reporting units by comparing the aggregate fair value to our market capitalization and assessing the reasonableness of any resulting premium.

The results of our fiscal year 2011 annual goodwill impairment test performed as of March 31, 2011 indicated the estimated fair value of each reporting unit was in excess of its carrying value, and accordingly, no impairment existed. At March 31, 2011 the goodwill impairment test for our Airframe Systems reporting unit, which has a significant concentration of business in the business jet and regional jet market segments which have lagged in the economic recovery, indicates the closest premium, as compared to this reporting unit's carrying value, while each of our remaining reporting units had resulting fair values significantly in excess of their carrying values. Increasing the discount rate by 10%, decreasing the growth rate by 10%, or decreasing forecasted cash flow by 10%, as it relates to our Airframe Systems operating segment, would not result in an impairment charge. However, an increase in the discount rate by approximately 11%, decreasing the growth rate by approximately 38%, or decreasing forecasted cash flow by approximately 15%, as it relates to our Airframe Systems operating segment, would result in an impairment charge.

As part of the Company's ongoing monitoring efforts, we will continue to consider the global economic environment and its potential impact on our business in assessing goodwill recoverability. There can be no assurance that our estimates and assumptions regarding forecasted cash flows of certain reporting units, the period or strength of the current economic recovery or the other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

New Accounting Standards

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). Unless otherwise discussed, we believe that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on our Condensed Consolidated Financial Statements upon adoption.

To understand the impact of recently issued guidance, whether adopted or to be adopted, please review the information provided in Note 2, *Recent accounting pronouncements*, in the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we have exposures to interest rate risk from our long-term and short-term debt, and our postretirement benefit plans, and foreign currency exchange rate risk related to our foreign operations and foreign currency transactions. We are also exposed to various market risks that arise from transactions entered into in the normal course of business related to items such as the cost of raw materials and changes in inflation. Certain contractual relationships with customers and vendors mitigate risks from changes in raw material costs and foreign currency exchange rate changes that arise from normal purchasing and normal sales activities.

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These market risks are discussed more fully in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC. These market risks have not materially changed since the date our most recent Annual Report on Form 10-K was filed with the SEC.

Item 4. Controls and Procedures

We have established disclosure controls and procedures, which are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Act is accumulated and communicated to management, including our Principal Executive Officer (Thomas A. Gendron, Chief Executive Officer and President) and Principal Financial Officer (Robert F. Weber, Jr., Chief Financial Officer and Treasurer), as appropriate, to allow timely decisions regarding required disclosures.

Thomas A. Gendron and Robert F. Weber, Jr., evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on their evaluations, they concluded that our disclosure controls and procedures were effective as of March 31, 2011.

Furthermore, there have been no changes in our internal control over financial reporting during the fiscal quarter covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Woodward is currently involved in claims, pending or threatened litigation or other legal proceedings, investigations or regulatory proceedings arising in the normal course of business, including, among others, those relating to product liability claims, employment matters, workman's compensation claims, regulatory, legal or contractual disputes, product warranty claims and alleged violations of various environmental laws. We have accrued for individual matters that we believe are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss. While the outcome of pending claims, legal proceedings, investigations and regulatory proceedings cannot be predicted with certainty, management believes that any liabilities that may result from these claims, proceedings and investigations will not have a material adverse effect on our liquidity, financial condition, or results of operations.

Item 1A. Risk Factors

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized under the caption "Risk Factors" in Part I, Item 1A of our most recent Annual Report on Form 10-K filed with the SEC, when making investment decisions regarding our securities. The risk factors that were disclosed in our most recent Annual Report on Form 10-K filed with the SEC have not materially changed since the date our most recent Annual Report on Form 10-K was filed with the SEC.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****(a) Recent Sales of Unregistered Securities**

Sales of common stock issued from treasury during the second quarter of fiscal 2011 consisted of the following:

| | Total Shares Sold (2) | Consideration Received |
|--|-----------------------|------------------------|
| January 1, 2011 through January 31, 2011 (1) | 265 | \$ 9 |
| February 1, 2011 through February 28, 2011 | | |
| March 1, 2011 through March 31, 2011 | | |

(1) In January, one of our directors received 265 shares of common stock from treasury in lieu of cash payment of Board of Director retainer fees. The securities were issued by Woodward in reliance upon the exemption contained in Section 4(2) of the Securities Act of 1933.

(2) Actual number of shares (not in thousands).

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

| | Total Number of Shares Purchased (3) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased under the Plans or Programs at Period End (1) |
|--|--------------------------------------|------------------------------|--|--|
| January 1, 2011 through January 31, 2011 | | \$ | | \$ 190,162 |
| February 1, 2011 through February 28, 2011 | | | | 190,162 |
| March 1, 2011 through March 31, 2011 (2) | 665 | 34.56 | | 190,162 |

(1) In July 2010, our Board of Directors authorized a stock repurchase program of up to \$200,000 of our outstanding shares of common stock on the open market or in privately negotiated transactions over a three-year period that will end in July 2013.

(2) The Woodward Governor Company Executive Benefit Plan, which is a separate legal entity, acquired 665 shares of common stock on the open market related to the reinvestment of dividends for shares of treasury stock held for deferred compensation in March 2011.

(3) Actual number of shares (not in thousands).

Item 6. Exhibits

(a) Exhibits filed as Part of this Report are listed in the Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WOODWARD, INC.

Date: April 27, 2011

/s/ Thomas A. Gendron
Thomas A. Gendron
Chief Executive Officer and President
(Principal Executive Officer)

Date: April 27, 2011

/s/ Robert F. Weber, Jr.
Robert F. Weber, Jr.
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

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**WOODWARD, INC.
EXHIBIT INDEX**

| Exhibit Number | Description: |
|-------------------|--|
| 3.1 | Restated Certificate of Incorporation, as amended October 3, 2007, filed as Exhibit 3(i)(a) to Annual Report on Form 10-K filed November 20, 2008 and incorporated herein by reference. |
| 3.2 | Certificate of Amendment of Certificate of Incorporation, dated January 23, 2008, filed as Exhibit 3(i)(b) to Annual Report on Form 10-K filed November 20, 2008 and incorporated herein by reference. |
| 3.3 | Certificate of Amendment of Restated Certificate of Incorporation, dated January 26, 2011, filed as Exhibit 3.1 to Current Report on Form 8-K filed January 28, 2011 and incorporated herein by reference. |
| 3.4 | Bylaws, as amended and restated on January 26, 2011, filed as Exhibit 3.2 to Current Report on Form 8-K filed January 28, 2011 and incorporated herein by reference. |
| 10.1 | James D. Rudolph Promotion Letter dated February 10, 2011, filed as an exhibit. |
| 31.1 | Rule 13a-14(a)/15d-14(a) certification of Thomas A. Gendron, filed as an exhibit. |
| 31.2 | Rule 13a-14(a)/15d-14(a) certification of Robert F. Weber, Jr., filed as an exhibit. |
| 32.1 | Section 1350 certifications, filed as an exhibit. |
| 101.1 | The following materials from Woodward, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Earnings, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Stockholders' Equity, (vi) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text, and (vii) document and entity information. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing. |