

Woodward, Inc.

Form 10-Q

July 21, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-08408  
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)  
(970) 482-5811

(Registrant's telephone number, including area code)

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).

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Yes No

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

Large accelerated filer      Accelerated filer      Non-accelerated filer      Smaller reporting company

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

Yes No

As of July 17, 2015, 63,580,865 shares of the registrant’s common stock with a par value of \$0.001455 per share were outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## WOODWARD, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three-Months Ended		Nine-Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net sales	\$ 494,810	\$ 524,284	\$ 1,475,678	\$ 1,435,793
Costs and expenses:				
Cost of goods sold	351,421	372,571	1,050,783	1,028,065
Selling, general and administrative expenses	39,305	40,468	117,598	113,079
Research and development costs	33,555	34,990	97,912	100,219
Amortization of intangible assets	7,224	8,357	22,026	25,498
Interest expense	6,077	5,972	17,355	18,219
Interest income	(219)	(73)	(567)	(189)
Other (income) expense, net (Note 16)	(112)	(469)	(1,651)	(1,266)
Total costs and expenses	437,251	461,816	1,303,456	1,283,625
Earnings before income taxes	57,559	62,468	172,222	152,168
Income tax expense	13,806	16,467	40,830	37,986
Net earnings	\$ 43,753	\$ 46,001	\$ 131,392	\$ 114,182
Earnings per share (Note 3):				
Basic earnings per share	\$ 0.68	\$ 0.70	\$ 2.02	\$ 1.71
Diluted earnings per share	\$ 0.66	\$ 0.69	\$ 1.98	\$ 1.68
Weighted Average Common Shares Outstanding (Note 3):				
Basic	64,781	65,845	65,088	66,736
Diluted	66,227	67,147	66,504	68,030
Cash dividends per share paid to Woodward common stockholders	\$ 0.10	\$ 0.08	\$ 0.28	\$ 0.24

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 Ended June 30,		Nine-Months Ended June 30,	
	2015	2014	2015	2014
Net earnings	\$ 43,753	\$ 46,001	\$ 131,392	\$ 114,182
Other comprehensive earnings:				
Foreign currency translation adjustments	6,990	(72)	(27,955)	4,159
Taxes on changes in foreign currency translation adjustments	240	74	1,500	368
	7,230	2	(26,455)	4,527
Reclassification of net realized losses on derivatives to earnings	25	24	74	73
Taxes on changes in derivative transactions	(10)	(9)	(28)	(27)
	15	15	46	46
Minimum retirement benefit liability adjustments (Note 18)				
Net gain (loss) arising during the period	-	1,193	-	1,193
Curtailment arising during the period	-	(915)	-	(915)

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Amortization of:				
Net prior service cost (benefit)	56	(22)	169	(66)
Net loss	128	199	385	588
Foreign currency exchange rate changes on minimum retirement benefit liabilities	(604)	(263)	454	(483)
Taxes on changes in minimum retirement liability adjustments, net of foreign currency exchange rate changes	141	31	(368)	(14)
	(279)	223	640	303
Total comprehensive earnings	\$ 50,719	\$ 46,241	\$ 105,623	\$ 119,058

See accompanying Notes to Condensed Consolidated Financial Statements

## WOODWARD, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	June 30, 2015	September 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 87,384	\$ 115,287
Accounts receivable, less allowance for uncollectible amounts of \$5,127 and \$7,078, respectively	274,902	346,858
Inventories	485,903	451,944
Income taxes receivable	24,529	6,574
Deferred income tax assets	49,653	40,774
Other current assets	47,003	47,207
Total current assets	969,374	1,008,644
Property, plant and equipment, net	688,336	513,279
Goodwill	558,439	559,724
Intangible assets, net	232,617	254,772
Deferred income tax assets	10,306	6,292
Other assets	52,664	54,491
Total assets	\$ 2,511,736	\$ 2,397,202
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 3,186	\$ -
Accounts payable	188,280	160,683
Income taxes payable	8,483	6,130
Deferred income tax liabilities	428	472
Accrued liabilities	114,320	172,731
Total current liabilities	314,697	340,016
Long-term debt, less current portion	875,000	710,000
Deferred income tax liabilities	99,227	85,031
Other liabilities	95,541	101,211
Total liabilities	1,384,465	1,236,258
Commitments and contingencies (Note 20)		
Stockholders' equity:		
Preferred stock, par value \$0.003 per share, 10,000 shares authorized, no shares issued	-	-
Common stock, par value \$0.001455 per share, 150,000 shares authorized, 72,960 shares issued	106	106
Additional paid-in capital	127,737	112,491
Accumulated other comprehensive earnings (losses)	(29,302)	(3,533)
Deferred compensation	4,314	3,915



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Retained earnings	1,451,575	1,338,468
	1,554,430	1,451,447
Treasury stock at cost, 9,380 shares and 7,397 shares, respectively	(422,845)	(286,588)
Treasury stock held for deferred compensation, at cost, 173 shares and 198 shares, respectively	(4,314)	(3,915)
Total stockholders' equity	1,127,271	1,160,944
Total liabilities and stockholders' equity	\$ 2,511,736	\$ 2,397,202

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine-Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net earnings	\$ 131,392	\$ 114,182
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	55,754	57,680
Net (gain) loss on sales of assets	(766)	116
Stock-based compensation	11,086	8,739
Excess tax benefits from stock-based compensation	(4,170)	(2,638)
Deferred income taxes	1,623	(5,749)
Loss on derivatives reclassified from accumulated comprehensive earnings into earnings	74	73
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	65,345	57,151
Inventories	(44,630)	(38,860)
Accounts payable and accrued liabilities	(41,868)	(6,434)
Current income taxes	(10,897)	16,130
Retirement benefit obligations	(3,365)	(2,676)
Other	7,742	(13,824)
Net cash provided by operating activities	167,320	183,890
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(190,865)	(104,530)
Proceeds from sale of assets	2,486	258
Net cash used in investing activities	(188,379)	(104,272)
Cash flows from financing activities:		
Cash dividends paid	(18,285)	(16,021)
Proceeds from sales of treasury stock	7,936	8,380
Payments for repurchases of common stock	(157,118)	(141,488)
Excess tax benefits from stock compensation	4,170	2,638
Borrowings on revolving lines of credit and short-term borrowings	869,970	356,071
Payments on revolving lines of credit and short-term borrowings	(701,610)	(191,069)
Proceeds from issuance of long-term debt	-	250,000
Payments of long-term debt	-	(300,000)
Payments of debt financing costs	(2,359)	(1,297)
Net cash provided by (used in) financing activities	2,704	(32,786)
Effect of exchange rate changes on cash and cash equivalents	(9,548)	454
Net change in cash and cash equivalents	(27,903)	47,286
Cash and cash equivalents at beginning of period	115,287	48,556
Cash and cash equivalents at end of period	\$ 87,384	\$ 95,842

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							
Preferred stock	Common stock	Treasury stock	Treasury stock held for deferred compensation	Additional paid-in stock capital	Foreign currency translation adjustments	Unrealized foreign exchange gains (losses)	Other comprehensive income (loss)	Retained earnings	Treasury stock held for deferred compensation	Total stockholders' equity