Woodward, Inc.
Form 10-Q
July 26, 2013
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number 0-08408

WOODWARD, INC.

(Exact name of registrant as specified in its charter)

Delaware36-1984010

(State or other jurisdiction of incorporation or organization)(I.R.S. Employer Identification No.)

1000 East Drake Road, Fort Collins, Colorado 80525

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(970) 482-5811

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No x

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	June 30, 2013	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60,972	$ 61,829
Accounts receivable, less allowance for losses of $10,140 and $7,217, respectively	345,898	354,386
Inventories	447,712	398,229
Income taxes receivable	5,941	7,485
Deferred income tax assets	43,318	40,277
Other current assets	37,612	41,271
Total current assets	941,453	903,477
Property, plant and equipment, net	290,742	234,505
Goodwill	548,725	461,374
Intangible assets, net	287,513	235,563
Deferred income tax assets	8,996	9,129
Other assets	43,919	15,916
Total assets	$ 2,121,348	$ 1,859,964
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 35,144	$ 329
Current portion of long-term debt	100,000	7,500
Accounts payable	141,402	124,914
Income taxes payable	6,433	14,141
Deferred income tax liabilities	800	800
Accrued liabilities	116,419	132,184
Total current liabilities	400,198	279,868
Long-term debt, less current portion	450,000	384,375
Deferred income tax liabilities	81,666	78,163
Other liabilities	126,284	109,443
Total liabilities	1,058,148	851,849
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, par value $0.003 per share, 10,000 shares authorized, no shares issued	-	-
Common stock, par value $0.001455 per share, 150,000 shares authorized, 72,960 shares issued	106	106
Additional paid-in capital	99,230	97,826
Accumulated other comprehensive loss	(13,822)	(11,723)
Deferred compensation	4,062	4,344
Retained earnings	1,146,867	1,069,811
	1,236,443	1,160,364

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

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY

(In thousands)

(Unaudited)

	Number of shares				Stockholders' equity					
							Accumulated other comprehensive (loss earnings			
	Preferred stock	Common stock	Treasury stock	Treasury stock held for deferred compensation	Common stock	Additional paid-in capital	Foreign currency translation adjustments	Unrealized derivative gains (losses)	Minimum retirement benefit liability adjustments	Total accun other comp (loss) earnin
Balances as of October 1, 2011	-	72,960	(4,070)	(315)	$ 106	$ 81,453	$ 22,103	$ (484)	$ (17,993)	$ 3,6
Net earnings	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(792)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	418	-	-	(1,295)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	209	-	-	5,238	-	-	-	-
Tax benefit attributable to exercise of stock options	-	-	-	-	-	3,778	-	-	-	-
Stock-based compensation	-	-	-	-	-	6,680	-	-	-	-
Purchases of stock by deferred compensation plan	-	-	3	(4)	-	59	-	-	-	-
	-	-	-	44	-	-	-	-	-	-

Distribution of stock from deferred compensation plan										
Foreign currency translation adjustments	-	-	-	-	-	-	(14,018)	-	-	(14
Reclassification of unrecognized derivative losses to earnings	-	-	-	-	-	-	-	131	-	131
Minimum retirement benefits liability adjustments	-	-	-	-	-	-	-	-	141	141
Taxes on changes in accumulated other comprehensive earnings	-	-	-	-	-	-	2,127	(50)	(50)	2,0
Balances as of June 30, 2012	-	72,960	(4,232)	(275)	$ 106	$ 95,913	$ 10,212	$ (403)	$ (17,902)	$ (8,
Balances as of October 1, 2012	-	72,960	(4,536)	(276)	$ 106	$ 97,826	$ 17,447	$ (376)	$ (28,794)	$ (11
Net earnings	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(1,395)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	750	-	-	(12,653)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	250	-	-	1,923	-	-	-	-
Tax benefit attributable to exercise of stock options	-	-	-	-	-	4,755	-	-	-	-
Stock-based compensation	-	-	-	-	-	7,355	-	-	-	-
	-	-	2	(4)	-	24	-	-	-	-

Purchases of stock by deferred compensation plan										
Distribution of stock from deferred compensation plan	-	-	-	42	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(5,002)	-	-	(5,(
Reclassification of unrecognized derivative losses to earnings	-	-	-	-	-	-	-	128	-	128
Unrealized gain on derivatives arising during the period	-	-	-	-	-	-	-	546	-	546
Minimum retirement benefits liability adjustments	-	-	-	-	-	-	-	-	2,618	2,6
Taxes on changes in accumulated other comprehensive earnings	-	-	-	-	-	-	806	(256)	(939)	(38
Balances as of June 30, 2013	-	72,960	(4,929)	(238)	$ 106	$ 99,230	$ 13,251	$ 42	$ (27,115)	$ (13

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Note 1. Basis of Presentation

The Condensed Consolidated Financial Statements of Woodward, Inc. ("Woodward" or the "Company") as of June 30, 2013 and for the three and nine-months ended June 30, 2013 and June 30, 2012, included herein, have not been audited by an independent registered public accounting firm. These Condensed Consolidated Financial Statements reflect all normal recurring adjustments that, in the opinion of management, are necessary to present fairly Woodward's financial position as of June 30, 2013, and the statements of earnings, comprehensive earnings, cash flows, and changes in the statement of stockholders' equity for the periods presented herein. The Condensed Consolidated Balance Sheet as of September 30, 2012 was derived from Woodward's Annual Report on Form 10-K for the fiscal year then ended. The results of operations for the three and nine-months ended June 30, 2013 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year. Dollar amounts contained in these Condensed Consolidated Financial Statements are in thousands, except per share amounts.

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

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

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

Note 2. Recent accounting pronouncements

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

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in financial statements; however, the amendments require companies to provide information about the amounts reclassified out of accumulated comprehensive income by component. ASU 2013-02 requires a company to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated comprehensive income by respective line items of net income, but only if the amount so reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, a company is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for annual reporting periods beginning after December 15, 2012 (fiscal 2014 for Woodward). As the requirements of ASU 2013-02 are disclosure related only, it is not expected to have a material impact on Woodward's Consolidated Financial Statements.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment." ASU 2011-08 allows companies to perform a "qualitative" assessment to determine whether or not the current two-step quantitative testing method, in which a company compares the fair value of reporting units to its carrying amount including goodwill, must be followed. If a qualitative assessment indicates that it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, then the quantitative impairment test is not required. A company may choose to use the qualitative assessment on none, some, or all if its reporting units or to bypass the qualitative assessment and proceed directly to the two-step quantitative testing method. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (fiscal 2013 for Woodward). The adoption of ASU 2011-08 did not have a material impact on Woodward's Consolidated Financial Statements.

Note 3. Earnings per share

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

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

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

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net earnings	$ 23,663	$ 28,302	$ 93,477	$ 95,470
Denominator:				
Basic shares outstanding	68,323	68,922	68,506	68,973
Dilutive effect of stock options	1,107	1,397	1,192	1,473
Diluted shares outstanding	69,430	70,319	69,698	70,446
Income per common share:				
Basic earnings per share	$ 0.35	$ 0.41	$ 1.36	$ 1.38
Diluted earnings per share	$ 0.34	$ 0.40	$ 1.34	$ 1.36

The following stock option grants were outstanding during the three and nine-months ended June 30, 2013 and 2012, but were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive:

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Options	722	31	239	45
Weighted-average option price	$ 34.06	$ 41.53	$ 34.83	$ 35.87

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

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Weighted-average treasury stock shares held for deferred compensation obligations	247	284	262	299

Note 4. Business acquisitions

Duarte Business Acquisition

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

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

The Duarte Business employs approximately 350 people, of which approximately 65% are union employees. The collective bargaining agreements with Woodward's union employees are generally renewed through contract renegotiations prior to the contract expiration date. The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and Local No. 509 (the "Duarte Union") contract, which covers the unionized Duarte Business employees, was to expire on May 25, 2013. During the third quarter of fiscal 2013, a new contract was renegotiated, and it expires on June 3, 2017.

The Company believes the Duarte Business provides it with expanded motion control technologies and platforms, and that there will be operating synergies and significant opportunities to share technologies and leverage the customer base. Goodwill recorded in connection with the acquisition of the Duarte Business, which is deductible for income tax purposes, represents the estimated value of such future opportunities, the value of potential expansion with new customers, the opportunity to further develop sales opportunities with new and acquired Duarte Business customers, and other synergies expected to be achieved through the integration of the Duarte Business into Woodward's Aerospace segment.

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

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

The allocation of the purchase price to the assets acquired and liabilities assumed was accounted for under the purchase method of accounting in accordance with ASC Topic 805, "Business Combinations." Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The Company's preliminary allocation was based on an evaluation of the appropriate fair values and represents management’s best estimate based on available data.

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

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

Accounts receivable	$ 15,916
Inventories	30,149
Other current assets	10,369
Property, plant, and equipment	14,203
Goodwill	88,163
Intangible assets	79,300
Other noncurrent assets	18,097
Total assets acquired	256,197
Other current liabilities	28,739
Other noncurrent liabilities	28,598
Total liabilities assumed	57,337
Net assets acquired	$ 198,860

Assumed liabilities include $4,758 and $15,383 of current and long-term performance obligations, respectively, for contractual commitments that are expected to result in future economic losses.

The Asset Purchase Agreement included commitments for the Duarte Business to continue to provide services to the Seller unrelated to the core business acquired, for which Woodward will be paid by the Seller. Assumed liabilities include $12,985 and $13,215 of current and long-term performance obligations, respectively, for services to be provided to the Seller, offset by $8,103 and $18,097 of current and long-term assets, respectively, related to contractual payments due from the Seller.

In connection with the acquisition of the Duarte Business, Woodward did not assume the postretirement benefit obligations of the Duarte Business' defined benefit pension plan. Under the terms of the Asset Purchase Agreement, Woodward was obligated to establish a new defined benefit pension plan for the Duarte Business employees who were beneficiaries of the Seller's defined benefit pension plan. Woodward completed the establishment of the new defined benefit pension plan during the third quarter of fiscal 2013. Woodward's new defined benefit pension plan provides for similar benefits as those provided by the Seller. For more information about the new defined benefit pension plan for the Duarte Business, see Note 17, Retirement benefits.

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

	Estimated Amounts	Weighted-Average Useful Life		Amortization Method
Customer relationships and contracts	$ 67,000	20	years	Straight-line
Process technology	4,600	25	years	Straight-line
Backlog	7,700	3	years	Accelerated
Total	$ 79,300			

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

Year Ending September 30:	
2013 (remaining)	$ 2,157
2014	5,588
2015	4,003
2016	3,663
2017	3,663
Thereafter	55,910
	$ 74,984

Net sales for the Duarte Business subsequent to the date it was acquired by Woodward were $34,723 and $69,813 for the three and nine-months ended June 30, 2013, respectively. Earnings of the Duarte Business subsequent to the date it was acquired by Woodward for the three and nine-months ended June 30, 2013 were slightly accretive to the consolidated net earnings of Woodward.

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

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

Prior to the acquisition of the Duarte Business, the Duarte Business was a wholly owned business of the Seller, and as such was not a stand-alone entity for financial reporting purposes. Accordingly, the historical operating results of the Duarte Business may not be indicative of the results that might have been achieved, historically or in the future, if the Duarte Business had been a stand-alone entity. The unaudited pro forma results for the three and nine-month periods ended June 30, 2013 and June 30, 2012 include amortization charges for acquired intangible assets, eliminations of intercompany transactions, adjustments for depreciation expense for property, plant and equipment, adjustments for acquired performance obligations, transaction costs incurred, adjustments to interest expense, and related tax effects.

The unaudited pro forma results for the three and nine-month periods ended June 30, 2013 and June 30, 2012, compared to the actual results reported in these Condensed Consolidated Financial Statements, follow:

	Three-Months Ended June 30, 2013		Three-Months Ended June 30, 2012	
	As reported	Pro forma	As reported	Pro forma
Net sales	$ 483,759	$ 483,759	$ 460,241	$ 489,203
Net earnings	23,663	24,817	28,302	25,848
Earnings per share:				
Basic earnings per share	$ 0.35	$ 0.36	$ 0.41	$ 0.38
Diluted earnings per share	0.34	0.36	0.40	0.37

	Nine-Months Ended June 30, 2013		Nine-Months Ended June 30, 2012	
	As reported	Pro forma	As reported	Pro forma
Net sales	$ 1,377,611	$ 1,408,011	$ 1,336,930	$ 1,419,386
Net earnings	93,477	99,129	95,470	85,972
Earnings per share:				
Basic earnings per share	$ 1.36	$ 1.45	$ 1.38	$ 1.25
Diluted earnings per share	1.34	1.42	1.36	1.22

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

The Company incurred transaction costs of $304 and $2,011 for the three and nine-months ended June 30, 2013, respectively, which are included in “Selling, general and administrative expenses” in the Condensed Consolidated Statements of Earnings.

Note 5. Financial instruments and fair value measurements

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

	At June 30, 2013		At September 30, 2012	
	Estimated Fair Value	Carrying Cost	Estimated Fair Value	Carrying Cost
Cash and cash equivalents	$ 60,972	$ 60,972	$ 61,829	$ 61,829
Investments in deferred compensation program	7,898	7,898	7,316	7,316
Note receivable from municipality	2,517	2,064	-	-
Treasury lock agreement	546	546	-	-
Short-term borrowings	(35,144)	(35,144)	(329)	(329)
Long-term debt, including current portion	(587,443)	(550,000)	(443,827)	(391,875)

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

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

In fiscal 2013, Woodward received a long-term note from a municipality within the state of Illinois in connection with certain economic incentives related to Woodward’s development of a second campus in the greater-Rockford, Illinois area for its aerospace business. The fair value of the long-term note was estimated based on a model that discounted future principal and interest payments received at an interest rate available to the Company at the end of the period for similarly rated municipality notes of the same maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The interest rate used to estimate the fair value of the long-term note was 3.1% at June 30, 2013.

In June 2013, in connection with Woodward’s expected refinancing of current maturities on its existing long-term debt, Woodward entered into a treasury lock agreement with a notional amount of $25,000 that qualifies as a cash flow hedge under ASC Topic 815, “Derivatives and Hedging.” The objective of this derivative instrument is to hedge the risk of variability in cash flows attributable to changes in the designated benchmark interest rate over a seven-year period related to the future interest payments on a portion of anticipated future debt issuances. An unrealized gain of $546 on the derivative instrument was recorded in “Other current assets” as of June 30, 2013 as the fair value of the cash flow hedge with the offset recorded to reduce accumulated other comprehensive loss. The fair value of the unrealized gain on the derivative instrument was derived from published treasury rates as of June 30, 2013, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy.

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

The fair value of long-term debt was estimated based on a model that discounted future principal and interest payments at interest rates available to the Company at the end of the period for similar debt of the same maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The weighted-average interest rates used to estimate the fair value of long-term debt were 2.4% and 2.1% as of June 30, 2013 and September 30, 2012, respectively.

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

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

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

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

The table below presents information about Woodward's financial assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques Woodward utilized to determine such fair value. Woodward had no financial liabilities required to be measured at fair value on a recurring basis as of June 30, 2013 or September 30, 2012.

	At June 30, 2013				At September 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash	$ 30,306	$ -	$ -	$ 30,306	$ 32,688	$ -	$ -	$ 32,688
Investments in money market funds	15,753	-	-	15,753	14,791	-	-	14,791
Investments in reverse repurchase agreements	14,913	-	-	14,913	14,350	-	-	14,350
Equity securities	7,898	-	-	7,898	7,316	-	-	7,316
Treasury lock agreement	-	546	-	546	-	-	-	-
Total financial assets	$ 68,870	$ 546	$ -	$ 69,416	$ 69,145	$ -	$ -	$ 69,145

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

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

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

Treasury lock agreement: As of June 30, 2013, Woodward was party to a treasury lock agreement with a notional amount of $25,000 that qualifies as a cash flow hedge under ASC Topic 815, “Derivatives and Hedging.” The objective of this derivative instrument is to hedge the risk of variability in cash flows attributable to changes in the designated benchmark interest rate over a seven-year period related to the future interest payments on a portion of anticipated future debt issuances. The value of the unrealized gain on the derivative instrument, which was classified in other current assets, was derived from published treasury rates as of June 30, 2013.

Note 6. Derivative instruments and hedging activities

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

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

In June 2013, in connection with Woodward's expected refinancing of current maturities on its existing long-term debt, Woodward entered into a treasury lock agreement with a notional amount of $25,000 that qualifies as a cash flow hedge under ASC Topic 815, "Derivatives and Hedging." The objective of this derivative instrument is to hedge the risk of variability in cash flows attributable to changes in the designated benchmark interest rate over a seven-year period related to the future interest payments on a portion of anticipated future debt issuances. An unrealized gain of $546 on the derivative instrument was recorded in "Other current assets" as of June 30, 2013 as the fair value of the cash flow hedge with the offset recorded to reduce accumulated other comprehensive loss ("OCI").

Woodward did not enter into any other derivatives or hedging transactions during the three or nine-months ended June 30, 2013 and 2012.

The remaining unrecognized losses in Woodward's Condensed Consolidated Balance Sheets associated with derivative instruments that were previously entered into by Woodward, which are classified in accumulated other comprehensive losses, were $479 and $607 as of June 30, 2013 and September 30, 2012, respectively.

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

		Three-Months Ended June 30, 2013			Three-Months Ended June 30, 2012		
Derivatives in:	Location of (Gain) Loss Recognized in Earnings	Amount of (Income)	Amount of (Gain) Loss	Amount of (Gain) Loss	Amount of (Income)	Amount of (Gain) Loss	Amount of (Gain) Loss

		Expense Recognized in Earnings on Derivative	Recognized in Accumulated OCI on Derivative	Reclassified from Accumulated OCI into Earnings	Expense Recognized in Earnings on Derivative	Recognized in Accumulated OCI on Derivative	Reclassified from Accumulated OCI into Earnings
Fair value hedging relationships	Interest expense	$ -	$ -	$ -	$ -	$ -	$ -
Cash flow hedging relationships	Interest expense	42	(546)	42	42	-	42
		$ 42	$ (546)	$ 42	$ 42	$ -	$ 42

		Nine-Months Ended June 30, 2013			Nine-Months Ended June 30, 2012		
Derivatives in:	Location of (Gain) Loss Recognized in Earnings	Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings	Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings
Fair value hedging relationships	Interest expense	$ -	$ -	$ -	$ (3)	$ -	$ -
Cash flow hedging relationships	Interest expense	128	(546)	128	130	-	130
		$ 128	$ (546)	$ 128	$ 127	$ -	$ 130

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Based on the carrying value of the realized but unrecognized gains and losses on terminated derivative instruments designated as cash flow hedges as of June 30, 2013, Woodward expects to reclassify $171 of net unrecognized losses on terminated derivative instruments from accumulated other comprehensive earnings to earnings during the next twelve months.

Note 7. Supplemental statement of cash flows information

	Nine-Months Ended June 30,	
	2013	2012
Interest paid, net of amounts capitalized	$ 25,463	$ 25,011
Income taxes paid	33,923	41,903
Income tax refunds received	3,371	2,841
Non-cash activities:		
Purchases of property, plant and equipment on account	1,026	1,275
Common shares issued from treasury for benefit plans (Note 17)	9,780	9,335
Note receivable from municipality for economic development incentives	2,064	-
Cashless exercise of stock options	2,645	-
Settlement of receivable through purchase of treasury shares in connection with the cashless exercise of stock options	3,447	-

Note 8. Inventories

	June 30, 2013	September 30, 2012
Raw materials	$ 38,659	$ 31,209
Work in progress	92,124	85,942
Component parts and finished goods	316,929	281,078
	$ 447,712	$ 398,229

Note 9. Property, plant, and equipment

	June 30, 2013	September 30, 2012
Land	$ 33,266	$ 17,560
Buildings and improvements	202,560	199,692
Leasehold improvements	17,640	20,821
Machinery and production equipment	283,725	284,494
Computer equipment and software	93,825	89,565
Office furniture and equipment	22,843	23,272
Other	14,201	2,444
Construction in progress	58,165	27,643
	726,225	665,491
Less accumulated depreciation	(435,483)	(430,986)
Property, plant and equipment, net	$ 290,742	$ 234,505

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Depreciation expense	$ 8,559	$ 9,497	$ 28,971	$ 29,179

For the three and nine-months ended June 30, 2013 and June 30, 2012, Woodward had capitalized interest that would have otherwise been included in interest expense of the following:

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Capitalized interest	$ 322	$ 147	$ 510	$ 575

Note 10. Goodwill

	September 30, 2012	Additions	Effects of Foreign Currency Translation	June 30, 2013
Aerospace	$ 356,773	$ 88,163	$ (451)	$ 444,485
Energy	104,601	-	(361)	104,240
Consolidated	$ 461,374	$ 88,163	$ (812)	$ 548,725

On December 28, 2012, Woodward completed the acquisition of the Duarte Business (Note 4, Business acquisitions), which resulted in the recognition of $88,163 in goodwill. The operations of the Duarte Business are being integrated into Woodward's Aerospace segment.

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

Woodward completed its annual goodwill impairment test as of July 31, 2012 during the quarter ended September 30, 2012. At that date, Woodward determined it was appropriate to aggregate certain components of the same operating segment into a single aggregated reporting unit. The fair value of each of Woodward's individual or aggregated reporting units was determined using a discounted cash flow method. This method represents a Level 3 input and incorporates various estimates and assumptions, the most significant being projected revenue growth rates, earnings margins, and the present value, based on the discount rate and terminal growth rate, of forecasted cash flows. Management projects revenue growth rates, earnings margins and cash flows based on each individual or aggregated reporting unit's current operational results, expected performance and operational strategies over a five or ten-year period. These projections are adjusted to reflect current economic conditions and demand for certain products, and require considerable management judgment.

Forecasted cash flows used in the July 31, 2012 impairment test were discounted using weighted-average cost of capital assumptions ranging from 8.88% to 9.60%. The terminal values of the forecasted cash flows were calculated using the Gordon Growth Model and assumed an annual compound growth rate after five or ten years of 4.05%. These inputs, which are unobservable in the market, represent management's best estimate of what market participants would use in determining the present value of the Company's forecasted cash flows. Changes in these estimates and assumptions can have a significant impact on the fair value of forecasted cash flows. Woodward evaluated the reasonableness of the individual or aggregated reporting units resulting fair values utilizing a market multiple method.

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

Uncertainty with respect to U.S. and other government renewable power incentives and economic factors associated with alternate energy sources have resulted in significant overcapacity and financial distress in the renewable power industry. As such, the Company made a decision to align its renewable power business appropriately for the current environment and foreseeable future. In connection with this action, Woodward performed a goodwill impairment test, as of June 30, 2013, on the renewable power systems reporting unit. This reporting unit is a component of an operating segment within the Energy reportable segment. The results of the impairment analysis indicated that the fair value of the reporting unit was in excess of its carrying value, and accordingly, no impairment existed.

As part of the Company's ongoing monitoring efforts, Woodward will continue to consider the global economic environment and its potential impact on Woodward's business in assessing goodwill for possible indications of impairment. During the second quarter of fiscal 2013, the sequestration of U.S. federal government appropriations took effect under the Budget Control Act of 2011. Woodward will continue to assess any long-term impacts of the resulting decrease in the level of U.S. defense spending on its aerospace business, but believes that it is well aligned with national defense and other priorities; therefore, it does not believe that this will significantly affect the valuations of its individual or aggregated reporting units given that Woodward's direct and indirect sales to the U.S. government were 18% of total sales in fiscal year 2012.

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

Note 11. Other intangibles, net

	June 30, 2013			September 30, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Customer relationships and contracts:						
Aerospace	$ 272,131	$ (72,689)	$ 199,442	$ 205,221	$ (59,297)	$ 145,924
Energy	41,778	(28,868)	12,910	41,770	(26,623)	15,147
Total	$ 313,909	$ (101,557)	$ 212,352	$ 246,991	$ (85,920)	$ 161,071
Intellectual property:						
Aerospace	$ -	$ -	$ -	$ -	$ -	$ -
Energy	20,001	(14,245)	5,756	20,001	(13,229)	6,772
Total	$ 20,001	$ (14,245)	$ 5,756	$ 20,001	$ (13,229)	$ 6,772
Process technology:						
Aerospace	$ 76,271	$ (24,719)	$ 51,552	$ 71,716	$ (20,622)	$ 51,094
Energy	23,128	(11,216)	11,912	23,166	(9,706)	13,460
Total	$ 99,399	$ (35,935)	$ 63,464	$ 94,882	$ (30,328)	$ 64,554
Other intangibles:						
Aerospace	$ 47,324	$ (42,355)	$ 4,969	$ 39,649	$ (37,718)	$ 1,931
Energy	2,553	(1,581)	972	2,538	(1,303)	1,235
Total	$ 49,877	$ (43,936)	$ 5,941	$ 42,187	$ (39,021)	$ 3,166
Total intangibles:						
Aerospace	$ 395,726	$ (139,763)	$ 255,963	$ 316,586	$ (117,637)	$ 198,949
Energy	87,460	(55,910)	31,550	87,475	(50,861)	36,614
Consolidated Total	$ 483,186	$ (195,673)	$ 287,513	$ 404,061	$ (168,498)	$ 235,563

	Three-Months Ended June 30, 2013	2012	Nine-Months Ended June 30, 2013	2012
Amortization expense	$ 9,769	$ 8,139	$ 27,249	$ 24,691

Future amortization expense associated with intangibles is expected to be:

Year Ending September 30:	
2013 (remaining)	$ 9,676
2014	32,871
2015	28,781
2016	27,074
2017	25,325
Thereafter	163,786
	$ 287,513

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

As of June 30, 2013, Woodward maintained a $400,000 revolving credit facility (the “2012 Credit Facility”) established under a credit agreement (the “Third Amended and Restated Credit Agreement”) related to unsecured financing arrangements with a syndicate of U.S. banks. Under the terms of the Company’s Third Amended and Restated Credit Agreement, the 2012 Credit Facility had an option to increase available borrowings to up to $600,000, subject to lenders’ participation, and had a maturity in January 2017. The interest rate on borrowings under the Third Amended and Restated Credit Agreement varied with the London Interbank Rate (“LIBOR”) plus 0.95% to 1.525%. There was $30,000 of outstanding borrowings on the 2012 Credit Facility as of June 30, 2013, at an effective interest rate of 1.32%.

On July 10, 2013, Woodward terminated the Third Amended and Restated Credit Agreement and entered into a new revolving credit agreement (the “Revolving Credit Agreement”) between Woodward and a syndicate of lenders led by Wells Fargo Bank, National Association, as administrative agent. The Revolving Credit Agreement matures in July 2018. As compared to the Third Amended and Restated Credit Agreement, the borrowing capacity under the Revolving Credit Agreement increased from $400,000 to $600,000. Subject to lenders’ participation, the option to expand the commitment remains at $200,000, for a total borrowing capacity of up to $800,000 under the Revolving Credit Agreement.

Borrowings under the Revolving Credit Agreement generally bear interest at LIBOR plus 0.85% to 1.65%. The Revolving Credit Agreement contains certain covenants customary with such agreements, which are generally consistent with the covenants applicable to Woodward’s long-term debt agreements, and contains customary events of default, including certain cross default provisions related to Woodward’s other outstanding debt arrangements in excess of $60,000, the occurrence of which would permit the lenders to accelerate the amounts due thereunder.

Woodward’s obligations under the Revolving Credit Agreement are guaranteed by Woodward FST, Inc., Woodward MPC, Inc., and Woodward HRT, Inc., each of which is a wholly owned subsidiary of Woodward.

In connection with the Revolving Credit Agreement, Woodward incurred approximately $1,700 in financing costs, which are deferred and will be amortized using the straight-line method over the life of the agreement. Woodward also has remaining $1,529 of deferred financing costs incurred in connection with the 2012 Credit Facility, which will be combined with the financing costs associated with the Revolving Credit Agreement and amortized using the straight-line method over the life of the Revolving Credit Agreement.

A Chinese subsidiary of Woodward has a local credit facility with the Hong Kong and Shanghai Banking Company under which it has the ability to borrow up to either $22,700, or the local currency equivalent of $22,700. Any cash borrowings under the local Chinese credit facility are secured by a parent guarantee from Woodward. The Chinese subsidiary may utilize the local facility for cash borrowings to support its operating cash needs. Local currency borrowings on the Chinese credit facility are charged interest at the prevailing interest rate offered by the People’s Bank of China on the date of borrowing, plus a margin equal to 25% of that prevailing rate. U.S. dollar borrowings on the credit facility are charged interest at the lender’s cost of borrowing rate at the date of borrowing, plus 3%. The Chinese subsidiary had $5,144 in outstanding cash borrowings against the local credit facility at June 30, 2013 and had no outstanding cash borrowings under the local credit facility at September 30, 2012.

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

Long-term debt consisted of the following:

	June 30, 2013	September 30, 2012
2008 Term loan – Variable rate of 1.47% at September 30, 2012, matures October 2013; unsecured	$ -	$ 41,875
Series B notes – 5.63%, due October 2013; unsecured	100,000	100,000
Series C notes – 5.92%, due October 2015; unsecured	50,000	50,000
Series D notes – 6.39%, due October 2018; unsecured	100,000	100,000
Series E notes – 7.81%, due April 2016; unsecured	57,000	57,000
Series F notes – 8.24%, due April 2019; unsecured	43,000	43,000
Long-term borrowings under Line of Credit - Variable rate of 1.12% at June 30, 2013, unsecured	200,000	-
Total long-term debt	550,000	391,875
Less: current portion	(100,000)	(7,500)
Long-term debt, less current portion	$ 450,000	$ 384,375

In October 2008, Woodward entered into a term loan credit agreement (the "2008 Term Loan Credit Agreement"). During the second quarter of fiscal 2013, the remaining outstanding indebtedness of $40,000 under the 2008 Term Loan Credit Agreement, which generally bore interest at LIBOR plus 1.00% to 2.25%, was repaid and terminated, without penalty, and the remaining balance of unamortized debt issuance costs of $128 were written off to interest expense.

In connection with the acquisition of the Duarte Business, on December 21, 2012 Woodward entered into a 364 day uncommitted line of credit with JPMorgan Chase Bank, N.A. (the "Line of Credit"). The Line of Credit provides for unsecured loans to Woodward of up to $200,000 on a revolving basis. At the Company's option, loans made under the Line of Credit bear interest at a floating rate based on either the prime rate or an adjusted LIBOR. The Line of Credit under which Woodward may borrow terminates on December 20, 2013. There was $200,000 outstanding on the Line of Credit as of June 30, 2013, which consisted of an adjusted LIBOR loan bearing interest at 1.12% and maturing on July 31, 2013. The Company cannot repay the adjusted LIBOR loan prior to the July 31, 2013 maturity date without incurring a prepayment penalty. Subject to lender participation, Woodward may renew the loan for an additional period of time within the 364 day term of the Line of Credit.

The Line of Credit contains customary terms and conditions, as well as events of default customary for such financing arrangements, including cross-default provisions based on certain covenants and provisions contained in the Third Amended and Restated Credit Agreement the occurrence of which would permit the lenders to accelerate the amounts due thereunder.

The proceeds from the Line of Credit were used to finance the acquisition of the Duarte Business as discussed in Note 4, Business acquisitions. The Company incurred no financing fees in association with the Line of Credit.

Woodward classified the $200,000 outstanding on the Line of Credit as long-term as of June 30, 2013 based on its intention to refinance the $200,000 using new long-term debt facilities and/or its existing revolving credit facility. Woodward currently has the ability to utilize its new $600,000 revolving credit facility, which matures in July 2018, to refinance the entire $200,000 outstanding balance, if necessary.

At June 30, 2013, Woodward held $60,972 in cash and cash equivalents, and had total outstanding debt of $585,144 with additional borrowing availability of $364,348 under the 2012 Credit Facility, net of outstanding letters of credit, and $23,172 under its Chinese credit facility, other foreign lines of credit and foreign overdraft facilities.

Management believes that Woodward was in compliance with all of its debt covenants at June 30, 2013.

Note 13. Accrued liabilities

	June 30, 2013	September 30, 2012
Salaries and other member benefits	$ 32,491	$ 64,416
Current portion of restructuring and other charges	527	1,101
Warranties	14,710	15,742
Interest payable	5,687	11,362
Current portion of acquired performance obligations and unfavorable contracts (1)	18,479	-
Accrued retirement benefits	2,677	2,702
Deferred revenues	6,187	7,232
Taxes, other than income	9,455	8,833
Other	26,206	20,796
	$ 116,419	$ 132,184

(1) For more information about acquired performance obligations and unfavorable contracts, see Note 4, Business acquisitions.

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, 2012	$ 15,742
Net increase in accruals related to warranties during the period	1,432
Increases due to acquisition of Duarte Business	157
Settlements of amounts accrued	(2,601)
Foreign currency exchange rate changes	(20)
Warranties, June 30, 2013	$ 14,710

Restructuring and other charges

The main components of accrued non-acquisition related restructuring charges, which were recognized in fiscal 2009, 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 fiscal 2009 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.

The summary of the activity in accrued restructuring charges during the three and nine-months ended June 30, 2013 is as follows:

	Three-Months Ended June 30, 2013		
	Restructuring Charges	Business Acquisitions	Total
Accrued restructuring charges, March 31, 2013	$ 87	$ 1,291	$ 1,378
Payments	(32)	(27)	(59)
Non-cash adjustments	6	(45)	(39)
Foreign currency exchange rates	-	-	-
Accrued restructuring charges, June 30, 2013	$ 61	$ 1,219	$ 1,280

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	Nine-Months Ended June 30, 2013		
	Restructuring Charges	Business Acquisitions	Total
Accrued restructuring charges, September 30, 2012	$ 130	$ 1,848	$ 1,978
Payments	(84)	(93)	(177)
Non-cash adjustments	16	(536)	(520)
Foreign currency exchange rates	(1)	-	(1)
Accrued restructuring charges, June 30, 2013	$ 61	$ 1,219	$ 1,280

Other liabilities included $753 and $877 of accrued restructuring charges not expected to be settled within twelve months as of June 30, 2013 and September 30, 2012, respectively.

Note 14. Other liabilities

	June 30, 2013	September 30, 2012
Net accrued retirement benefits, less amounts recognized within accrued liabilities	$ 75,347	$ 80,341
Uncertain tax positions, net of offsetting benefits (Note 16)	16,448	15,061
Acquired performance obligations and unfavorable contracts (1)	20,074	-
Other	14,415	14,041
	$ 126,284	$ 109,443

(1) For more information about acquired performance obligations and unfavorable contracts, see Note 4, Business acquisitions.

Note 15. Other (income) expense, net

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Net (gain) loss on sale of assets	$ 152	$ (12)	$ (78)	$ (84)
Rent income	(127)	(120)	(387)	(376)
Net (gain) loss on investments in deferred compensation program	(20)	150	(546)	(746)
Other	117	(6)	(19)	(8)
	$ 122	$ 12	$ (1,030)	$ (1,214)

Note 16. 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, changes in the estimate of the amount of undistributed foreign earnings that Woodward considers indefinitely reinvested, 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 Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Earnings before income taxes	$ 35,497	$ 37,708	$ 124,370	$ 131,922
Income tax expense	11,834	9,406	30,893	36,452
Effective tax rate	33.3%	24.9%	24.8%	27.6%

On January 2, 2013, the American Taxpayer Relief Act of 2012 (the "Taxpayer Relief Act") was enacted, which retroactively extended the U.S. research and experimentation tax credit through December 31, 2013. As a result, income taxes for the nine-months ended June 30, 2013 included a net expense reduction of $6,558 related to the retroactive impact of the U.S. research and experimentation tax credit pursuant to the Taxpayer Relief Act.

Income taxes for the nine-months ended June 30, 2012 included a tax benefit of $3,326 related to a reduction in the anticipated amount of undistributed earnings of certain of Woodward's foreign subsidiaries that were previously expected to be repatriated to the United States within the foreseeable future. Woodward anticipates that a portion of those earnings will remain indefinitely invested outside the United States and accordingly it reversed the deferred tax liability associated with repatriating those earnings.

Worldwide unrecognized tax benefits were as follows:

	June 30, 2013	September 30, 2012
Gross liability	$ 18,924	$ 18,069
Amount that would impact Woodward's effective tax rate, if recognized, net of expected offsetting adjustments	16,448	15,061

At this time, Woodward estimates that it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as $953 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:

	June 30, 2013	September 30, 2012
Accrued interest and penalties	$ 1,948	$ 1,701

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 2004 and forward. Woodward has been subject to U.S. Federal income tax examinations for fiscal years through 2008. Woodward is subject to U.S. state income tax examinations for fiscal years 2008 and forward.

Note 17. 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.

Defined contribution plans

Most of the Company's U.S. employees are eligible to participate in the U.S. defined contribution plan. The U.S. defined contribution plan allows employees to defer part of their annual income for income tax purposes into their personal 401(k) accounts. The Company makes contributions to eligible employee accounts, which are also deferred for employee personal income tax purposes. Certain foreign employees are also eligible to participate in foreign plans.

Most U.S. employees with at least two years of service receive an annual contribution of Woodward stock, equal to 5% of their eligible prior year wages, to their personal Woodward Retirement Savings Plan accounts. In the second quarter of fiscal 2013 and 2012, Woodward fulfilled the annual Woodward stock contribution using shares held in treasury stock by issuing 250 shares of common stock for a total value of $9,780 and 209 shares of common stock for a total value of $9,335, respectively.

The amount of expense associated with defined contribution plans was as follows:

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Company costs	$ 5,404	$ 4,866	$ 14,777	$ 13,848

Defined benefit plans

Woodward has defined benefit plans that provide pension benefits for certain retired employees in the United States, the United Kingdom, Japan, and Switzerland. Woodward also provides other postretirement benefits to its employees including postretirement medical benefits and life insurance benefits. Postretirement medical benefits are provided to certain current and retired employees and their covered dependants and beneficiaries in the United States and the United Kingdom. Life insurance benefits are provided to certain retirees in the United States under frozen plans, which are no longer available to current employees. A September 30 measurement date is utilized to value plan assets and obligations for all of Woodward’s defined benefit pension and other postretirement benefit plans.

In connection with the acquisition of the Duarte Business, Woodward did not assume the Seller’s postretirement benefit obligations under the Duarte Business’ defined benefit pension plan as they existed at the time of closing of the transaction. Under the terms of the Asset Purchase Agreement, Woodward established a new defined benefit pension plan for the Duarte Business employees who were beneficiaries of the Seller’s defined benefit pension plan (the “Duarte Pension Plan”). During the third quarter of fiscal 2013, Woodward and the Duarte Union agreed that, effective as of the close of business on July 31, 2013, the Duarte Pension Plan will be amended to cease all future benefit accruals to current participants in the plan. In addition, the Duarte Pension Plan will be frozen to new entrants as of July 31, 2013. The Duarte Pension Plan had expenses of $167 and Woodward made $50 of contributions to the plan during the third quarter of fiscal 2013.

U.S. GAAP requires that, for obligations outstanding as of September 30, 2012, 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.

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

	Three-Months Ended June 30,					
	United States		Other Countries		Total	
	2013	2012	2013	2012	2013	2012
Service cost	$ 1,273	$ 883	$ 254	$ 282	$ 1,527	$ 1,165
Interest cost	1,393	1,454	518	571	1,911	2,025
Expected return on plan assets	(2,046)	(1,752)	(639)	(646)	(2,685)	(2,398)
Amortization of:						
Net actuarial (gain) loss	344	131	113	167	457	298
Prior service cost (benefit)	19	19	(2)	(3)	17	16
Net periodic retirement pension (benefit) cost	$ 983	$ 735	$ 244	$ 371	$ 1,227	$ 1,106
Contributions paid	$ 1,550	$ 150	$ 439	$ 457	$ 1,989	$ 607

	Nine-Months Ended June 30,					
	United States		Other Countries		Total	
	2013	2012	2013	2012	2013	2012
Service cost	$ 3,487	$ 2,648	$ 797	$ 854	$ 4,284	$ 3,502
Interest cost	4,177	4,362	1,591	1,709	5,768	6,071
Expected return on plan assets	(6,136)	(5,256)	(1,966)	(1,936)	(8,102)	(7,192)
Amortization of:						
Net actuarial (gain) loss	1,031	393	352	499	1,383	892
Prior service cost (benefit)	56	56	(6)	(7)	50	49
Net periodic retirement pension (benefit) cost	$ 2,615	$ 2,203	$ 768	$ 1,119	$ 3,383	$ 3,322
Contributions paid	$ 4,550	$ 450	$ 2,696	$ 2,789	$ 7,246	$ 3,239

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

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Service cost	$ 18	$ 17	$ 54	$ 52
Interest cost	311	449	933	1,348
Amortization of:				
Net actuarial (gain) loss	(17)	22	(51)	68
Prior service cost (benefit)	(40)	(137)	(119)	(412)
Net periodic other postretirement (benefit) cost	$ 272	$ 351	$ 817	$ 1,056
Contributions paid	$ 490	$ 673	$ 1,833	$ 1,966

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 2013 may differ from the current estimate. Woodward estimates its remaining cash contributions in fiscal 2013, including those associated the Duarte Pension Plan, will be as follows:

Retirement pension benefits:	
United States	$ 1,500
United Kingdom	510
Japan	-
Switzerland	184
Other postretirement benefits	2,179

Multi-employer defined benefit plans

Woodward operates two multi-employer plans for certain employees in the Netherlands and Japan. The amounts of contributions associated with the multi-employer plans were as follows:

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Company contributions	$ 188	$ 191	$ 599	$ 592

Note 18. Stock-based compensation

Stock options

Woodward’s 2006 Omnibus Incentive Plan (the “2006 Plan”), which has been approved by Woodward’s stockholders, provides for the grant of up to 7,410 stock options to its employees and directors. Woodward believes that these awards align the interests of its employees and directors 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, a ten-year term, and a four-year vesting schedule at a rate of 25% per year.

The fair value of options granted was estimated on the date of grant using the Black-Scholes-Merton option-valuation model using the assumptions in the following table. Woodward calculates the expected term, which represents the period of time that stock options granted are expected to be outstanding, based upon historical experience of plan participants. Expected volatility is based on historical volatility using daily stock price observations. The estimated dividend yield is based upon Woodward’s historical dividend practice and the market value of its common stock. The risk-free rate is based on the U.S. treasury yield curve, for periods within the contractual life of the stock option, at the time of grant.

	Three-Months Ended June 30,		Nine-Months Ended June 30,	
	2013	2012	2013	2012
Expected term	5.8 years	5.9 years	5.8 - 8.6 years	5.9 - 8.5 years
Estimated volatility	54.4%	55.5%	48.7% - 54.9%	48.9% - 55.6%
Estimated dividend yield	0.9%	0.7%	0.8% - 1.0%	0.7% - 1.1%
Risk-free interest rate	0.9%	1.3%	0.8% - 1.3%	1.0% - 1.6%

The following is a summary of the activity for stock option awards during the three and nine-months ended June 30, 2013: