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Woodward, Inc.  
Form 10-K  
November 14, 2013  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 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 0-8408

WOODWARD, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1000 East Drake Road, Fort Collins, Colorado

(Address of principal executive offices)

Registrant's telephone number, including area code:

(970) 482-5811

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Common stock, par value \$.001455 per share

Securities registered pursuant to Section 12(g) of the Act:

None

36-1984010

(I.R.S. Employer Identification No.)

80525

(Zip Code)

Name of each exchange on which registered:

NASDAQ Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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 (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

Aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on March 28, 2013 as reported on The NASDAQ Global Select Market on that date: \$1,970,701,485. For purposes of this calculation, shares of common stock held by (i) persons holding more than 5% of the outstanding shares of stock, (ii) officers and directors of the registrant, and (iii) the Woodward Governor Company Profit Sharing Trust, Woodward Governor Company Deferred Shares Trust, or the Woodward Charitable Trust, as of March 31, 2013, are excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive of affiliate status.

Number of shares of the registrant's common stock outstanding as of November 12, 2013: 68,090,550.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for the Annual Meeting of Stockholders to be held January 22, 2014, are incorporated by reference into Parts II and III of this Form 10-K, to the extent indicated.

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## PART I

### Forward Looking Statements

This Annual Report on Form 10-K, 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,” “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;
- descriptions 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 of such acquisitions into our businesses;
- the development, production, and support of advanced technologies and new products and services;
- new business opportunities;
- restructuring and alignment 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 continued global economic uncertainty and instability in the financial markets;
- 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 any restructuring and alignment 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 and product mix 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;



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- our ability to monitor our technological expertise and the success of, and/or costs associated with, our product development activities;
- 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 liabilities resulting from legal and regulatory proceedings, inquiries, or investigations related to such activities;
- the potential of a significant reduction in defense sales due to decreases in the amount of U.S. Federal defense spending, including the impacts of the sequestration of appropriations under the Budget Control Act of 2011 (the “Budget Act”), or other specific budget cuts impacting defense programs in which we participate;
- changes in government spending patterns and/or priorities;
- future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets;
- future results of our subsidiaries;
- environmental liabilities related to manufacturing activities and/or real estate acquisitions;
- our continued access to a stable workforce and favorable labor relations with our employees;
- physical and other risks related to our operations and suppliers, including natural disasters, which could disrupt production;
- our ability to successfully manage regulatory, tax, and legal matters (including product liability, patent, and intellectual property matters);
- risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates, and compliance with and changes in the legal and regulatory environments of the United States and the 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;
- our operations may be adversely affected by information systems interruptions or intrusions; 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 the caption “Risk Factors” in Part I, Item 1A in this Annual Report on Form 10-K for the fiscal year ended September 30, 2013 (this “Form 10-K”), as updated from time to time in our subsequent Securities and Exchange Commission (“SEC”) filings. 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 Form 10-K to “Woodward,” “the Company,” “we,” “us,” and “our” refer to Woodward, Inc. and its consolidated subsidiaries.

Except where we have otherwise indicated or the context otherwise requires, amounts presented in this Form 10-K are in thousands, except per share amounts.

### Item 1. Business

#### General

Woodward enhances the global quality of life and sustainability by optimizing energy use through improved efficiency and lower emissions. We are an independent designer, manufacturer, and service provider of energy control and optimization solutions. We design, produce and service reliable, efficient, low-emission, and

high-performance energy control products for diverse applications in challenging environments. We have significant production and assembly facilities in the United States, Europe and Asia, and promote our products and services through our worldwide locations.

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Our strategic focus is providing energy control and optimization solutions for the aerospace and energy markets. The precise and efficient control of energy, including fluid and electrical energy, combustion, and motion, is a growing requirement in the markets we serve. Our customers look to us to optimize the efficiency, emissions and operation of power equipment in both commercial and defense operations. Our core technologies leverage well across our markets and customer applications, enabling us to develop and integrate cost-effective and state-of-the-art fuel, combustion, fluid, actuation and electronic systems. We focus primarily on serving original equipment manufacturers (“OEMs”) and equipment packagers, partnering with them to bring superior component and system solutions to their demanding applications. We also provide aftermarket repair, replacement and other service support for our installed products.

Our components and integrated systems optimize performance of commercial aircraft, defense aircraft, ground vehicles and other equipment, gas and steam turbines, wind turbines, including converters and power grid related equipment, industrial diesel, gas, alternative and dual fuel reciprocating engines, and electrical power systems. Our innovative fluid energy, combustion control, electrical energy, and motion control systems help our customers offer more cost-effective, cleaner, and more reliable equipment.

We were established in 1870, incorporated in 1902, and are headquartered in Fort Collins, Colorado. The mailing address of our world headquarters is 1000 East Drake Road, Fort Collins, Colorado 80525. Our telephone number at that location is (970) 482-5811, and our website is [www.woodward.com](http://www.woodward.com). None of the information contained on our website is incorporated into this document by reference.

#### Markets and Principal Lines of Business

We serve two primary markets – aerospace and energy.

Within the aerospace market, we provide systems, components and solutions for both commercial and defense applications. Our key focus areas within this market are:

- Propulsion system control solutions for turbine powered aircraft; and
- Actuation systems and motion control solutions.

Within the energy market, our key focus areas are:

- Control solutions for equipment that produce electricity using conventional or renewable energy sources;
- Solutions for the control of power quality, distribution and storage on the electrical grid; and
- Control solutions for power equipment used in the extraction, distribution and conversion of renewable and fossil fuels in marine, mobile, and industrial equipment applications.

Our customers require technological solutions to meet their needs for performance, efficiency, and reliability, and to reduce their costs of operation.

Additional information about our operations in fiscal year 2013 and outlook for the future, including certain segment information, is included in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Additional information about our business segments and certain geographical information is included in Note 21, Segment information and Note 22, Supplemental quarterly financial data (Unaudited), to the Consolidated Financial Statements in “Item 8 – Financial Statements and Supplementary Data.”

#### Products, Services and Applications

##### Aerospace

Our Aerospace segment designs, produces and services systems and products for the management of fuel, air, combustion and motion. These products include main fuel pumps, metering units, actuators, air valves, specialty



valves, fuel nozzles, and thrust reverser actuation systems for turbine engines and nacelles; as well as flight deck controls, actuators, servocontrols, motors and sensors for aircraft. These products are used on commercial and defense fixed-wing aircraft and rotorcraft, as well as in weapons and defense systems.

We have significant content on a wide variety of commercial aircraft, rotorcraft and business jet platforms, including the Airbus A320, Boeing 787, Bell 429 and Gulfstream G650, and we have significant content on defense applications, such as the Blackhawk helicopter, F-35 fighter jet, M1A1 Abrams Tank and guided tactical weapons, such as the Joint Direct Attack Munition (“JDAM”).

Revenues from the Aerospace segment are generated primarily by sales to OEMs, tier-one suppliers, and prime contractors, and through aftermarket sales of components, such as provisioning spares or replacements. We also provide

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aftermarket repair, overhaul and other services to commercial airlines, turbine OEM repair facilities, military depots, third party repair shops, and other end users.

### Energy

Our Energy segment designs, produces and services systems and products for the management of fuel, air, fluids, gases, electricity and motion. These products include power converters, actuators, valves, pumps, injectors, solenoids, ignition systems, governors, electronics and devices that measure, communicate and protect low and medium voltage electrical distribution systems. Our products are also used on industrial gas turbines, including heavy-frame and aeroderivative turbines, reciprocating engines, electrical grids, wind turbines and compressors. The equipment on which our products are found is used to extract and distribute fossil and renewable fuels, to generate, distribute or store electricity, and to convert fuel to work in marine, mobile, and industrial equipment applications.

Revenues from the Energy segment are generated primarily by sales, which include aftermarket or replacement sales, to OEMs, tier-one suppliers, and prime contractors, and by providing other related services to our OEM customers and, in some cases, directly to end users or distributors.

### Sales Order Backlog

Our backlog of unshipped sales orders as of October 31, 2013 and 2012 by segment was as follows:

		%	
		Expected	
		to be filled	
		by	
	October	September	October
	31, 2013	30, 2014	31, 2012
Aerospace	\$ 551,652	77 %	\$ 477,274
Energy	227,115	94	179,410
	\$ 778,767	82 %	\$ 656,684

Our current estimate of the sales order backlog is based on unshipped sales orders that are open in our order entry systems. Unshipped orders are not necessarily an indicator of future sales levels because of variations in lead times and customer production schedules.

### Seasonality

We do not believe that our sales, in total or in either business segment, are subject to significant seasonal variation. However, our sales have generally been lower in the first quarter of our fiscal year as compared to the immediately preceding quarter due to fewer working days resulting from the observance of various holidays and scheduled plant shutdowns for annual maintenance.

### Customers

For the fiscal year ended September 30, 2013, approximately 39% of our consolidated net sales were made to our five largest customers. Sales to our five largest customers represented approximately 36% and 34% of our consolidated

net sales for the fiscal years ended September 30, 2012 and September 30, 2011, respectively.

Sales to our largest customer, General Electric, accounted for approximately 15%, 14%, and 14% of consolidated net sales in each of the fiscal years ended September 30, 2013, 2012 and 2011, respectively. Our accounts receivable from General Electric represented approximately 11% of total accounts receivable as of September 30, 2013 and 10% as of September 30, 2012. We believe General Electric and our other significant customers are creditworthy and will be able to satisfy their credit obligations to us.

The following customers account for approximately 10% or more of sales to each of our reporting segments for the fiscal year ended September 30, 2013.

	Customer
Aerospace	Boeing, General Electric, United Technologies
Energy	General Electric, Weichai Westport

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## Government Contracts and Regulation

Portions of our business, particularly in our Aerospace segment, are heavily regulated. We contract with numerous U.S. Government agencies and entities, including all of the branches of the U.S. military, the National Aeronautics and Space Administration (“NASA”), and the Departments of Defense, Homeland Security, and Transportation. We also contract with similar government authorities outside the United States.

The U.S. Government, and other governments, may terminate any of our government contracts, or any government contracts under which we are a subcontractor, at their convenience, as well as for default based on specified performance measurements. If any of our government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for our default, the U.S. Government generally would pay only for the work accepted, and could require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. Government could also hold us liable for damages resulting from the default.

We must comply with, and are affected by, laws and regulations relating to the formation, administration and performance of U.S. Government contracts. These laws and regulations, among other things:

- require accurate, complete and current disclosure and certification of cost and pricing data in connection with certain contracts;
- impose specific and unique cost accounting practices that may differ from accounting principles generally accepted in the United States (“U.S. GAAP”), and therefore require reconciliation;
- impose regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts;
- impose manufacturing specifications and other quality standards that may be more restrictive than for non-government business activities; and
- restrict the use and dissemination of information classified for national security purposes due to the regulations of the U.S. Government and foreign governments pertaining to the export of certain products and technical data.

Sales made directly to U.S. Government agencies and entities, or indirectly through third party manufacturers utilizing Woodward parts and subassemblies, collectively represented 21% of our sales for fiscal year 2013, 18% of our sales for fiscal year 2012, and 19% of our sales for fiscal year 2011. The level of U.S. spending for defense, alternative energy and other programs, and the mix of programs to which such funding is allocated, is subject to periodic congressional appropriation actions, including the sequestration of appropriations under the Budget Act, and is subject to change at any time.

U.S. Government related sales from our reporting segments for fiscal year 2013 and fiscal year 2012 were as follows:

	Direct U.S. Government Sales	Indirect U.S. Government Sales	Commercial Sales	Total
Fiscal year ended September 30, 2013				
Aerospace	\$ 104,410	\$ 289,197	\$ 667,870	\$ 1,061,477
Energy	3,649	8,106	862,744	874,499
Total net external sales	\$ 108,059	\$ 297,303	\$ 1,530,614	\$ 1,935,976

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Percentage of total net sales	6 %	15 %	79 %	100 %
Fiscal year ended September 30, 2012				
Aerospace	\$ 78,075	\$ 254,636	\$ 563,372	\$ 896,083
Energy	3,904	7,228	958,412	969,544
Total net external sales	\$ 81,979	\$ 261,864	\$ 1,521,784	\$ 1,865,627
Percentage of total net sales	4 %	14 %	82 %	100 %

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## Manufacturing

We operate manufacturing and assembly plants in the United States, Europe, and Asia. Our products consist of mechanical, electronic and electromagnetic systems and components.

Aluminum, iron and steel are primary raw materials used to produce our mechanical components. Other commodities, such as gold, copper and nickel, are also used in the manufacture of our products, although in much smaller quantities. We purchase various goods, including component parts and services used in production, logistics and product development processes from third parties. Generally there are numerous sources for the raw materials and components used in our products, which we believe are sufficiently available to meet current requirements.

In August of 2012, the SEC issued a final rule implementing Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that imposes reporting requirements on issuers who use or may use “conflict minerals,” defined as columbite-tantalite (the metal ore from which tantalum is extracted), cassiterite (the metal ore from which tin is extracted), gold, and wolframite (the metal ore from which tungsten is extracted), or their derivatives, originating from the Democratic Republic of the Congo and neighboring countries (collectively, “covered countries”). The rule was mandated in response to humanitarian concerns that trade in conflict minerals is used to finance armed groups in the covered countries. The rule describes assessment and reporting requirements for all issuers for which conflict minerals originating in a covered country are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by the issuer. Such issuers are required to file a newly created Form SD annually with the SEC. Initial Form SDs are required to be filed by May 31, 2014 for the calendar year 2013. We are implementing necessary processes and procedures to collect information necessary to make any required Form SD filing in May 2014. We do not anticipate that the requirement to file the Form SD will have a material impact on our Consolidated Financial Statements.

We maintain global strategic sourcing models to meet our global facilities' production needs while building long-term supplier relationships and efficiently managing our overall supply costs. We expect our suppliers to maintain adequate levels of quality raw materials and component parts, and to deliver such parts on a timely basis to support production of our various products. We use a variety of agreements with suppliers intended to protect our intellectual property and processes and to monitor and mitigate risks of disruption in our supply base that could cause a business disruption to our production schedules or to our customers. The risks monitored include supplier financial viability, business continuity, quality, delivery and protection of our intellectual property and processes.

Our customers expect us to maintain adequate levels of certain finished goods and certain component parts to support our warranty commitments and sales to our aftermarket customers, and to deliver such parts on a timely basis to support our customers' standard and customary needs. We carry certain finished goods and component parts in inventory to meet these rapid delivery requirements of our customers.

## Research and Development

We finance our research and development activities primarily with our own independent research and development funds, but in some cases research and development costs are shared by the customer. Our research and development costs include basic research, applied research, development, systems and other concept formulation studies.

Company funded expenditures related to new product development activities are expensed as incurred and are separately reported in the Company's Consolidated Statements of Earnings. Across both of our segments, research and development costs totaled \$130,250 in fiscal year 2013, \$143,274 in fiscal year 2012, and \$115,633 in fiscal year 2011. Research and development costs were 6.7% of consolidated net sales in fiscal year 2013 compared to 7.7% in fiscal year 2012 and 6.8% in fiscal year 2011. See “Research and development costs” in Note 1, Operations and summary of significant accounting policies, to the Consolidated Financial Statements in “Item 8 – Financial Statements and Supplementary Data.”

Aerospace is focused on developing systems and components that we believe will be instrumental in helping our customers achieve their objectives of lower fuel consumption, lighter weight, more efficient performance, reduced emissions, and improved operating economics. Our development efforts support technology for a wide range of:

- aerospace turbine applications, including commercial, business and military engines of various thrust classes;
- electromechanical and hydraulic actuation systems for flight deck-to-flight surface control of fixed-wing aircraft and rotorcraft, and turbine engine nacelles, as well as guidance for weapon systems; and
- motion control components for integration into comprehensive actuation systems.

The aerospace industry is moving toward more electronic (“fly-by-wire”), lighter weight aircraft, while demanding increased reliability and redundancy. In response, we are developing an expanded family of intelligent flight deck control products (including throttle and rudder controls) with both conventional and fly-by-wire technology as well as motor driven actuation systems.

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We collaborate closely with our customers in the early stages of a project as they develop their new product concepts. We believe this collaboration allows us to develop technology that is aligned with our customers' needs and therefore, increases the likelihood that our systems and components will be selected for inclusion in the platforms developed by our customers. We believe our close collaboration with our customers during preliminary design stages allows us to provide products that deliver the component and system performance necessary for our customers' products.

Some technology development programs begin years before an expected entry to service, such as those for the next-generation of commercial aircraft engines. Other development programs result in nearer-term product launches associated with new OEM offerings, product upgrades, or product replacements on existing programs.

We are currently developing the fuel system, air management, and actuation hardware for CFM International's LEAP engine program, and actuation system, combustion system and oil system components for the newest models of Pratt & Whitney's PurePower engine program. These programs target applications in the single-aisle aircraft market with expected entry into service in the 2015 to 2017 timeframe. Both the LEAP engine and the PurePower engine have been selected by Airbus as options for its re-engined A320neo aircraft. In addition, the LEAP engine has been selected exclusively by Boeing for its re-engined 737 MAX and by Comac for its C919 aircraft. The PurePower engine has been selected exclusively by Irkut for the MS-21 aircraft. In addition, we are the selected supplier for the thrust reverse actuation system for the Boeing 737 MAX and the LEAP engined Airbus A320neo.

We are also currently developing the fuel system, air management, and actuation hardware for the Passport engine program, as well as the thrust reverser actuation system for the integrated propulsion system. Passport is the next-generation GE Aviation engine for the large business aviation market, and has been selected by Bombardier to power its Global 7000 and 8000 long-range business aircraft, targeting entry into service in 2016 and 2017, respectively.

In addition, we are currently developing sensor solutions for the Airbus A350 high lift system, an actuation sub-system for the Boeing 787-9 that improves fuel burn, flight deck components for the Bombardier CSeries and Global 7000 and 8000 aircraft, and control and sensing solutions for the KC-46 tanker boom subsystem.

Energy is focused on developing more efficient, cleaner technologies, including integrated control systems and system components that we believe will allow our OEM customers to cost-effectively meet mandated emissions regulations and fuel efficiency demands, allow for usage of a wider range of fuel sources, support global infrastructure requirements, and safely distribute and store power on the electrical grid. Our development efforts support technology for a wide range of:

- engines and turbines used for propulsion of mobile, marine and industrial equipment;
- industrial gas and steam turbines;
- engines and turbines that drive pumps, generators and compressors;
- power converters for multi-megawatt (where megawatt is referred to as "MW") class wind turbines in the power range of 1MW to 6MW, both for on-shore and off-shore-applications;
- distributed generator system ("Genset") controls;
- controls for switchgear;
- new generation of protection and control relays for medium-voltage applications;
- modernization of the self powered protection relay lines; and
- industrial compressors.

Our clean technology development efforts include controls for diesel, natural gas, alternative and dual fuel engines, and full-scale as well as Doubly Fed Induction Generator converters. Major development projects, including diesel common rail systems and air and gaseous fuel systems, are targeted for future global emissions regulations expected to become effective in 2015 or thereafter.



We believe that our technologies make marine and industrial power generation and distribution, and alternatively fueled bus, truck and ship engines, operate cleaner, more efficiently, and more reliably.

#### Competitive Environment

Our products and product support services are sold worldwide into a variety of competitive markets. In all markets, we compete on the basis of differentiated technology and design, product performance and conformity with customer specifications, customer service and support, including on-time delivery and customer partnering, product quality, price, reputation and local presence. Both of our segments operate in uniquely competitive environments.

We believe that new competitors face significant barriers to entry into many of our markets, including various government mandated certification requirements to compete in the aerospace markets in which we participate.

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Aerospace industry safety regulations and manufacturing standards demand significant product certification requirements, which form a basis for competition as well as a barrier to entry. Technological innovation and design, product performance and conformity with customer specifications, and product quality and reliability are of significant importance in the aerospace and defense industry. In addition, on-time delivery, pricing, and joint development capabilities with customers are points of competition within this market. Our customers include airframe and aircraft engine OEM manufacturers and suppliers to these manufacturers. We supply these customers with technologically innovative system and component solutions and align our technology roadmaps with our customers. We focus on responding to needs for reduced cost and weight, emission control and reliability improvements. Our products achieve high levels of field reliability, which we believe offers an advantage in life-cycle cost. We compete with numerous companies around the world that specialize in fuel and air management, combustion, and electronic control products. In addition, many of our OEM customers are capable of developing and manufacturing these same products internally.

Our competitors in aerospace include divisions of UTC Aerospace Systems, Honeywell, Moog and Parker Hannifin. We address competition in aftermarket service through responsiveness to our customers' needs, providing short turnaround times and a global presence.

Several competitors are also customers for our products, such as UTC Aerospace Systems, Parker Hannifin, and Honeywell. Some of our customers are affiliated with our competitors through ownership or joint venture agreements. We compete in part by establishing relationships with our customers' engineering organizations, and by offering innovative solutions to their market requirements.

Energy operates in the global markets for industrial turbine engines, industrial reciprocating engine combustion and management systems, including emissions control, fuel and air management, combustion, electronic control products, power generation and distribution (through a global network of sales and support services), and converter technology for on-shore and off-shore wind turbines ranging in capacity from 1MW to 6MW.

We compete with numerous companies who specialize in various engine management products, and our OEM customers are often capable of developing and manufacturing some of these same products internally. Many of our OEM customers are large global OEMs that require suppliers to support them around the world and meet increasingly higher requirements in terms of quality, delivery, reliability and cost improvements.

Competitors include Heinzmann GmbH & Co., Robert Bosch AG, L'Orange GmbH, Hoerbiger, GE Multilin, ABB, Siemens, Schweitzer Electric, Areva and Ingeteam. OEM customers with internal capabilities for similar products include General Electric, Caterpillar, Wartsila and Cummins.

We believe we are a market leader in providing our customers advanced technology and superior product performance at a competitive price. We focus on close relationships with our OEM customers' engineering teams. Competitive success is based on the development of innovative components and systems that are aligned with the OEMs' technology roadmaps to achieve future emission, efficiency, and fuel flexibility targets.

The global market for renewable wind and solar energy technology is immature and changing rapidly. Delays in wind turbine installation caused by continued tight global credit availability, and uncertainty with respect to incentives and the overall economic environment, have led to over-capacity with manufacturers within the wind turbine industry. Market consolidation continues to occur and price has become an important factor within the wind turbine converter market.

#### Employees

As of October 31, 2013, we employed approximately 6,750 full-time employees of which approximately 1,800 were located outside of the United States. We consider the relationships with our employees to be good.

Approximately 16% of our total full-time workforce were union employees as of October 31, 2013, all of whom work for our Aerospace segment. The collective bargaining agreements with our union employees are generally renewed through contract renegotiation near the contract expiration dates. The MPC Employees Representative Union contract, which covers 455 employees as of October 31, 2013, expires September 30, 2017. The Local Lodge 727-N International Association of Machinists and Aerospace Workers agreement, which covers 384 employees as of October 31, 2013, expires April 20, 2014. The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and Local No. 509 agreement, which covers 221 employees as of October 31, 2013, expires June 3, 2017. We believe our relationships with our employees and the representative unions are good.

All of our other employees in the United States were at-will employees as of October 31, 2013, and therefore, not subject to any type of employment contract or agreement. Our executive officers and our other corporate officers each have change-in-control agreements.

Outside of the United States, we enter into employment contracts and agreements in those countries in which such relationships are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction.

#### Patents, Intellectual Property, and Licensing

We own numerous patents and have licenses for the use of patents owned by others, which relate to our products and their manufacture. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. For example, the U.S. Government has certain rights in our patents and other intellectual property developed in performance of certain government contracts, and it may use or authorize others to use the inventions covered by such patents for government purposes as allowed by law. Unpatented process technology, including research, development and engineering technical skills and know-how, as well as unpatented production software and other intellectual property rights, are important to our overall business and to the operations of each of our segments. While our intellectual property assets taken together are important, we do not believe our business or either of our segments would be materially affected by the expiration of any particular intellectual property right or termination of any particular intellectual property patent license agreement.

As of September 30, 2013, our Consolidated Balance Sheet includes \$285,775 of net intangible assets. This value represents the carrying values, net of amortization, of certain assets acquired in various business acquisitions and does not purport to represent the fair value of our intellectual property as of September 30, 2013.

U.S. GAAP requires that research and development costs be expensed as incurred; therefore, as we develop new intellectual property in the normal course of business, the costs of developing such assets are expensed as incurred, with no corresponding intangible asset recorded.

#### Environmental Matters and Climate Change

The Company is regulated by federal, state and international environmental laws governing our use, transport and disposal of substances and control of emissions. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or global competitive position.

We are engaged in remedial activities, generally in coordination with other companies, pursuant to federal and state laws. When it is reasonably probable we will pay remediation costs at a site, and those costs can be reasonably estimated, we accrue a liability for such future costs with a related charge against our earnings. In formulating that estimate and recognizing those costs, we do not consider amounts expected to be recovered from insurance companies, or others, until such recovery is assured. Our accrued liability for environmental remediation costs is not significant and is included in the line item "Accrued liabilities" in the Consolidated Balance Sheets in "Item 8 – Financial Statements and Supplementary Data."

We generally cannot reasonably estimate costs at sites in the very early stages of remediation. Currently, we have one site in the later stages of remediation, and there is no more than a remote chance that remediation costs at any individual site, or at all sites in the aggregate, will be material.

Our manufacturing facilities generally do not produce significant volumes or quantities of byproducts, including greenhouse gases, that would be considered hazardous waste or otherwise harmful to the environment. We do not expect legislation currently pending or expected in the next several years to have a significant negative impact on our operations in any of our segments.

Domestic and foreign legislative initiatives on emissions control, renewable energy, and climate change tend to favorably impact the sale of our energy control products. For example, our Energy segment produces inverters for wind turbines and energy control products that help our customers maximize engine efficiency and minimize wasteful

emissions, including greenhouse gases.

Executive Officers of the Registrant

Information about our executive officers is provided below. There are no family relationships between any of the executive officers listed below.

Thomas A. Gendron, Age 52. Chairman of the Board since January 2008; Chief Executive Officer, President, and Director since July 2005; Chief Operating Officer and President September 2002 through June 2005; Vice President and General Manager of Industrial Controls June 2001 through September 2002; Vice President of Industrial Controls April 2000 through May 2001; Director of Global Marketing and Industrial Controls' Business Development February 1999 through March 2000.

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Robert F. Weber, Jr., Age 59. Vice Chairman, Chief Financial Officer and Treasurer since September 2011, and Chief Financial Officer and Treasurer since August 2005. Prior to August 2005, Mr. Weber was employed at Motorola, Inc. for 17 years, where he held various positions, including Corporate Vice President and General Manager - EMEA Auto. Prior to this role, Mr. Weber served in a variety of financial positions at both a corporate and operating unit level with Motorola.

Martin V. Glass, Age 56. President, Airframe Systems since April 2011; President, Turbine Systems October 2009 through April 2011; Group Vice President, Turbine Systems September 2007 through September 2009; Vice President of the Aircraft Engine Systems Customer Business Segment December 2002 through August 2007; Director of Sales, Marketing, and Engineering February 2000 through December 2002.

Sagar Patel, Age 47. President, Aircraft Turbine Systems since June 2011. Prior to this role, Mr. Patel was employed at General Electric for 18 years, most recently serving as President, Mechanical Systems, GE Aviation, from March 2009 through June 2010. He served as President, Aerostructures, GE Aviation from July 2008 through July 2009 and as President and General Manager, MRS Systems, Inc., BE Aircraft Engines, from October 2005 through June 2008.

Chad R. Preiss, Age 48. President, Engine Systems since October 2009; Group Vice President, Engine Systems October 2008 through September 2009; Vice President, Sales, Service, and Marketing, Engine Systems December 2007 through September 2008; and Vice President, Industrial Controls September 2004 through December 2007. Prior to this role, Mr. Preiss served in a variety of engineering and marketing/sales management roles, including Director of Business Development, since joining Woodward in 1988.

James D. Rudolph, Age 52. President, Industrial Turbomachinery since April 2011; Corporate Vice President, Global Sourcing October 2009 through April 2011; Vice President, Global Sourcing April 2009 through October 2009; Director of Global Sourcing April 2005 through April 2009; Director of Engineering for Industrial Controls March 2000 through April 2005. Prior to March 2000, Mr. Rudolph served in a variety of engineering, operations and sales roles since joining the company in 1984.

A. Christopher Fawzy, Age 44. Corporate Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer since October 2009; Vice President, General Counsel, and Corporate Secretary June 2007 through September 2009. Mr. Fawzy became the Company's Chief Compliance Officer in August 2009. Prior to joining Woodward, Mr. Fawzy was employed by Mentor Corporation, a global medical device company. He joined Mentor in 2001 and served as Corporate Counsel, then General Counsel in 2003, and was appointed Vice President, General Counsel and Secretary in 2004.

### Other Corporate Officers of the Registrant

Information about our other corporate officers is provided below. There are no family relationships between any of the corporate officers listed below or between any of the corporate officers listed below and the aforementioned executive officers.

Harlan G. Barkley, Age 60. Corporate Vice President, Information Technology since October 2009; Vice President, Information Technology April 2009 through September 2009; Director, Global Information Technology November 2002 through March 2009. Prior to joining Woodward in October 1999, Mr. Barkley was employed by Sundstrand Corporation/Hamilton Sundstrand for 19 years in a variety of leadership roles in information technology.

Steven J. Meyer, Age 53. Corporate Vice President, Human Resources since October 2009; Vice President, Human Resources November 2006 through September 2009; Director, Global Human Resources November 2002 through October 2006; Director, Human Resources for Industrial Controls July 1997 through October 2002. Prior to joining Woodward, Mr. Meyer was employed by PG&E Corporation and Nortel in a variety of roles in human resources.

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Matthew F. Taylor, Age 51. Corporate Vice President, Supply Chain since February 2011; Vice President, Engine Fluid Systems and Controls Center of Excellence (“CoE”) October 2009 through February 2011; General Manager, Fluid Systems and Controls CoE December 2006 through October 2009; Director of Operations, Fluid Systems and Controls June 2005 through December 2006. Prior to joining Woodward in June 2005, Mr. Taylor was the Vice President and General Manager, Warner Electric and served in a variety of general management roles at Eaton Corporation from February 1998 through August 2003.

### Information available on Woodward’s Website

Through a link on the Investor Information section of our website, [www.woodward.com](http://www.woodward.com), we make available the following filings as soon as reasonably practicable after they are electronically filed or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. None of the information contained on our website is incorporated into this document by reference.

Stockholders may obtain, without charge, a single copy of Woodward's 2013 Annual Report on Form 10-K upon written request to the Corporate Secretary, Woodward, Inc., 1000 East Drake Road, Fort Collins, Colorado 80525.

#### Item 1A.Risk Factors

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized in this section when making investment decisions regarding our securities.

Important factors that could individually, or together with one or more other factors, affect our business, results of operations, financial condition, and/or cash flows include, but are not limited to, the following:

##### Company Risks

A decline in business with, or financial distress of, our significant customers could decrease our consolidated net sales or impair our ability to collect amounts due and payable and have a material adverse effect on our business, financial condition, results of operations and cash flows.

We have fewer customers than many companies with similar sales volumes. For the fiscal year ended September 30, 2013, approximately 39% of our consolidated net sales were made to our five largest customers. Sales to these same five largest customers represented approximately 36% of our consolidated net sales for the fiscal year ended September 30, 2012. Sales to our largest customer, General Electric, accounted for approximately 15%, 14%, and 14% of consolidated net sales in each of the fiscal years ended September 30, 2013, 2012, and 2011, respectively, and accounts receivable from General Electric represented approximately 11% and 10% of accounts receivable at September 30, 2013 and 2012, respectively. Sales to our next largest customer accounted for approximately 7%, 6%, and 3% of consolidated net sales in each of the fiscal years ended September 30, 2013, 2012, and 2011, respectively. If any of our significant customers were to change suppliers, in-source production, institute significant restructuring or cost-cutting measures, or experience financial distress, including that which is a result of the prolonged unfavorable economic conditions and continued instability in the financial markets, these significant customers may substantially reduce or otherwise be unable to pay for purchases from us. Accordingly, our consolidated net sales could decrease significantly or we may experience difficulty collecting or be unable to collect amounts due and payable, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The continued instability in the financial markets and continued global economic uncertainty could have a material adverse effect on the ability of our customers to perform their obligations to us and on their demand for our products and services.

There has been widespread concern over the continued instability in the financial markets and their influence on the global economy. As a result of the extreme volatility in the credit and capital markets, sovereign credit rating downgrades and uncertainty surrounding European sovereign and other debt defaults, and continued global economic uncertainty, our current or potential customers may experience cash flow problems and, as a result, may modify, delay or cancel plans to purchase our products. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing necessary financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Any inability of current or potential customers to pay us for our products may adversely affect our earnings and cash flows.

In addition, the general economic environment significantly affects demand for our products and services. Periods of slowing economic activity, such as the global economic conditions we have experienced since 2008, may cause global or regional slowdowns in spending on infrastructure development in the markets in which we operate, and customers may reduce their purchases of our products and services. For example, the impact of the unfavorable market conditions, in addition to reduced government subsidies, is currently evident in our renewable power business where



customers are reducing or limiting spending and investing and lending institutions are more restrictive in funding renewable energy projects. In addition, unfavorable economic conditions could cause a reduction in aircraft order flow or withdrawal from service of business jet or commercial aircraft, which could reduce demand for our Aerospace products and services.

There can be no assurance that the current market and economic uncertainty in the United States and internationally will not have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We may not be able 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 competitive pressures.

Global financial markets, including the credit and debt and equity capital markets, and economic conditions have been, and continue to be, disrupted and volatile. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk, sovereign credit rating downgrades and uncertainty surrounding European sovereign and other debt defaults, and the current global economic uncertainty, have made, and will likely continue to make, it difficult to obtain

financing. In addition, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets may increase as many lenders and institutional investors have or may increase interest rates, enact tighter lending standards, refuse to refinance existing debt at maturity either at all or on terms similar to existing debt, and reduce and, in some cases, cease to provide financing to borrowers. Due to these factors, we cannot be certain that financing, to the extent needed, will be available on acceptable terms or at all. If financing is not available when needed, or is available only on unacceptable terms, we may be unable to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The long sales cycle, customer evaluation process and implementation period of our products and services may increase the costs of obtaining orders and reduce the predictability of sales cycles and our inventory requirements.

Our products and services are technologically complex. Prospective customers generally must commit significant resources to test and evaluate our products and to install and integrate them into larger systems. Orders expected in one quarter may shift to another quarter or be cancelled with little advance notice as a result of customers' budgetary constraints, internal acceptance reviews and other factors affecting the timing of customers' purchase decisions. In addition, customers often require a significant number of product presentations and demonstrations before reaching a sufficient level of confidence in the product's performance and compatibility with the approvals that typically accompany capital expenditure approval processes. The difficulty in forecasting demand increases the challenge in anticipating sales cycles and our inventory requirements, which may cause us to over-produce finished goods and could result in inventory write-offs, or could cause us to under-produce finished goods. Any such over-production or under-production could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We have engaged in restructuring and alignment activities from time to time and may need to implement further restructurings or alignments in the future, and there can be no assurance that our restructuring or alignment efforts will have the intended effects.

From time to time, we have responded to changes in our industry and the markets we serve by restructuring or aligning our operations. Our restructuring activities have included workforce management and other restructuring charges related to our recently acquired businesses, including, among others, changes associated with integrating similar operations, managing our workforce, vacating or consolidating certain facilities and cancelling certain contracts. Most recently, we made a decision during the third quarter of fiscal year 2013 to align our renewable power business appropriately to the current environment and the foreseeable future, through revaluation of its assets and liabilities, including workforce management actions. Based on cost reduction measures or changes in the industry and markets in which we compete, we may decide to implement further restructuring or alignment activities in the future, such as closing plants, moving production lines, or making additions, reductions or other changes to our management or workforce.

Restructuring and/or alignment activities can create unanticipated consequences, and we cannot be sure that any restructuring or alignment efforts that we undertake will be successful. A variety of risks could cause us not to realize an expected cost savings, including, among others, the following:

- higher than expected severance costs related to staff reductions;
- higher than expected retention costs for employees that will be retained;
- higher than expected stand-alone overhead expenses;
- delays in the anticipated timing of activities related to our cost-saving plan; and
- other unexpected costs associated with operating the business.

If we are unable to structure our operations in the light of evolving market conditions, it could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Suppliers may be unable to provide us with materials of sufficient quality or quantity required to meet our production needs at favorable prices or at all.

We are dependent upon suppliers for parts and raw materials used in the manufacture of components that we sell to our customers, and our raw material costs are subject to commodity market fluctuations. We may experience an increase in costs for parts or raw materials that we source from our suppliers, or we may experience a shortage of parts or raw materials for various reasons, such as the loss of a significant supplier, high overall demand creating shortages in parts and supplies we use, financial distress, work stoppages, natural disasters, fluctuations in commodity prices, or production difficulties that may affect one or more of our suppliers. In particular, current or future global economic uncertainty may affect our key suppliers in terms of their operating cash flow and access to financing. This may in turn affect their ability to perform their obligations to us. Our customers rely on us to provide on-time delivery and have certain rights if our delivery standards are not

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maintained. A significant increase in our supply costs, including for raw materials that are subject to commodity price fluctuations, or a protracted interruption of supplies for any reason, could result in the delay of one or more of our customer contracts or could damage our reputation and relationships with customers. In addition, quality and sourcing issues that our suppliers may experience can also adversely affect the quality and effectiveness of our products and services and may result in liability or reputational harm to us. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our profitability may suffer if we are unable to manage our expenses or if we experience change in product mix as a result of sales increases or decreases.

Some of our expenses are relatively fixed in relation to changes in sales volume and are difficult to adjust in the short term. Expenses such as depreciation or amortization, which are the result of past capital expenditures or business acquisitions, or expenses driven by business activity other than sales level, such as manufacturing overhead, may be difficult to reduce in a timely manner in response to a reduction in sales. Due to the nature of our sales cycle, in periods of sales increases it may be difficult to rapidly increase our production of finished goods, particularly if such sales increases are unanticipated. An increase in the production of our finished goods requires increases in both the purchases of raw materials and components and in the size of our workforce. If a sudden, unanticipated need for raw materials, components and labor should arise in order to meet unexpected sales demand, we could experience difficulties in sourcing raw materials, components and labor at a favorable cost or to meet our production needs. These factors could result in delays in fulfilling customer sales contracts, damage to our reputation and relationships with our customers, an inability to meet the demands of the markets that we serve, which in turn could prevent us from taking advantage of business opportunities or responding to competitive pressures, and result in an increase in variable and fixed costs leading to a decrease in net earnings or even net losses. In addition, we sell products that have varying profit margins, and increases or decreases in sales of our various products may change the mix of products that we sell during any period. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Subcontractors may fail to perform contractual obligations.

We frequently subcontract portions of work due under contracts with our customers and are dependent on the continued availability and satisfactory performance by these subcontractors. Nonperformance or underperformance by subcontractors could materially impact our ability to perform obligations to our customers. A subcontractor's failure to perform could result in a customer terminating our contract for default, expose us to liability, substantially impair our ability to compete for future contracts and orders, and limit our ability to enforce fully all of our rights under these agreements, including any rights to indemnification. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our product development activities may not be successful, may be more costly than currently anticipated, or we may not be able to produce newly developed products at a cost that meets the anticipated product cost structure.

Our business involves a significant level of product development activities, generally in connection with our customers' development activities. Industry standards, customer expectations, or other products may emerge that could render one or more of our products or services less desirable or obsolete. Maintaining our market position requires continued investment in research and development. During an economic downturn or a subsequent recovery, we may need to maintain our investment in research and development, which may limit our ability to reduce these expenses in proportion to a sales shortfall. In addition, increased investments in research and development may divert resources from other potential investments in our business, such as acquisitions or investments in our facilities, processes and operations. If these activities are not as successful as currently anticipated, are not completed on a timely basis, or are more costly than currently anticipated, or if we are not able to produce newly developed products at a cost that meets the anticipated product cost structure, then our future sales, margins and/or earnings could be lower than expected, which could have a material adverse effect on our business, financial condition, results of

operations, and cash flows.

Activities necessary to integrate acquisitions may result in costs in excess of current expectations or be less successful than anticipated.

We recently completed an acquisition in fiscal year 2013 and we may acquire other businesses in the future. The success of these transactions will depend on, among other things, our ability to integrate assets and personnel acquired in these transactions and to apply our internal controls process to these acquired businesses. The integration of these acquisitions may require significant attention from our management, and the diversion of management's attention and resources could have a material adverse effect on our ability to manage our business. In addition, we may incur unanticipated costs or expenses following an acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, and other liabilities.

The risks associated with our past or future acquisitions also include, among others, the following:

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- technological and product synergies, economies of scale and cost reductions may not occur as expected;
- unforeseen expenses, delays or conditions may be imposed upon the acquisition, including due to required regulatory approvals or consents;
- we may acquire or assume unexpected liabilities or be subject to unexpected penalties or other enforcement actions;
- inaccurate assumptions may be made regarding the integration process;
- unforeseen difficulties may arise in integrating operations, processes and systems;
- higher than expected investments may be required to implement necessary compliance processes and related systems, including information technology systems, accounting systems and internal controls over financial reporting;
- we may fail to retain, motivate and integrate key management and other employees of the acquired business;
- higher than expected costs may arise due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any jurisdiction in which the acquired business conducts its operations; and
- we may experience problems in retaining customers and integrating customer bases.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and attention. Furthermore, we may not realize the degree or timing of benefits we anticipate when we first enter into these transactions. Failure to implement our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our debt obligations and the restrictive covenants in the agreements governing our debt could limit our ability to operate our business or pursue our business strategies, and could adversely affect our business, financial condition, results of operations, and cash flows.

As of September 30, 2013, our total long-term debt was \$550,000, and we had no short-term borrowings outstanding. Our debt obligations could require us to dedicate a portion of our cash flow from operations to payments on our indebtedness, reducing the availability of our cash flow for other purposes, including business development efforts and mergers and acquisitions. We are contractually obligated under the agreements governing our long-term debt to make principal payments of \$100,000 in fiscal year 2014, \$0 in fiscal year 2015, \$107,000 in fiscal year 2016, \$0 in fiscal year 2017 and \$343,000 in fiscal year 2018 and thereafter. Our debt obligations could make us more vulnerable to general adverse economic and industry conditions and could limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, thereby placing us at a disadvantage to our competitors that have less indebtedness.

Our existing revolving credit facility, line of credit, and note purchase agreements impose financial covenants on us and our subsidiaries that require us to maintain certain leverage ratios and minimum levels of consolidated net worth. Certain of these agreements require us to repay outstanding borrowings with portions of the proceeds we receive from certain sales of property or assets and specified future debt offerings.

These financial covenants place certain restrictions on our business that may affect our ability to execute our business strategy successfully or take other actions that we believe would be in the best interests of our Company. These restrictions include limitations or restrictions, among other things, on our ability and the ability of our subsidiaries to:

- incur additional indebtedness;
- pay dividends or make distributions on our capital stock or certain other restricted payments or investments;
- purchase or redeem stock;
- issue stock of our subsidiaries;
- make domestic and foreign investments and extend credit;
- engage in transactions with affiliates;
- transfer and sell assets;

- effect a consolidation or merger or sell, transfer, lease, or otherwise dispose of all or substantially all of our assets;  
and
- create liens on our assets to secure debt.

These agreements contain certain customary events of default, including certain cross-default provisions related to other outstanding debt arrangements. Any breach of the covenants under these agreements or other event of default could cause a default under these agreements and/or a cross-default under our other debt arrangements, which could restrict our ability to borrow under our revolving credit facility. If there were an event of default under certain provisions of our debt arrangements that was not cured or waived, the holders of the defaulted debt may be able to cause all amounts outstanding with respect to the debt instrument to be due and payable immediately. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. If we are unable to

repay, refinance, or restructure our indebtedness as required, or amend the covenants contained in these agreements, the lenders or note holders may be entitled to obtain a lien or institute foreclosure proceedings against our assets. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our business may be affected by government contracting risks.

Sales made directly to U.S. Government agencies and entities were 6% of total net sales during fiscal year 2013, 4% during fiscal year 2012, and 4% during fiscal year 2011, primarily in the aerospace market. Sales made directly to U.S. Government agencies and entities, or indirectly through third party manufacturers, such as tier-one prime contractors, utilizing Woodward parts and subassemblies, accounted for approximately 21% of total sales in fiscal year 2013, 18% in fiscal year 2012, and 19% in fiscal year 2011. Our contracts with the U.S. Government are subject to the following unique risks, some of which are beyond our control, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

- The level of U.S. defense spending is subject to periodic congressional appropriation actions, including significant reductions in defense spending under the sequestration of appropriations in fiscal year 2013 under the Budget Act, and is subject to change at any time. The mix of programs to which such funding is allocated is also uncertain, and we can provide no assurance that an increase in defense spending will be allocated to programs that would benefit our business. If the amount of spending were to decrease, or there were a shift from certain aerospace and defense programs on which we have content to other programs on which we do not, our sales could decrease. In addition, one or more of the aerospace or defense programs that we currently support could be phased-out or terminated. Any such reductions in U.S. Government needs under these existing aerospace and defense programs, unless offset by other aerospace and defense programs and opportunities, could have a material adverse effect on our sales.
- Our U.S. Government contracts and the U.S. Government contracts of our customers are subject to modification, curtailment or termination by the government, either for the convenience of the government or for default as a result of a failure by us or our customers to perform under the applicable contract. If any of our contracts are terminated by the U.S. Government, our backlog would be reduced, in accordance with contract terms, by the expected value of the remaining work under such contracts. In addition, we are not the prime contractor on most of our contracts for supply to the U.S. Government, and the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our products and services as a subcontractor.
- We must comply with procurement laws and regulations relating to the formation, administration and performance of our U.S. Government contracts and the U.S. Government contracts of our customers. The U.S. Government may change procurement laws and regulations from time to time. A violation of U.S. Government procurement laws or regulations, a change in U.S. Government procurement laws and regulations, or a termination arising out of our default could expose us to liability, debarment, or suspension and could have an adverse effect on our ability to compete for future contracts and orders.
- We are sometimes subject to government inquiries, audits and investigations due to our business relationships with the U.S. Government and the heavily regulated industries in which we do business. In addition, our contract costs are subject to audits by the U.S. Government. U.S. Government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit government contractors and subcontractors. These agencies review our performance under contracts, cost structure and compliance with applicable laws, regulations, and standards, as well as the adequacy of and our compliance with our internal control systems and policies. Any costs found to be misclassified or inaccurately allocated to a specific contract would be deemed non-reimbursable, and to the extent already reimbursed, would be refunded. Any inadequacies in our systems and policies could result in withholds on billed receivables, penalties and reduced future business. Any inquiries or investigations, including those related to our contract pricing, could potentially result in civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, suspension, and/or debarment from participating in future business opportunities with the U.S. Government. Such actions could harm our reputation, even if such allegations are later determined to be unfounded,



and could have a material adverse effect on our business, results of operations, financial condition and cash flows. Changes in the estimates of fair value of reporting units or of long-lived assets may result in future impairment charges, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Over time, the fair values of long-lived assets change. At September 30, 2013, we had \$551,624 of goodwill, representing 25% of our total assets. We test 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. Based on the relevant U.S. GAAP authoritative guidance, we sometimes aggregate components

of a single operating segment into a reporting unit, if appropriate. Future goodwill impairment charges may occur if estimates of fair values decrease, which would reduce future earnings. We also test property, plant, and equipment and other intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Future asset impairment charges may occur if asset utilization declines, if customer demand decreases, or for a number of other reasons, which would reduce future earnings. Any such impairment charges could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Impairment charges would also reduce our consolidated stockholders' equity and increase our debt-to-total-capitalization ratio, which could negatively impact our credit rating and access to the debt and equity markets.

We completed our annual goodwill impairment test during the quarter ended September 30, 2013. In performing the annual goodwill impairment test, we determined it was appropriate to aggregate certain components of the same operating segment into a single aggregated reporting unit. The results of our fiscal year 2013 annual goodwill impairment test performed as of July 31, 2013 indicated the estimated fair values of each of our reporting units were in excess of their carrying amounts, and accordingly, no impairment existed. There can be no assurance that our estimates and assumptions of the fair value of our reporting units, the current economic environment, the level of U.S. defense spending, including the sequestration of appropriations under the Budget Act, or the other inputs used in forecasting the present value of forecasted cash flows used to estimate the fair value of our reporting units will prove to be accurate projections of future performance.

As part of our ongoing monitoring efforts, we will continue to consider the global economic environment and its potential impact on our businesses, as well as other factors, in assessing goodwill and long-lived assets for possible indications of impairment.

Additional tax expense or additional tax exposures could affect our future profitability.

During fiscal year 2013, 45% of our total sales were made to customers in jurisdictions outside the United States (including products manufactured in the United States and sold outside the United States as well as products manufactured in international locations). Accordingly, we are subject to income taxes in both the United States and various non-U.S. jurisdictions. Our domestic and international tax liabilities are dependent upon the distribution of operating income among these different jurisdictions. Our tax expense includes estimates of additional tax that may be incurred and reflects various estimates, projections, and assumptions that could impact the valuation of our deferred tax assets. Our future operating results could be adversely affected by changes in the effective tax rate, including effective tax rate changes as a result of a change in the mix of earnings in countries with differing statutory tax rates; changes in our overall profitability; changes in tax legislation and tax rates, as well as changes in applicable interest and penalties; changes in U.S. GAAP; changes in the projected realization of deferred tax assets and liabilities; changes in the amount of earnings permanently reinvested offshore; and the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures.

Manufacturing activities may result in future environmental costs or liabilities.

We use hazardous materials and/or regulated materials in our manufacturing operations. We also own, operate, and may acquire facilities that were formerly owned and operated by others that used such materials. The risk that a significant release of regulated materials has occurred in the past or will occur in the future cannot be completely eliminated or prevented. As a result, we are subject to a substantial number of costly regulations. In particular, we are required to comply with increasingly stringent requirements of federal, state, and local environmental, occupational health and safety laws and regulations in the United States, the European Union, and other territories, including those governing emissions to air, discharges to water, noise and odor emissions, the generation, handling, storage, transportation, treatment and disposal of waste materials, and the cleanup of contaminated properties and human health and safety. Compliance with these laws and regulations results in ongoing costs. We cannot be certain that we have been, or will at all times be, in complete compliance with all environmental requirements, or that we will not incur additional material costs or liabilities in connection with these requirements. As a result, we may incur material

costs or liabilities or be required to undertake future environmental remediation activities that could damage our reputation and have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our performance depends on continued access to a stable workforce and on favorable labor relations with our employees.

Certain of our operations in the United States and internationally involve different employee/employer relationships and the existence of works' councils. In addition, a portion of our workforce is unionized and is expected to remain unionized for the foreseeable future. Competition for technical personnel in the industries in which we compete is intense. Our future success depends in part on our continued ability to hire, train, assimilate, and retain qualified personnel. There is no assurance that we will continue to be successful in recruiting qualified employees in the future. Any significant increases in labor costs, deterioration of employee relations, including any conflicts with works' councils or unions, or slowdowns or work stoppages at any of our locations, whether due to employee turnover, changes in availability of qualified technical

personnel, or otherwise, could have a material adverse effect on our business, our relationships with customers, and our financial condition, results of operations, and cash flows.

Operations and suppliers may be subject to physical and other risks, including natural disasters, that could disrupt production and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operations include principal facilities in the United States, China, Germany, and Poland. In addition, we operate sales and service facilities in Brazil, Bulgaria, India, Japan, the Netherlands, Peru, the Republic of Korea, Russia, Switzerland and the United Kingdom. We also have suppliers for materials and parts inside and outside the United States. Our operations and sources of supply could be disrupted by unforeseen events, including fires, tornadoes, tsunamis, hurricanes, earthquakes, floods and other forms of severe weather in the United States or in other countries in which we operate or in which our suppliers are located, any of which could adversely affect our operations and financial performance. Natural disasters, public health concerns, war, political unrest, terrorist activity, equipment failures, power outages, or other unforeseen events could result in physical damage to, and complete or partial closure of, one or more of our manufacturing facilities, or could cause temporary or long-term disruption in the supply of component products from some local and international suppliers, disruption in the transport of our products and significant delays in the shipment of products and the provision of services, which could in turn cause the loss of sales and customers. Existing insurance arrangements may not provide protection for all of the costs that may arise from such events. Accordingly, disruption of our operations or the operations of a significant supplier could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our intellectual property rights may not be sufficient to protect all our products or technologies.

Our success depends in part on our ability to obtain patents or rights to patents, protect trade secrets and know-how, and prevent others from infringing on our patents, trademarks, and other intellectual property rights. Some of our intellectual property is not covered by any patent or patent application and includes trade secrets and other know-how that is not patentable or for which we have elected not to obtain a patent, including intellectual property relating to our manufacturing processes and engineering designs. We will be able to protect our intellectual property from unauthorized use by third parties only to the extent that it is covered by valid and enforceable patents, trademarks, or licenses. Patent protection generally involves complex legal and factual questions and, therefore, enforceability of patent rights cannot be predicted with certainty; thus, any patents that we own or license from others may not provide us with adequate protection against competitors. Moreover, the laws of certain foreign countries do not recognize intellectual property rights or protect them to the same extent as do the laws of the United States. Additionally, our commercial success depends significantly on our ability to operate without infringing upon the patent and other proprietary rights of others. Our current or future technologies may, regardless of our intent, infringe upon the patents or violate other proprietary rights of third parties. In the event of such infringement or violation, we may face expensive litigation or indemnification obligations and may be prevented from selling existing products and pursuing product development or commercialization. If we are unable to sufficiently protect our patent and other proprietary rights or if we infringe on the patent or proprietary rights of others, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

Product liability claims, product recalls or other liabilities associated with the products and services we provide may force us to pay substantial damage awards and other expenses that could exceed our accruals and insurance coverage.

The manufacture and sale of our products and the services we provide expose us to risks of product liability and other tort claims. We currently have and have had in the past product liability claims relating to our products, and we will likely be subject to additional product liability claims in the future for both past and current products. Some of these claims may have a material adverse effect on our business, financial condition, results of operations and cash flows. We also provide certain services to our customers and are subject to claims with respect to the services provided. In providing such services, we may rely on subcontractors to perform all or a portion of the contracted

services. It is possible that we could be liable to our customers for work performed by a subcontractor. Regardless of the outcome, product liability claims can be expensive to defend, can divert the attention of management and other personnel for significant periods of time, and can cause reputational damage. While we believe that we have appropriate insurance coverage available to us related to any such claims, our insurance may not cover all liabilities or be available in the future at a cost acceptable to us. An unsuccessful result in connection with a product liability claim, where the liabilities are not covered by insurance or for which indemnification or other recovery is not available, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Amounts accrued for contingencies may be inadequate to cover the amount of loss when the matters are ultimately resolved.

In addition to intellectual property and product liability matters, we are currently involved or may become involved in claims, pending or threatened litigation or other legal proceedings, investigations or regulatory proceedings regarding

employment or other regulatory, legal, or contractual matters arising in the ordinary course of business. There is no certainty that the results of these matters will be favorable to the Company. We accrue for known individual matters if we believe it is probable that the matter will result in a loss when ultimately resolved using estimates of the most likely amount of loss. There may be additional losses that have not been accrued, or liabilities may exceed our estimates, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws and regulations.

The U.S. Foreign Corrupt Practices Act (“FCPA”) and similar anti-bribery laws and regulations in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business or securing an improper business advantage. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world and sell to industries that have experienced corruption to some degree. If we are found to be liable for FCPA or other similar anti-bribery law or regulatory violations, whether due to our or others’ actions or inadvertence, we could be subject to civil and criminal penalties or other sanctions that could have a material adverse impact on our business, financial condition, results of operations and cash flows.

We derive a significant portion of our revenues from non-U.S. sales and are subject to the risks inherent in doing business in other countries.

In 2013, approximately 45% of our total sales were made to customers in jurisdictions outside of the United States (including products manufactured in the United States and sold outside the United States as well as products manufactured in international locations). Accordingly, our business and results of operations are subject to risks associated with doing business internationally, including:

- fluctuations in foreign exchange rates;
- limitations on ownership and on repatriation of earnings;
- transportation delays and interruptions;
- political, social and economic instability and disruptions;
- government embargos or trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;
- changes in labor conditions;
- changes in regulatory environments;
- the potential for nationalization of enterprises;
- difficulties in staffing and managing multi-national operations;
- limitations on the Company’s ability to enforce legal rights and remedies, including protection of intellectual property;
- difficulty of enforcing agreements and collecting receivables through some foreign legal systems;
- acts of terrorism;
- potentially adverse tax consequences; and
- difficulties in implementing restructuring actions on a timely basis.

We are also subject to U.S. laws prohibiting companies from doing business in certain countries, or restricting the type of business that may be conducted in these countries. The cost of compliance with increasingly complex and often conflicting regulations governing various matters worldwide, including foreign investment, employment, import, export, business acquisitions, environmental and taxation matters, land use rights, property, and other matters, can also impair our flexibility in modifying product, marketing, pricing or other strategies for growing our businesses, as well as our ability to improve productivity and maintain acceptable operating margins. We must also comply with

restrictions on exports imposed under the U.S. Export Control Laws and Sanctions Programs. These laws and regulations change from time to time and may restrict foreign sales.

In 2013, approximately 9% of our total sales were to customers in the Peoples' Republic of China and we have significant operations in the Peoples' Republic of China. Our independent registered public accounting firm's audit documentation related to their audit report included in this annual report may be located in the Peoples' Republic of China. The Public Company Accounting Oversight Board ("PCAOB") currently cannot inspect audit documentation located in China and, as such, prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China, including that performed by our independent auditors in China. As a result, investors may be deprived of the full benefits of PCAOB oversight of our global audits via their inspections. The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our Chinese independent auditor's audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections on all of their work.

Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar. These exposures may change over time as our business and business practices evolve, and they could have a material adverse effect on our financial results and cash flows. An increase in the value of the U.S. dollar could increase the real cost to our customers of our products in those markets outside the United States where we sell in U.S. dollars, and a weakened U.S. dollar could increase the cost of local operating expenses and procurement of raw materials to the extent that we must purchase components in foreign currencies. Foreign currency exchange rate risk is reduced through several means, including the maintenance of local production facilities in the markets served, invoicing of customers in the same currency as the source of the products, prompt settlement of inter-company balances utilizing a global netting system, and limited use of foreign currency denominated debt. While we monitor our exchange rate exposures and seek to reduce the risk of volatility, our actions may not be successful in significantly mitigating such volatility.

In addition, uncertain global economic conditions arising from circumstances such as slowing growth in emerging regions and credit rating downgrades in certain European countries or speculation regarding changes to the composition or viability of the Euro zone could result in reduced customer confidence and decreased demand for our products and services, disruption in payment patterns and higher default rates, a tightening of credit markets, increased risk regarding supplier performance, increased counterparty risk with respect to the financial institutions with which we do business, and exchange rate fluctuations. While we employ comprehensive controls regarding global cash management to guard against cash or investment loss and to ensure our ability to fund our operations and commitments, a material disruption to the financial institutions with whom we transact business could have a material adverse effect on our international operations or on our business, financial condition, results of operations, and cash flows.

Our net postretirement benefit obligation liabilities may grow, and the fair value of our pension plan assets may decrease, which could require us to make additional and/or unexpected cash contributions to our pension plans, increase the amount of postretirement benefit expenses, affect our liquidity or affect our ability to comply with the terms of our outstanding debt arrangements.

Accounting for retirement, pension and postretirement benefit obligations and related expense requires the use of assumptions, including a weighted-average discount rate, an expected long-term rate of return on assets, and a net healthcare cost trend rate, among others. Benefit obligations and benefit costs are sensitive to changes in these assumptions. As a result, assumption changes could result in increases in our obligation amounts and expenses. If interest rates decline, the present value of our postretirement benefit plan liabilities may increase faster than the value of plan assets, resulting in significantly higher unfunded positions in some of our pension plans. As of September 30, 2013, we had \$190,175 in invested pension plan assets. Investment losses may result in decreases to our pension plan assets.

Funding estimates are based on certain assumptions, including discount rates, interest rates, mortality, fair value of assets and expected return on plan assets and are subject to changes in government regulations in the countries in which our employees work. Volatility in the financial markets may impact future discount and interest rate assumptions. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in increases or decreases in the valuation of plan assets or in a change of the expected rate of return on plan assets. Also, new accounting standards on fair value measurement may impact the calculation of future funding levels. We periodically review our assumptions, and any such revision can significantly change the present value of future benefits, and in turn, the funded status of our pension plans and the resulting periodic pension expense. Changes in our pension benefit obligations and the related net periodic costs or credits may occur as a result of variances of actual results from our assumptions, and we may be required to make additional cash contributions in the future beyond those which have been estimated.

In addition, our existing revolving credit facility, line of credit, and note purchase agreements contain continuing covenants and events of default regarding our pension plans, including provisions regarding the unfunded liabilities



related to those pension plans. See the discussion above concerning “Our debt obligations and the restrictive covenants in the agreements governing our debt could limit our ability to operate our business or pursue our business strategies, and could adversely affect our business, financial condition, results of operations, and cash flows.”

To the extent that the present values of benefits incurred for pension obligations are greater than values of the assets supporting those obligations or if we are required to make additional or unexpected contributions to our pension plans for any reason, our ability to comply with the terms of our outstanding debt arrangements, and our business, financial condition, results of operations, and cash flows may be adversely affected.

Our business operations may be adversely affected by information systems interruptions or intrusion.

We are dependent on various information technologies throughout our company to administer, store and support multiple business activities. If these systems are damaged, cease to function properly or are subject to cybersecurity attacks, such as unauthorized access, malicious software and other violations, we could experience production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of

confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. While we attempt to mitigate these risks by employing a number of measures, including technical security controls, employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks, products, solutions and services remain potentially vulnerable to additional known or unknown threats.

#### Industry Risks

Competitors may develop breakthrough technologies that are adopted by our customers.

The markets in which we operate experience rapidly changing technologies and frequent introductions of new products and services. The technological expertise we have developed and maintained could become less valuable if a competitor were to develop a breakthrough technology that would allow it to match or exceed the performance of existing technologies at a lower cost. If we are unable to develop competitive technologies, future sales or earnings could be lower than expected, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Industry consolidation trends could reduce our sales opportunities, decrease sales prices, and drive down demand for our products.

There has been consolidation and there may be further consolidation in the aerospace, power, and process industries. The consolidation in these industries has resulted in customers with vertically integrated operations, including increased in-sourcing capabilities, which may result in economies of scale for those companies. If our customers continue to seek to control more aspects of vertically integrated projects, cost pressures resulting in further integration or industry consolidation could reduce our sales opportunities, decrease sales prices, and drive down demand for our products, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We operate in a highly competitive industry.

We face intense competition from a number of established competitors in the United States and abroad, some of which are larger in size or are divisions of large diversified companies with substantially greater financial resources. In addition, global competition continues to increase. Companies compete on the basis of providing products that meet the needs of customers, as well as on the basis of price, quality, and customer service. Changes in competitive conditions, including the availability of new products and services, the introduction of new channels of distribution, and changes in OEM and aftermarket pricing, could impact our relationships with our customers and may adversely affect future sales, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Unforeseen events may occur that significantly reduce commercial aviation.

A significant portion of our business is related to commercial aviation. The recent global economic downturn and uncertainty in the marketplace led to a general reduction in demand for air transportation services, leading some airlines to withdraw aircraft from service, which negatively impacted sales of our aerospace components and services. These economic conditions similarly impacted our sales of systems and components for new business jet aircraft. Although the operating environment currently faced by commercial airlines has shown signs of improvement, uncertainty continues to exist. The commercial airline industry tends to be cyclical and capital spending by airlines and aircraft manufacturers may be influenced by a variety of factors, including current and future traffic levels, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes,

terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels. In the event these or other economic indicators stagnate or worsen, market demand for our components and systems could be negatively affected by renewed reductions in demand for air transportation services or commercial airlines' financial difficulties, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The U.S. Government may change acquisition priorities and/or reduce spending.

The U.S. Government participates in a wide variety of operations, including homeland defense, counterinsurgency, counterterrorism, and other defense-related operations that employ our products and services. U.S. defense spending has historically been cyclical in nature, and defense budgets tend to rise when perceived threats to national security increase the level of concern over the country's safety. The U.S. Government continues to adjust its funding priorities in response to changes in the perceived threat environment. In addition, defense spending currently faces pressures due to the overall economic and political environment, budget deficits, and competing budget priorities. A decrease in U.S. Government defense spending or changes in the spending allocation could result in one or more of our programs being reduced, delayed, or terminated.

The Budget Act triggered automatic reductions, under sequestration, in both defense and discretionary spending in March 2013, after being postponed two months until the American Taxpayer Relief Act of 2012 went into effect. The resulting automatic across-the-board budget cuts in sequestration will likely have significant consequences for the aerospace and defense industries. We believe the effects of these actions on our fiscal year 2013 results have been limited, but the impact in future years, combined with potential decreases in U.S. military deployments overseas, could have an adverse effect on our business, financial condition, results of operations and cash flows.

In years when the U.S. Government does not complete its budget process before the end of its fiscal year (September 30), government operations typically are funded through a continuing resolution that authorizes agencies of the U.S. Government to continue to operate, but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of products and services. Historically this has not had a material effect on our business; however, should a continuing resolution be prolonged or extended through the U.S. Government's entire fiscal year, it may cause procurement awards to be allocated into different periods, cause our revenues to vary between periods and cause an adverse effect on our backlog and revenues. In years when the U.S. Government fails to complete its budget process or to provide for a continuing resolution, a federal government shutdown may result. This could result in the incurrence of substantial costs without reimbursement under our contracts with the U.S. Government and delays or cancellations of key programs, which could have a negative effect on our business, financial condition, results of operations and cash flows.

We continue to believe our programs are well aligned with national defense and other priorities, but shifts in domestic and international spending and tax policy, changes in security, defense, and intelligence priorities, the sequestration of appropriations under the Budget Act, general and political economic conditions and developments, and other factors may affect a decision to fund, or the level of funding for, existing or proposed programs. If the priorities of the U.S. Government change and/or defense spending is reduced, this may adversely affect our business, financial condition, results of operations, and cash flows.

Increasing emission standards that drive certain product sales may be eased or delayed.

We sell components and systems that have been designed to meet strict emission standards, including standards that have not yet been implemented but are expected to be implemented soon. If these emission standards are eased, developed products may become unnecessary and/or our future sales could be lower as potential customers select alternative products or delay adoption of our products, which would have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Natural gas prices may increase significantly and disproportionately to other sources of fuels used for power generation.

Commercial producers of electricity use many of our components and systems, most predominately in their power plants that use natural gas as their fuel source. Commercial producers of electricity are often in a position to manage the use of different power plant facilities and make decisions based on operating costs. Compared to other sources of fuels used for power generation, natural gas prices have increased slower than fuel oil, but about the same as coal. This increase in natural gas prices and any future increases could decrease the use of our components and systems, which could have a material adverse affect on our business, financial condition, results of operations, and cash flows.

Changes in government subsidy programs and regulatory requirements may result in decreased demand for our products.

The U.S. Government, as well as various foreign governments, provide for various stimulus programs or subsidies, such as grants, loan guarantees and tax incentives, relating to renewable energy, alternative energy, energy efficiency and electric power infrastructure. Some of these programs have expired, which may affect the economic feasibility or timing of future projects. Additionally, while a significant amount of stimulus funds and subsidies are available to

support various projects, we cannot predict the timing and scope of any investments to be made by our customers under stimulus funding and subsidies or whether stimulus funding and subsidies will result in increased demand for our products. Investments for renewable energy, alternative energy and electric power infrastructure under stimulus programs and subsidies may not occur, may be less than anticipated or may be delayed, any of which would negatively impact demand for our products.

Other current and potential regulatory initiatives may not result in increased demand for our products. It is not certain whether existing regulatory requirements will create sufficient incentives for new projects, when or if proposed regulatory requirements will be enacted, or whether any potentially beneficial provisions will be included in the regulatory requirement.

Uncertainty with respect to government subsidy programs and regulatory requirements could cause decreased demand for our products as investments are delayed or become economically unfeasible, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

## Investment Risks

The historic market price of our common stock may not be indicative of future market prices.

The market price of our common stock changes over time. Stock markets in general have experienced extreme price and volume volatility particularly over the past few years. The trading price of our common stock ranged from a high of \$42.89 per share to a low of \$31.41 per share during the twelve months ended September 30, 2013. The following factors, among others, could cause the price of our common stock in the public market to fluctuate significantly:

- general economic conditions, particularly in the aerospace, power generation and process and transportation industries;
- variations in our quarterly results of operation;
- a change in sentiment in the market regarding our operations or business prospects;
- the addition or departure of key personnel; and
- announcements by us or our competitors of new business, acquisitions or joint ventures.

Fluctuations in our stock price often occur without regard to specific operating performance. The price of our common stock could fluctuate based upon the above factors or other factors, including those that have little to do with our company, and these fluctuations could be material.

The typical trading volume of our common stock may affect an investor's ability to sell significant stock holdings in the future without negatively affecting stock price.

As of September 30, 2013, we had 72,960 shares of common stock issued, of which 4,883 shares were held as treasury shares. In addition, 4,423 shares were reserved for issuance upon exercise of outstanding stock option awards. While the level of trading activity will vary each day, the typical trading level represents only a small percentage of total shares of stock outstanding. As a result, a stockholder who sells a significant number of shares of stock in a short period of time could negatively affect our share price.

Certain anti-takeover provisions of our charter documents and under Delaware law could discourage or prevent others from acquiring our company.

While the Company believes that these provisions are in the best interest of its stockholders, our certificate of incorporation and bylaws do contain provisions that:

- provide for a classified board;
- provide that directors may be removed only for cause by holders of at least two-thirds of the outstanding shares of common stock;
- authorize our board of directors to fill vacant directorships or to increase or decrease the size of our board of directors;
- permit us to issue, without stockholder approval, up to 10,000 shares of preferred stock, in one or more series and, with respect to each series, to fix the designation, powers, preferences and rights of the shares of the series;
- require special meetings of stockholders to be called by holders of at least two-thirds of the outstanding shares of common stock;
- prohibit stockholders from acting by written consent;
- require advance notice for stockholder proposals and nominations for election to the board of directors to be acted upon at meetings of stockholders; and
- require the affirmative vote of two-thirds of the outstanding shares of our common stock for amendments to our certificate of incorporation and certain business combinations, including mergers, consolidations, sales of all or substantially all of our assets or dissolution.

In addition, Section 203 of the Delaware General Corporation Law limits business combinations with owners of more than 15% of our stock that have not been approved by the board of directors. These provisions and other similar

provisions make it more difficult for a third party to acquire us without negotiation. Our board of directors could choose not to negotiate a potential acquisition that it does not believe to be in our best interest. Accordingly, the potential acquirer could be discouraged from offering to acquire us, or could be prevented by the anti-takeover measures, from successfully completing a hostile acquisition.

Item 1B.Unresolved Staff Comments

None.

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Item 2. Properties

Our principal plants are as follows:

United States

Duarte, California – Aerospace segment manufacturing and engineering

Fort Collins, Colorado – Corporate headquarters and Energy segment manufacturing and engineering

Greenville, South Carolina (leased) – Energy segment manufacturing and Aerospace and Energy segments engineering

Loveland, Colorado – Energy segment manufacturing and engineering

Rockford, Illinois – Aerospace segment manufacturing and engineering

Santa Clarita, California – Aerospace segment manufacturing and engineering

Skokie, Illinois (leased) – Aerospace segment manufacturing and Aerospace and Energy segments engineering

Zeeland, Michigan – Aerospace segment manufacturing and engineering

Other Countries

Aken, Germany (leased) – Energy segment manufacturing and engineering

Kempen, Germany – Energy segment manufacturing and engineering

Krakow, Poland – Energy segment manufacturing and Aerospace and Energy segments engineering

Stuttgart, Germany (leased) – Energy segment engineering

Tianjin, Peoples' Republic of China (leased) – Energy segment assembly

Sofia, Bulgaria – Energy segment manufacturing and engineering

In addition to the principal plants listed above, we own or lease other facilities used primarily for sales and service activities in Brazil, China, India, Japan, the Netherlands, the Republic of Korea, Russia, Switzerland, the United Kingdom, and the United States.

In September 2013, Woodward purchased a building site in Niles, Illinois. Woodward intends to build a new facility on this site for its Aerospace business and will relocate some of its operations currently residing in Skokie, Illinois to this new facility.

Our principal plants are suitable and adequate for the manufacturing and other activities performed at those plants, and we believe our utilization levels are generally high.

We are currently developing a second campus in the greater-Rockford, Illinois area for our Aerospace business. This campus is intended to support the growth expected over the next ten years and beyond stimulated by our being awarded a substantial number of new system platforms, particularly on narrow-body aircraft. We anticipate investing approximately \$275,000 over the next five years in land, buildings and equipment between our two Rockford area



campuses. These investments are expected to result in future productivity gains for our existing and new business. However, given the significance of the anticipated volumes associated with the new system platforms, we still expect our Rockford area workforce to increase substantially, by as much as 70%-90% from current levels, by the end of 2021. We are also developing a new campus at our corporate headquarters in Fort Collins, Colorado to support the continued growth of our energy business by supplementing our existing Colorado manufacturing facilities and corporate headquarters. We anticipate investing approximately \$150,000 over the next five years in land, buildings and equipment for this new campus in Colorado.

### Item 3. 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, worker's compensation claims, regulatory, legal or contractual disputes, product warranty claims and alleged violations of various environmental laws and regulations. We accrue for known individual matters if we believe it is probable that the matter will 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 business, financial condition, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on The NASDAQ Global Select Market and is traded under the symbol "WWD." At November 8, 2013, there were approximately 1,100 holders of record.

The following table sets forth the high and low sales prices of our common stock and dividends paid for the periods indicated.

	Fiscal Year Ended September 30,					
	2013			2012		
	High	Low	Cash Dividends	High	Low	Cash Dividends
First quarter	\$ 38.19	\$ 31.41	\$ 0.08	\$ 42.34	\$ 25.39	\$ 0.07
Second quarter	\$ 40.91	\$ 36.59	\$ 0.08	\$ 46.00	\$ 40.94	\$ 0.08
Third quarter	\$ 41.37	\$ 33.49	\$ 0.08	\$ 43.34	\$ 35.32	\$ 0.08
Fourth quarter	\$ 42.89	\$ 38.00	\$ 0.08	\$ 40.83	\$ 30.16	\$ 0.08

The information required by this item relating to securities authorized for issuance under equity plans is included under the caption "Executive Compensation – Equity Compensation Plan Information" in our Proxy Statement for the 2013 Annual Meeting of Stockholders to be held January 22, 2014 and is incorporated herein by reference.

## Performance Graph

The following graph compares the cumulative 10-year total return to stockholders on our common stock relative to the cumulative total returns of the S&P Midcap 400 index and the S&P Industrial Machinery index. The graph shows total stockholder return assuming an investment of \$100 (with reinvestment of all dividends) was made on September 30, 2003 in our common stock and in each of the two indexes and tracks relative performance through September 30, 2013. We have used a period of 10 years as we believe that our stock performance should be reviewed over a period that is reflective of our long-term business cycle.

	9/03	9/04	9/05	9/06	9/07	9/08	9/09	9/10	9/11	9/12	9/13
Woodward, Inc.	\$ 100.00	\$ 158.25	\$ 202.24	\$ 241.92	\$ 454.23	\$ 516.36	\$ 359.23	\$ 484.32	\$ 412.67	\$ 515.76	\$ 628.41
S&P Midcap 400	100.00	117.55	143.60	153.02	181.73	151.42	146.70	172.79	170.58	219.26	279.95
S&P Industrial Machinery	100.00	134.28	140.78	156.78	208.36	153.78	151.47	193.86	170.23	248.44	341.27

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Issuer Purchases of Equity Securities (In thousands, except for shares and per share amounts.)	Total Number of Shares Purchased	Weighted 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)
July 1, 2013 through July 31, 2013	-	\$ -	-	\$ 200,000
August 1, 2013 through August 31, 2013	-	-	-	200,000
September 1, 2013 through September 30, 2013 (2)	452	40.83	-	200,000

(1) In July 2013, our Board of Directors authorized a new program for the repurchase 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 expire in July 2016. This new program replaced a prior similar program that expired in July 2013. We did not repurchase any shares of common stock under the new repurchase program during the quarter ended September 30, 2013.

(2) Under a trust established for the purposes of administering the Woodward Executive Benefit Plan, 452 shares of common stock were acquired on the open market related to the reinvestment of dividends for shares of treasury stock held for deferred compensation in September 2013. Shares owned by the trust, which is a separate legal entity, are included in "Treasury stock held for deferred compensation" in the Condensed Consolidated Balance Sheets.

#### Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes which appear in "Item 8 – Financial Statements and Supplementary Data" of this Form 10-K.

	Year Ended September 30,				
	2013	2012	2011	2010	2009
Net sales (1)	\$ 1,935,976	\$ 1,865,627	\$ 1,711,702	\$ 1,457,030	\$ 1,430,125
Net Earnings:					
Net earnings attributable to Woodward (1)(2)(3)(4)	145,942	141,589	132,235	110,844	94,352

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Net earnings attributable to noncontrolling interests	-	-	-	318	64
Earnings per share attributable to Woodward:					
Basic earnings per share attributable to Woodward	2.13	2.06	1.92	1.62	1.39
Diluted earnings per share attributable to Woodward	2.10	2.01	1.89	1.59	1.37
Cash dividends per share	0.32	0.31	0.27	0.24	0.24
Income taxes (3)	53,629	56,218	55,332	43,713	28,060
Interest expense	26,703	26,003	25,399	29,385	33,629
Interest income	273	542	534	509	1,131
Depreciation expense	37,254	35,808	40,400	40,502	37,828
Amortization expense	36,979	32,809	34,993	35,114	26,120
Capital expenditures	141,600	64,900	48,255	28,104	28,947
Weighted-average shares outstanding:					
Basic shares outstanding	68,392	68,880	68,797	68,472	67,891
Diluted shares outstanding	69,602	70,307	70,140	69,864	69,103

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	At September 30,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Working capital	\$ 544,017	\$ 623,609	\$ 536,936	\$ 456,577	\$ 434,166
Total assets	2,205,684	1,859,964	1,781,434	1,663,233	1,696,422
Long-term debt, less current portion	450,000	384,375	406,875	425,250	526,771
Total debt	550,000	392,204	425,249	465,842	572,340
Total liabilities	1,063,139	851,849	862,337	860,039	984,907
Stockholders' equity	1,142,545	1,008,115	919,097	803,194	711,515
Full-time worker members	6,736	6,650	6,199	5,433	5,721

## Notes:

- On December 28, 2012, Woodward acquired from GE Aviation Systems LLC (the "Seller") substantially all of the assets and certain liabilities of the Seller's thrust reverser actuation systems business located in Duarte, California (the "Duarte Business"). On April 14, 2011, Woodward acquired Integral Drive Systems AG and its European companies, including their respective holding companies ("IDS"), and the assets of IDS' business in China (together, the "IDS Acquisition"). On April 3, 2009, Woodward acquired HR Textron Inc. from Textron Inc., its parent company, and the United Kingdom assets and certain liabilities related to HR Textron Inc.'s business (collectively "HRT"), including its Fuel & Pneumatics ("F&P") product line. Woodward sold the F&P product line on August 10, 2009. On October 3, 2008, Woodward acquired MPC Products Corp. and Techni-Core, Inc.
- In the third quarter of fiscal year 2013, Woodward recorded a specific charge of \$15,707 related to the alignment of its renewable power business to the economic environment and then foreseeable future. In March 2009, Woodward recorded restructuring and other charges totaling \$15,159 before taxes related to restructuring our businesses to adjust to the then current economic environment.
- In fiscal year 2013, Woodward recognized a tax benefit of \$4,911, or \$0.07 per basic and diluted share, related to the retroactive impact from fiscal year 2012 of the reinstatement of the U.S. research and experimentation credit. In fiscal year 2011, Woodward recognized a tax benefit of \$3,088, or \$0.04 per basic and diluted share, related to the retroactive impact from fiscal year 2010 of the reinstatement of the U.S. research and experimentation credit. In the third quarter of fiscal year 2009, Woodward recognized \$6,416, or \$0.09 per basic and diluted share, of benefit related to favorable resolutions of prior year tax matters and the completion of certain internal revaluation assessments. In the third quarter of fiscal year 2009, Woodward recognized \$4,992, or \$0.07 per basic and diluted share, of benefit related to favorable resolutions of prior year tax matters.
- Woodward recognized \$12,500 of pre-tax charges through cost of goods sold during the third quarter of fiscal year 2009 related to the purchase accounting basis step-up of inventory acquired as part of the HRT acquisition. This was a non-cash charge which decreased earnings, net of tax, by \$8,000 or \$0.12 per basic and diluted share.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

## OVERVIEW

Woodward enhances the global quality of life and sustainability by optimizing energy use through improved efficiency and lower emissions. We are an independent designer, manufacturer, and service provider of energy

control and optimization solutions. We design, produce and service reliable, efficient, low-emission, and high-performance energy control products

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for diverse applications in challenging environments. We have significant production and assembly facilities in the United States, Europe and Asia, and promote our products and services through our worldwide locations.

Our strategic focus is providing control solutions for the aerospace and energy markets. The precise and efficient control of energy, including fluid and electrical energy, combustion, and motion, is a growing requirement in the markets we serve. Our customers look to us to optimize the efficiency, emissions and operation of power equipment in both commercial and defense operations. Our core technologies leverage well across our markets and customer applications, enabling us to develop and integrate cost-effective and state-of-the-art fuel, combustion, fluid, actuation and electronic systems. We focus primarily on serving OEMs and equipment packagers, partnering with them to bring superior component and system solutions to their demanding applications. We also provide aftermarket repair, replacement and other service support for our installed products.

Our components and integrated systems optimize performance of commercial aircraft, defense aircraft, ground vehicles and other equipment, gas and steam turbines, wind turbines, including converters and power grid related equipment, industrial diesel, gas, alternative and dual fuel reciprocating engines, and electrical power systems. Our innovative fluid energy, combustion control, electrical energy, and motion control systems help our customers offer more cost-effective, cleaner, and more reliable equipment.

Management's discussion and analysis should be read together with the Consolidated Financial Statements and Notes included in this report. Dollar and number of share amounts contained in this discussion and elsewhere in this Annual Report on Form 10-K are in thousands, except per share amounts.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 Consolidated Financial Statements and accompanying notes. Note 1, Operations and summary of significant accounting policies, to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The estimates and assumptions described below are those that we consider to be most critical to an understanding of our financial statements because they involve significant judgments and uncertainties. All of these estimates reflect our best judgment about current, and for some estimates, future economic and market conditions and their effects based on information available as of the date of these financial statements. As estimates are updated or actual amounts are known, our critical accounting estimates are revised, and operating results may be affected by the revised estimates. Actual results may differ from these estimates under different assumptions or conditions.

Our management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed our disclosures in this Management's Discussion and Analysis.

#### Revenue recognition

Woodward recognizes revenue when the following criteria are met:

- 1) persuasive evidence of an arrangement exists,
- 2) delivery of the product has occurred or services have been rendered,
- 3) price is fixed or determinable, and
- 4) collectability is reasonably assured.



In implementing the four criteria stated above, we have found that determining when the risks and rewards of ownership have passed to the customer, which determines whether persuasive evidence of an arrangement exists and if delivery has occurred, may require judgment. The passage of title indicates transfer of the risks and rewards of ownership from Woodward to the customer; however, contract- and customer-specific circumstances are reviewed by management to ensure that transfer of title constitutes the transfer of the risks and rewards of ownership.

Examples of situations requiring management review and judgment, with respect to the passage of the risks and rewards of ownership, include: interpretation of customer-specific contract terms, situations where substantive performance obligations exist, such as completion of product testing that remain after product delivery to the customer, situations that require customer acceptance (or in some instances regulatory acceptance) of the product, and situations in countries whose laws provide for retention of some form of title by sellers such that Woodward is able to recover goods in the event a customer defaults on payment.

Based on management's determination, if the risks and rewards of ownership have not passed to the customer, revenue is deferred until this requirement is met.

#### Purchase accounting

During the first quarter of fiscal year 2013, we completed the Duarte Acquisition for an aggregate purchase price of \$200,000. The acquisition was completed on December 28, 2012, and, based on preliminary purchase adjustments, we paid cash at closing in the amount of \$198,900. The purchase price remains subject to certain additional customary post-closing adjustments. During the third quarter of fiscal year 2011, we completed the IDS Acquisition and paid cash at closing of \$48,412. For more information on the Duarte Acquisition and the IDS Acquisition see Note 4, Business acquisitions, in the Notes to the Consolidated Financial Statements included in "Item 8 – Financial Statements and Supplementary Data."

Assigning fair values to the assets acquired and liabilities assumed at the date of an acquisition requires knowledge of current market values, and the values of assets in use, and often requires the application of judgment regarding estimates and assumptions. While the ultimate responsibility resides with management, for material acquisitions, we retain the services of certified valuation specialists to assist with assigning estimated values to certain acquired assets and assumed liabilities, including intangible assets and postretirement benefit plan assets and liabilities.

Acquired intangible assets, excluding goodwill, are valued using a discounted cash flow methodology based on future cash flows specific to the type of intangible asset purchased. This methodology incorporates various estimates and assumptions, the most significant being projected revenue growth rates, earnings margins, and forecasted cash flows based on the discount rate and terminal growth rate. Management projects revenue growth rates, earnings margins and cash flows based on the historical operating results of the acquired entity adjusted for synergies anticipated to be achieved through integration, expected future performance, operational strategies, and the general macroeconomic environment. We review finite-lived intangible assets for triggering events such as significant changes in operations, customers or future revenue that might indicate the need to impair the assets acquired or change the useful lives of the assets acquired. There was no impairment or change in useful lives recognized on other intangible assets acquired in fiscal years 2013, 2012 or 2011.

Estimated values for acquired property, plant and equipment are based on current market values and replacement costs of similar assets. Estimated values for inventory acquired is subject to reliable estimates, as of the acquisition date, of future sales volumes, replacement costs, costs of selling effort, anticipated selling prices, normal profit margins, the percent complete, and costs to complete work-in-process inventory. Estimated values for accounts receivable are subject to reliable estimates of collectability.

Assumed liabilities are valued based on estimates of anticipated expenditures to be incurred to satisfy the assumed obligations, including estimation of any warranty or other contractual liabilities assumed, which require the exercise of professional judgment. Valuation of postretirement benefit plan assets and liabilities is dependent on similar assumptions and estimates as those used to value our non-acquisition postretirement benefit plan assets and liabilities.

Assumed contracts may have favorable or unfavorable terms that must be valued as of the acquisition date. Such valuation is subject to management judgment regarding the evaluation and interpretation of contract terms in relation to other economic circumstances, such as the market rates for office space leases.

If we assume a performance obligation to customers as of the acquisition date, a deferred revenue obligation is recognized. Judgment is required to evaluate whether a future performance obligation exists and to assign a value to the performance obligation.

Valuation of gain and loss contingencies, if not resolved during the purchase measurement period, requires exercise of management judgment. We measure pre-acquisition contingencies at their acquisition date fair value if their fair value

can be determined during the measurement period. If we cannot determine the fair value of the pre-acquisition contingency during the measurement period, we recognize an acquired asset or assumed liability if it is probable that an asset existed or that a liability had been incurred at the acquisition date and the amount of the asset or liability can be reasonably estimated.

Assumed acquired tax liabilities for uncertain tax positions are dependent on assessing the past practices of the acquisition target based on review of actual tax filings and information obtained through due diligence procedures. Evaluation of the validity of tax positions taken by the acquisition target are subject to management judgment.

#### Inventory

Inventories are valued at the lower of cost or market value. Inventory cost is determined using methods that approximate the first-in, first-out basis. We include product costs, labor and related fixed and variable overhead in the cost of inventories.

Inventory market values are determined by giving substantial consideration to the expected product selling price. We estimate expected selling prices based on our historical recovery rates, general economic and market conditions, the expected

channel of disposition, and current customer contracts and preferences. Actual results may differ from our estimates due to changes in resale or market value and the mix of these factors. Management monitors inventory for events or circumstances, such as negative margins, recent sales history suggesting lower sales value, or changes in customer preferences, which would indicate the market value of inventory is less than the carrying value of inventory, and management records adjustments as necessary. When inventory is written down below cost, such reduced amount is considered the cost for subsequent accounting purposes. Our recording of inventory at the lower of cost or market value has not historically required material adjustments once initially established.

The carrying value of inventory was \$431,744 and \$398,229 at September 30, 2013 and September 30, 2012, respectively. If economic conditions, customer product requirements, or other factors significantly reduce future customer demand for our products from forecast levels, then future adjustments to the carrying value of inventory may become necessary. We attempt to maintain inventory quantities at levels considered necessary to fill expected orders in a reasonable time frame, which we believe mitigates our exposure to future inventory carrying cost adjustments.

#### Postretirement benefits

The Company provides various benefits to certain employees through defined benefit pension plans and other postretirement benefit plans. A September 30 measurement date is utilized to value plan assets and obligations for all Woodward defined benefit pension and other postretirement benefit plans. For financial reporting purposes, net periodic benefits expense and related obligations are calculated using a number of significant actuarial assumptions, including anticipated discount rates, rates of compensation increases, long-term return on defined benefit plan investments, and anticipated healthcare cost increases. Based on these actuarial assumptions, at September 30, 2013, our recorded liabilities included \$248 for underfunded defined benefit pension plans and \$28,996 for unfunded other postretirement benefit plans. Changes in net periodic expense or the amounts of recorded liabilities may occur in the future due to changes in these assumptions.

Estimates of the value of postretirement benefit obligations, and related net periodic benefits expense, are dependent on actuarial assumptions, including future interest rates, compensation rates, healthcare cost trends, and returns on defined benefit plan investments.

It should be noted that economic factors and conditions often affect multiple assumptions simultaneously, and the effects of changes in assumptions are not necessarily linear due to factors such as the 10% corridor applied to the larger of the postretirement benefit obligation or the fair market value of plan assets used to determine the amortization of actuarial net gains or losses.

Primary actuarial assumptions for our defined benefit pension plans were determined as follows:

- The discount rate assumption is intended to reflect the rate at which the retirement benefits could be effectively settled based upon the assumed timing of the benefit payments. In the United States, we used a bond portfolio matching analysis based on recently traded, non-callable bonds rated AA or better that have at least \$50 million outstanding. Beginning in fiscal year 2012, we refined our existing estimation process for determining the discount rates in the United Kingdom and Japan and used cash flow matching to develop a single rate equivalent for a theoretical portfolio of non-callable, AA-rated bonds for each jurisdiction. In fiscal year 2011, we used the iBoxx AA-rated corporate bond index (applicable for bonds over 15 years) to determine a blended rate to use as the benchmark in the United Kingdom, and we used Standard & Poors AA-rated corporate bond yields (applicable for bonds over 10 years) as the benchmark in Japan. In Switzerland, we used high quality swap rates plus a credit spread of 0.20%, 0.46% and 0.36%, in fiscal years 2013, 2012 and 2011, respectively, as high quality swaps are available in Switzerland at various durations and trade at higher volumes than bonds. Our assumed rates do not differ significantly from any of these benchmarks. These rates are sensitive to changes in interest rates.

	Change In Discount Rate	
	1% increase	1% decrease
Defined benefit pension benefits:		
2014 Net Periodic Benefit Cost	\$ (1,136)	\$ 1,933
2014 Projected Service and Interest Costs	(260)	138
Accumulated Post Retirement Benefit Obligation as of Sept. 30, 2013	(25,230)	30,991

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- Compensation increase assumptions are based upon historical experience and anticipated future management actions. An increase in the rate would increase our obligation and expense.
- In determining the long-term rate of return on plan assets, we assume that the historical long-term compound growth rates of equity and fixed-income securities will predict the future returns of similar investments in the plan portfolio. Investment management and other fees paid out of the plan assets are factored into the determination of asset return assumptions. This rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market volatility. Changes in our allocation of plan assets would also impact this rate. For example, a shift to more fixed-income securities would lower the rate.

	Change In Rate of Return on Plan Assets	
	0.5%	0.5%
	increase	decrease
Defined benefit pension benefits:		
2014 Net Periodic Benefit Cost	\$ (944)	\$ 944

Primary actuarial assumptions for our other postretirement benefit plans were determined as follows:

- The discount rate assumption is intended to reflect the rate at which the postretirement benefits could be effectively settled based upon the assumed timing of the benefit payments. In the United States, we used a bond portfolio matching analysis based on recently traded, non-callable bonds rated AA or better that have at least \$50 million outstanding. Beginning in fiscal year 2012, we refined our existing estimation process for determining the discount rates in the United Kingdom and used cash flow matching to develop a single rate equivalent for a theoretical portfolio of non-callable, AA-rated bonds. In fiscal year 2011, we used the iBoxx AA-rated corporate bond index (applicable for bonds over 15 years) to determine a blended rate to use as the benchmark in the United Kingdom. Our assumed rate did not differ significantly from this benchmark. These rates are sensitive to changes in interest rates.

	Change In Discount Rate	
	1%	1%
	increase	decrease
Other postretirement benefits:		
2014 Net Periodic Benefit Cost	\$ (83)	\$ 96
2014 Projected Service and Interest Costs	134	(164)
Accumulated Post Retirement Benefit Obligation as of Sept. 30, 2013	(2,266)	2,625

- The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g., technology driven cost changes) will impact this trend rate.

	1%	1%
	increase	decrease
Effect on projected fiscal year 2014 service and interest cost	\$ 141	\$ (124)
Effect on accumulated postretirement benefit obligation at September 30, 2013	2,620	(2,303)

Variations from our fiscal year end estimates for these variables could materially affect our recognized postretirement benefit obligation liabilities. On a near-term basis, such changes are unlikely to have a material impact on reported earnings, since such adjustments are recorded to other comprehensive earnings and recognized into expense over a number of years. Significant changes in estimates could, however, materially affect the carrying amounts of benefit obligation liabilities,

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including accumulated benefit obligations, which could affect compliance with the provisions of our debt arrangements and future borrowing capacity.

#### Reviews for impairment of goodwill

At September 30, 2013, we had \$551,624 of goodwill, representing 25% of our total assets. At September 30, 2012, we had \$461,374 of goodwill, representing 25% of our total assets. 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. Based on the relevant U.S. GAAP authoritative guidance, we sometimes aggregate components of a single operating segment into a reporting unit, if appropriate. For purposes of performing the impairment tests, we identify reporting units in accordance with U.S. GAAP. The identification of reporting units and consideration of aggregation criteria requires management judgment. The impairment tests consist of comparing the fair value of reporting units, determined using discounted cash flows, with their carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, we compare the implied fair 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. There was no impairment charge recorded in fiscal years 2013, 2012, or 2011.

Woodward completed its annual goodwill impairment test as of July 31, 2013 during the quarter ended September 30, 2013. 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 reporting units was determined using an income approach based on 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 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, 2013 impairment test were discounted using weighted-average cost of capital assumptions ranging from 8.85% to 10.32%. 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 4.25% or 4.50%. 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 reporting units resulting fair values utilizing a market multiple method.

The results of Woodward's annual goodwill impairment test performed as of July 31, 2013, indicated the estimated fair value of each reporting unit was significantly in excess of its carrying value, and accordingly, no impairment existed. Increasing the discount rate by 20%, decreasing the growth rate by 20%, or decreasing forecasted cash flow by 20%, would also not have resulted in an impairment charge at July 31, 2013.

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. There can be no assurance that Woodward's estimates and assumptions regarding forecasted cash flows of certain reporting units, the current economic environment, the level of U.S. defense spending, including the sequestration of appropriations in fiscal year 2013 under the Budget Act, or the other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

#### Income taxes



We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. The reserves are established when we believe that certain positions are likely to be challenged and may not be fully sustained on review by tax authorities. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or refinement of an estimate. Although we believe our reserves are reasonable, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our historical income tax provisions and accruals. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact the current provision for income taxes. The provision for income taxes includes the impact of reserve positions and changes to reserves that are considered appropriate. As of September 30, 2013

and September 30, 2012, unrecognized gross tax benefits for which recognition has been deferred were \$22,694 and \$18,069, respectively.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. The determination of the amount of valuation allowance to be provided on recorded deferred tax assets involves estimates regarding the timing and amount of the reversal of taxable temporary differences, expected future taxable income, and the impact of tax planning strategies. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the need for a valuation allowance, we consider all available evidence including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. Changes in the relevant facts can significantly impact the judgment or need for valuation allowances. In the event we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made. As of September 30, 2013 and September 30, 2012, our valuation allowance was \$11,783 and \$2,752, respectively.

Our effective tax rates differ from the U.S. statutory rate primarily due to the tax impact of foreign operations, adjustments of valuation allowances, research tax credits, state taxes, and tax audit settlements. In addition to potential local country tax law and policy changes that could impact the provision for income taxes, management's judgment about and intentions concerning the repatriation of foreign earnings could also significantly impact the provision for income taxes. Management reassesses its judgment regularly, taking into consideration the potential tax impacts of these judgments and intentions.

Our provision for income taxes is subject to volatility and could be affected by earnings that are different than those anticipated in countries which have lower or higher tax rates; by transfer pricing adjustments; by tax effects of share-based compensation; and/or changes in tax laws, regulations, and accounting principles, including accounting for uncertain tax positions, or interpretations thereof. There can be no assurance that these items will remain stable over time.

In addition, we are subject to examination of our income tax returns by the relevant tax authorities in the jurisdictions in which we are subject to taxes. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have a significant effect on our operating results, financial condition, and cash flows.

## BUSINESS ENVIRONMENT AND TRENDS

We serve the aerospace and energy markets.

### Aerospace Markets

Our aerospace products are primarily used to provide propulsion, actuation and motion control systems in both commercial and defense fixed-wing aircraft and rotorcraft, as well as in weapons and defense systems.

**Commercial and Civil Aircraft** – In the commercial aerospace markets, global air traffic continued to grow in fiscal year 2013. Commercial aircraft production has increased as aircraft operators continue to take delivery of more fuel efficient aircraft and retire older, less efficient aircraft. This trend toward more fuel efficient aircraft favors our product offerings because we generally have more content on the newer generation of aircraft that recently entered or are scheduled to go into production over the next several years. We have been awarded content on the Airbus A320neo, Bell 429, Boeing 737 MAX, 787 and 747-8, Bombardier CSeries, Comac 919, Irkut MS-21 and a variety of business jet platforms. We continue to explore opportunities on new engine and aircraft programs that are under consideration or have been recently announced.

Defense – The defense industry is being negatively impacted by the sequestration of appropriations under the Budget Act, as well as the threat of additional budget cuts and related program delays. Our involvement with a wide variety of defense programs in fixed-wing aircraft, rotorcraft and weapons systems has provided relative stability for our defense market sales, although the levels of future defense spending remain uncertain. Key programs on which our deliveries have been stable or growing include the F/A-18 E/F, the F-35 (Joint Strike Fighter), and the Black Hawk and Apache helicopter programs. We have significant motion control system content for the refueling boom on the KC-46 air tanker program, which continues in development.

We continue to explore opportunities on next generation smart weapon systems, including enhanced guided bomb and guided rocket programs, and turret controls. Weapons programs for which we have significant sales include the JDAM guided tactical weapon system.

Aftermarket – Our commercial aftermarket business has increased as our products have been selected for new aerospace platforms and our content has increased across existing platforms. We have experienced the strongest gains in commercial aftermarket sales related to programs like Airbus A320 and Boeing 777. However, some legacy programs have been

negatively impacted by the availability of surplus hardware from aircraft retirements (and subsequent disassembly for parts re-use) combined with increasingly tight budget control by airline maintenance departments, the result of which was somewhat slower total growth in fiscal year 2013 than had been experienced in recent years. U.S. Government sustainment funds continue to be prioritized to defense aircraft platforms that we have content on and accordingly, our defense aftermarket has remained steady throughout this cycle. While some major upgrades/overhaul programs executed in fiscal year 2013 contributed to a strong defense aftermarket performance, we expect fiscal year 2014 sales to be impacted by a “gap” in such programs before they resume in 2015.

## Energy Markets

Our energy products are used worldwide in electric power generation and distribution systems, and to control engines and turbines in industrial, mobile and marine applications.

**Industrial Turbines and Compressors** – In fiscal year 2013, segments of industrial turbine market continued to recover from the economic downturn that began in fiscal year 2009. In addition to the increased production rates in some of our markets, we have higher content on the newer generation of turbines that deliver improved fuel efficiency and lower emissions. We also increased market share by successfully adding customers for our product offerings. We anticipate that long-term power needs in developed and developing regions, as well as backup power for renewable resource generators such as wind turbines, should cause industrial turbine demand to continue to improve. The aftermarket segment of the industry has been favorably impacted by service needs related to turbine installations early in the preceding decade.

As power generation demand continues to improve, turbines are expected to provide a compelling solution due to their inherent low emissions and fast permitting and construction times, along with the abundant availability of reasonably priced natural gas. Further, gas turbines are expected to serve a critical market need in supporting renewable assets in providing fast start and load acceptance during times when renewable sources fluctuate. OEM turbine manufacturers have been increasingly investing in new technologies focused on emissions, part load operation, start times, and fuel flexibility, all of which are technologies supported by our products.

In the oil and gas process industry, demand for industrial gas, steam turbines and compressors is expected to grow, primarily due to increased demand for reliable power. Extraction, production, distribution and processing of oil and gas products utilize both gas and steam turbines, as well as compressors. Increased construction of floating production storage and offloading platforms, and facilities to convert natural gas to liquid natural gas is expected to drive demand for aeroderivative, steam turbine and compressor applications. These types of projects have long lead times, are dependent on the development of a basic level of infrastructure not currently fully developed, and require significant capital investment.

**Reciprocating Engines** – The economic recovery that began in fiscal year 2010 continued throughout fiscal year 2013, albeit at a much slower pace. We experienced increased demand for natural gas-fueled mobile and industrial equipment, but declining demand for power generation and marine engines. Demand for small natural gas engines used in alternative fuel vehicles continued to strengthen throughout fiscal year 2013, particularly in China, Korea, and India.

The increasing demand for small and large diesel engines that had continued through fiscal year 2012 declined throughout fiscal year 2013 due to declines in the shipbuilding, mining equipment, and construction equipment industries.

Longer term, government emissions requirements across many regions and engine applications is driving demand for higher-technology control systems, as is customer demand for improved engine efficiencies. Energy policies in some countries encourage the use of natural gas and other alternative fuels over carbon-rich petroleum fuels, thereby increasing demand for our alternative fuel clean engine control technologies.

Renewable Power – The renewable power industry remains challenged as a result of concerns regarding government support, competitive pricing, and capacity and availability in the credit markets for wind and solar projects. We expect the uncertainty regarding government renewable mandates and subsidies will contribute to continued volatility in the renewable energy industry. In the longer term, we anticipate improvement in the market as demand for low emission power sources increases and technology advancements allow renewable energy to be more competitive with conventional energy sources.

Electrical Power Generation and Distribution – The electrical power generation markets experienced decline in fiscal year 2013 due to tightened credit markets and decreased global energy demand. Slow global economic growth has reduced the stress on electrical grid infrastructure, reducing demand for power generation control and protection technologies.

Looking forward, we anticipate that tightening emissions requirements, integration of renewable energy sources into the grid, and increased global energy demand will drive new opportunities for advanced control and protection solutions.

## RESULTS OF OPERATIONS

## Non-U.S. GAAP Financial Measures

EBIT, Adjusted EBIT, EBITDA, Adjusted earnings per share, and free cash flow

Earnings before interest and taxes (“EBIT”), earnings before interest, taxes, depreciation and amortization (“EBITDA”), adjusted EBIT, adjusted earnings per diluted share, Energy segment net sales without the renewable power business, Energy segment earnings without the renewable power business, and free cash flow are financial measures not prepared and presented in accordance with U.S. GAAP.

## Earnings based non-U.S. GAAP financial measures

Management uses EBIT to evaluate Woodward’s performance without financing and tax related considerations, as these elements may not fluctuate with operating results. 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. Securities analysts, investors and others frequently use EBIT and EBITDA in their evaluation of companies, particularly those with significant property, plant, and equipment, and intangible assets subject to amortization.

EBIT and EBITDA for the fiscal years ended September 30, 2013, September 30, 2012 and September 30, 2011 were as follows:

	Year Ended September 30,		
	2013	2012	2011
Net earnings	\$ 145,942	\$ 141,589	\$ 132,235
Income taxes	53,629	56,218	55,332
Interest expense	26,703	26,003	25,399
Interest income	(273)	(542)	(534)
EBIT	226,001	223,268	212,432
Amortization of intangible assets	36,979	32,809	34,993
Depreciation expense	37,254	35,808	40,400
EBITDA	\$ 300,234	\$ 291,885	\$ 287,825

Management uses adjusted EBIT to evaluate Woodward’s performance without specific charges of \$15,707 related to its renewable power business. During the third quarter of fiscal year 2013, Woodward made a decision to align its renewable power business appropriately for the current environment and foreseeable future, through revaluation of its assets and liabilities, including workforce management actions, which resulted in charges to earnings totaling \$15,707. Management does not consider these specific charges usual operating results and, therefore, they have been excluded for prior year comparative purposes. As management believes adjusted EBIT provides more comparable year over year information, we have included this non-U.S. GAAP measure in this “Management’s Discussion and Analysis” to provide insight to securities analysts, investors, and others into how our management views our current financial condition and results of operations.

Adjusted EBIT for the fiscal years ended September 30, 2013, September 30, 2012 and September 30, 2011 were as follows:

	Year Ended September 30,		
	2013	2012	2011
Net earnings	\$ 145,942	\$ 141,589	132,235
Income taxes	53,629	56,218	55,332
Interest expense	26,703	26,003	25,399
Interest income	(273)	(542)	(534)
EBIT	226,001	223,268	212,432
Renewable power business specific charges	15,707	-	-
Adjusted EBIT	\$ 241,708	\$ 223,268	\$ 212,432

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Management uses adjusted earnings per diluted share to evaluate Woodward's performance without the specific charges of \$15,707, or \$0.17 per diluted share, related to its renewable power business and the favorable \$0.07 per diluted share impact of the fiscal year 2012 retroactive portion of the reinstatement of the U.S. research and experimentation credit under the American Taxpayer Relief Act of 2012 (the "Taxpayer Relief Act"). Management does not consider these specific charges and the favorable impact of the fiscal year 2012 portion of the reinstatement of the U.S. research and experimentation credit usual operating results and therefore they have been excluded for prior year comparative purposes. As management believes adjusted earnings per share provides more comparable year over year information, we have included this non-U.S. GAAP measure in this "Management's Discussion and Analysis" to provide insight to securities analysts, investors, and others into how our management views our current financial condition and results of operations.

Adjusted earnings per share for the fiscal years ended September 30, 2013, September 30, 2012 and September 30, 2011 were as follows:

	Year Ended September 30,		
	2013	2012	2011
Earnings per diluted share	\$ 2.10	\$ 2.01	\$ 1.89
Renewable power business specific charges	0.17	-	-
Impact of the fiscal 2012 retroactive portion of the reinstatement of the U.S. research and experimentation tax credit	(0.07)	-	-
Adjusted earnings per diluted share	\$ 2.20	\$ 2.01	\$ 1.89

In addition to the above non-U.S. GAAP financial measures, in the current fiscal year we are using the following financial measures: Energy segment net sales without the renewable power business and Energy segment earnings without the renewable power business, which are financial measures not prepared and presented in accordance with U.S. GAAP. Management uses these financial measures to compare the performance of its business with and without the effects of significant discrete economic events in order to analyze and understand Woodward's Energy reportable segment results. Management has identified the changes in the market economics of its renewable power business as such a significant discrete economic event. Management used this with and without the renewable power business segment net sales and segment net earnings information in its decision to align its renewable power business appropriately for the current environment and foreseeable future. In addition, management used this with and without the renewable power business information for prior year comparative purposes for the Energy segment. As management believes Energy segment net sales without the renewable power business and Energy segment earnings without the renewable power business provide more comparable year over year information, we have included this non-U.S. GAAP measure in this "Management's Discussion and Analysis" to provide insight to securities analysts, investors, and others into how our management views our current financial condition and results of operations.

The use of any 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. As EBIT, EBITDA, adjusted EBIT, adjusted earnings per share, Energy segment net sales without the renewable power business, and Energy segment earnings without the renewable power business exclude certain financial information compared with net earnings, net earnings per share, segment net sales and segment earnings, the most comparable U.S. GAAP financial measures, users of this financial information should consider the information that is excluded. Our calculations of EBIT, EBITDA, adjusted EBIT, adjusted earnings per share, Energy segment net sales without the



renewable power business, and Energy segment earnings may differ from similarly titled measures used by other companies, limiting their usefulness as comparative measures.

Cash flow-based non-U.S. GAAP financial measures

Management uses free cash flow, which is defined as net cash flows provided by operating activities less payments for property, plant and equipment, in reviewing the financial performance of Woodward's various business groups and

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evaluating cash levels. Securities analysts, investors, and others frequently use free cash flow in their evaluation of companies. The use of this non-U.S. GAAP financial measure 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. 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 calculation of free cash flow may differ from similarly titled measures used by other companies, limiting its usefulness as a comparative measure.

Free cash flow for the fiscal years ended September 30, 2013, September 30, 2012 and September 30, 2011 were as follows:

	Year Ended September 30,		
	2013	2012	2011
Net cash provided by operating activities	\$ 222,592	\$ 144,113	\$ 114,623
Payments for property, plant and equipment	(141,600)	(64,900)	(48,255)
Free cash flow	\$ 80,992	\$ 79,213	\$ 66,368

#### Operational Highlights

Net sales for fiscal year 2013 increased 3.8% to \$1,935,976 from \$1,865,627 for fiscal year 2012.

EBIT increased \$2,733, or 1.2%, to \$226,001 in fiscal year 2013 compared to \$223,268 for fiscal year 2012.

Net earnings increased by 3.1% for fiscal year 2013 to \$145,942, or \$2.10 per diluted share, from \$141,589, or \$2.01 per diluted share, in fiscal year 2012.

The third quarter of fiscal year 2013 included specific charges of \$15,707, or \$0.17 per diluted share, related to our renewable power business. Uncertainty with respect to U.S. and other government renewable power incentives and economic factors associated with alternative energy sources resulted in significant overcapacity and financial distress in the renewable power industry. As a result, we made a decision to align our renewable power business appropriately for the environment and then foreseeable future, through revaluation of its assets and liabilities, including workforce management actions.

On December 27, 2012, Woodward entered into a definitive 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 preliminary purchase adjustments, we paid cash at closing in the amount of \$198,900.

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 and has been included in our operating results since the acquisition. The Duarte Business was slightly accretive to net earnings in fiscal year 2013.

## Liquidity Highlights

Net cash provided by operating activities for fiscal year 2013 was \$222,592 compared to \$144,113 for fiscal year 2012. Accounts receivable utilized \$9,774 of cash in fiscal year 2013 compared to \$59,061 of cash utilized in fiscal year 2012, accounting for the majority of the change. The amount of cash utilized for accounts receivable in fiscal year 2013 reflects a slight increase in accounts receivable in fiscal year 2013 as compared to fiscal year 2012. The higher utilization in fiscal year 2012 reflects the significant increase in accounts receivable in fiscal year 2012 when compared to fiscal year 2011 due to higher sales in fiscal year 2012 as compared to fiscal year 2011. The increase in operating cash flows was also attributable to operational improvements, which lowered inventory requirements in fiscal year 2013. Inventory utilized \$1,485 of cash in fiscal year 2013 compared to \$18,702 of cash utilized in fiscal year 2012.

Free cash flow for fiscal year 2013 was \$80,992 compared to \$79,213 for fiscal year 2012.

EBITDA increased by \$8,349 to \$300,234 for fiscal year 2013 from \$291,885 for fiscal year 2012.

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On July 10, 2013, we terminated the Third Amended and Restated Credit Agreement (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, we have the option to expand the commitment \$200,000, for a total borrowing capacity of up to \$800,000, under the Revolving Credit Agreement.

During the second quarter of fiscal year 2013, the term loan credit agreement that we entered into in October 2008, which had a balance of \$40,000 at December 31, 2012, 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, we 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 of up to \$200,000 on a revolving basis. At Woodward’s option, loans made under the Line of Credit bear interest at a floating rate based on either the prime rate or an adjusted London Interbank Rate (“LIBOR”). The Line of Credit extends through December 20, 2013. There was \$200,000 outstanding on the Line of Credit as of September 30, 2013.

At September 30, 2013, we held \$48,556 in cash and cash equivalents, and had total outstanding debt of \$550,000. At September 30, 2013, under our Revolving Credit Agreement, we had additional borrowing availability of \$595,486, net of outstanding letters of credit. On September 30, 2013, we had additional borrowing capacity of \$28,227 under our Chinese credit facility, various foreign lines of credit, and foreign overdraft facilities.

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

	Year Ended September 30,				2011	
	2013		2012		2011	
		% of		% of		% of
		Net		Net		Net
		Sales		Sales		Sales
Net sales	\$ 1,935,976	100 %	\$ 1,865,627	100 %	\$ 1,711,702	100 %
Costs and expenses:						
Cost of goods sold	1,376,271	71.1	1,303,344	69.9	1,198,153	70.0
Selling, general, and administrative expenses	168,097	8.7	164,512	8.8	148,903	8.7
Research and development costs	130,250	6.7	143,274	7.7	115,633	6.8
Amortization of intangible assets	36,979	1.9	32,809	1.8	34,993	2.0
Interest expense	26,703	1.4	26,003	1.4	25,399	1.5
Interest income	(273)	(0.0)	(542)	(0.0)	(534)	(0.0)
Other (income) expense, net	(1,622)	(0.1)	(1,580)	(0.1)	1,588	0.1
Total costs and expenses	1,736,405	89.7	1,667,820	89.4	1,524,135	89.0
Earnings before income taxes	199,571	10.3	197,807	10.6	187,567	11.0
Income tax expense	53,629	2.8	56,218	3.0	55,332	3.2

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Net earnings	\$ 145,942	7.5	\$ 141,589	7.6	\$ 132,235	7.7
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Other select financial data:

	September 30, 2013	September 30, 2012
Working capital	\$ 544,017	\$ 623,609
Short-term borrowings	-	329
Total debt	550,000	392,204
Total stockholders' equity	1,142,545	1,008,115

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## 2013 RESULTS OF OPERATIONS

## 2013 Sales Compared to 2012

Consolidated net sales increased 3.8% from \$1,865,627 in fiscal year 2012 to \$1,935,976 in fiscal year 2013. Details of the changes in consolidated net sales are as follows:

Consolidated net sales for the period ended September 30, 2012	\$ 1,865,627
Aerospace organic volume	35,282
Energy volume	(96,538)
Price and sales mix	24,254
Duarte Business acquisition	111,261
Effects of changes in foreign currency rates	(3,910)
Consolidated net sales for the period ended September 30, 2013	\$ 1,935,976

The increase in net sales for fiscal year 2013 was primarily attributable to the Duarte Business acquisition, increased volumes in our Aerospace segment due to increased commercial OEM and defense aftermarket sales, partially offset by decreased volumes in our Energy segment attributable to significantly lower wind turbine converter sales. Wind turbine converter sales through our renewable power business were higher in the prior fiscal year due to accelerated ordering by our customers in an effort to take advantage of the then-expiring government incentives and to comply with various renewable energy mandates. The balance of the decline in wind turbine converter sales in the current year reflects general uncertainty with respect to investments in large wind projects.

**Price changes:** Increases in selling prices were driven primarily by our Aerospace segment markets. Selling prices in the Energy segment also increased due to standard business practice in response to inflationary increases in production and material costs.

**Foreign currency exchange rates:** During the fiscal year ended September 30, 2013, our net sales were negatively impacted by \$3,910 due to unfavorable fluctuations in foreign currency exchange rates, compared to the same period of fiscal year 2012.

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.

## 2013 Costs and Expenses Compared to 2012

Cost of goods sold increased by \$72,927 to \$1,376,271 or 71.1% of net sales, for fiscal year 2013 from \$1,303,344, or 69.9% of net sales, for 2012. Gross margins (as measured by net sales less cost of goods sold, divided by net sales) were 28.9% for fiscal year 2013 and 30.1% for fiscal year 2012. The decrease in gross margin in fiscal year 2013 as compared to fiscal year 2012 is attributable to the decreased volume in our Energy segment, mostly due to reduced wind turbine converter sales volumes and the loss of related fixed cost leverage, as well as charges of \$8,300 associated with a portion of the specific charges in the third quarter of fiscal year 2013 related to the renewable power

business within the Energy segment, partially offset by the effects of increased volume in our Aerospace segment, favorable product mix and improved operational performance.

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Selling, general, and administrative expenses increased by \$3,585 or 2.2%, to \$168,097 for fiscal year 2013 as compared to \$164,512 for fiscal year 2012. Selling, general and administrative expenses increased as a percentage of net sales to 8.7% for fiscal year 2013 as compared to 8.8% for fiscal year 2012. The increase in expenses was primarily related to charges of \$7,407 associated with a portion of the specific charges in the third quarter of the current fiscal year related to our renewable power business within the Energy segment. In addition, fiscal year 2013 selling, general, and administrative expenses included approximately \$1,944 of transaction costs related to the Duarte Acquisition as well as a general increase in expenses related to the Duarte Business. These increases were partially offset by decreased bad debt expenses in fiscal year 2013 as compared to fiscal year 2012. Fiscal year 2012 expense included charges related to the bankruptcies of several airlines and the credit issues of some of our renewable power customers that did not recur in fiscal year 2013. We believe at this time that we have no exposure to significant future losses related to these issues.

Research and development costs decreased by \$13,024, or 9.1%, to \$130,250 for fiscal year 2013 as compared to \$143,274 for fiscal year 2012. Research and development costs decreased as a percentage of net sales to 6.7% for fiscal year 2013 as compared to 7.7% for fiscal year 2012. Research and development costs decreased primarily due to the completion of development of certain programs and related decreases of materials purchases. Our research and development activities extend across almost all of our customer base, and we anticipate ongoing variability in research and development as programs continue.

Amortization of intangible assets increased to \$36,979 for fiscal year 2013 compared to \$32,809 for fiscal year 2012. As a percentage of net sales, amortization of intangible assets increased to 1.9% for fiscal year 2013 as compared to 1.8% fiscal year 2012.

Interest expense increased to \$26,703, or 1.4% of net sales, for fiscal year 2013 compared to \$26,003, or 1.4% of net sales, for fiscal year 2012.

Income taxes were provided at an effective rate on earnings before income taxes of 26.9% for fiscal year 2013 compared to 28.4% for fiscal year 2012. The change in the effective tax rate (as a percentage of earnings before income taxes) was attributable to the following:

Effective tax rate at September 30, 2012	28.4 %
Extension of research credit recorded in fiscal 2013	(4.8)
Taxes on international activities	1.6
Other changes, net	1.7
Effective tax rate at September 30, 2013	26.9 %

On January 2, 2013, 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 fiscal year 2013 included a net expense reduction related to the extension of the U.S. research and experimentation tax credit pursuant to the Taxpayer Relief Act, including the fiscal year 2012 retroactive portion of the extension.

During the second quarter of fiscal year 2012, we re-evaluated our strategic alternatives in various international markets and determined that a portion of the undistributed earnings of certain of our foreign subsidiaries that were previously expected to be repatriated to the United States within the foreseeable future will remain indefinitely invested outside the United States to support the growth of future foreign operations. We accordingly reversed the deferred tax liability associated with repatriating those earnings, which resulted in a tax benefit of \$3,326 for fiscal



year 2012. This item is included in the "Taxes on international activities" line in the rate reconciliation above.

The total amount of the gross liability for worldwide unrecognized tax benefits reported in other liabilities in the Consolidated Balance Sheet was \$22,694 at September 30, 2013 and \$18,069 at September 30, 2012. At September 30, 2013, the amount of unrecognized tax benefits that would impact Woodward's effective tax rate, if recognized, was \$17,838. At this time, we estimate it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as \$565 in the next twelve months due primarily to the expiration of certain statutes of limitations. We accrue for potential interest and penalties related to unrecognized tax benefits in tax expense. Woodward had accrued interest and penalties of \$2,066 as of September 30, 2013 and \$1,701 as of September 30, 2012.

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. With a few exceptions, Woodward's fiscal years remaining open to examination in the U.S.

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include fiscal years 2010 and thereafter, and fiscal years remaining open to examination in significant foreign jurisdictions include 2005 and thereafter.

## SEGMENT RESULTS

The following table presents sales by segment:

	Year Ended September 30,					
	2013		2012		2011	
Net sales:						
Aerospace	\$ 1,061,477	54.8 %	\$ 896,083	48.0 %	\$ 843,032	49.3 %
Energy	874,499	45.2	969,544	52.0	868,670	50.7
Consolidated net sales	\$ 1,935,976	100.0 %	\$ 1,865,627	100.0 %	\$ 1,711,702	100.0 %

The following table presents earnings by segment:

	Year Ended September 30,		
	2013	2012	2011
Aerospace	\$ 166,122	\$ 130,192	\$ 129,502
Energy	98,940	126,441	113,872
Total segment earnings	265,062	256,633	243,374
Nonsegment expenses	(39,061)	(33,365)	(30,942)
Interest expense, net	(26,430)	(25,461)	(24,865)
Consolidated earnings before income taxes	199,571	197,807	187,567
Income tax expense	53,629	56,218	55,332
Consolidated net earnings	\$ 145,942	\$ 141,589	\$ 132,235

The following table presents earnings by segment as a percent of segment net sales: