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Woodward, Inc.  
Form 10-Q  
April 20, 2016  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

or

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

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

Commission file number 000-08408  
WOODWARD, INC.  
(Exact name of registrant as specified in its charter)

Delaware 36-1984010

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

1000 East Drake Road, Fort Collins, Colorado 80525

(Address of principal executive offices) (Zip Code)  
(970) 482-5811

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

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

Yes No

As of April 18, 2016, 61,103,960 shares of the registrant’s common stock with a par value of \$0.001455 per share were outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## WOODWARD, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2016	2015	2016	2015
Net sales	\$ 479,382	\$ 493,222	\$ 924,492	\$ 980,868
Costs and expenses:				
Cost of goods sold	346,139	355,602	679,516	699,362
Selling, general and administrative expenses	36,823	38,450	77,605	78,293
Research and development costs	31,762	30,328	63,359	64,357
Amortization of intangible assets	6,926	7,227	13,872	14,802
Interest expense	6,234	5,329	13,142	11,278
Interest income	(441)	(221)	(888)	(348)
Other (income) expense, net (Note 15)	(2,427)	(1,084)	(4,436)	(1,539)
Total costs and expenses	425,016	435,631	842,170	866,205
Earnings before income taxes	54,366	57,591	82,322	114,663
Income tax expense	13,542	13,736	15,678	27,024
Net earnings	\$ 40,824	\$ 43,855	\$ 66,644	\$ 87,639
Earnings per share (Note 3):				
Basic earnings per share	\$ 0.66	\$ 0.67	\$ 1.07	\$ 1.34
Diluted earnings per share	\$ 0.65	\$ 0.66	\$ 1.05	\$ 1.32
Weighted Average Common Shares Outstanding (Note 3):				
Basic	61,639	65,159	62,351	65,242
Diluted	63,064	66,540	63,768	66,641
Cash dividends per share paid to Woodward common stockholders	\$ 0.11	\$ 0.10	\$ 0.21	\$ 0.18

See accompanying Notes to Condensed Consolidated Financial Statements

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WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

(Unaudited)

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2016	2015	2016	2015
Net earnings	\$ 40,824	\$ 43,855	\$ 66,644	\$ 87,639
Other comprehensive earnings:				
Foreign currency translation adjustments	10,125	(22,012)	(129)	(34,945)
Unrealized gain (loss) on foreign currency transaction designated as a hedge of a net investment in a foreign subsidiary (Note 6)	(345)	-	517	-
Taxes on changes in foreign currency translation adjustments	(601)	411	(295)	1,260
	9,179	(21,601)	93	(33,685)

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Reclassification of net realized losses on derivatives to earnings (Note 6)	28	24	57	49
Taxes on changes in derivative transactions	(10)	(8)	(21)	(18)
	18	16	36	31
Minimum retirement benefit liability adjustments (Note 17)				
Amortization of:				
Net prior service cost (benefit)	57	57	113	113
Net loss	425	127	852	257
Foreign currency exchange rate changes on minimum retirement benefit liabilities	287	518	571	1,058
Taxes on changes in minimum retirement liability adjustments, net of foreign currency exchange rate changes	(290)	(252)	(576)	(509)
	479	450	960	919
Total comprehensive earnings	\$ 50,500	\$ 22,720	\$ 67,733	\$ 54,904

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	March 31, 2016	September 30, 2015 (a)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 84,745	\$ 82,202
Accounts receivable, less allowance for uncollectible amounts of \$2,759 and \$3,841, respectively	276,848	322,215
Inventories	492,660	447,664
Income taxes receivable	1,687	21,838
Other current assets	36,281	43,791
Total current assets	892,221	917,710
Property, plant and equipment, net	825,972	756,100
Goodwill	556,720	556,977
Intangible assets, net	211,289	225,138
Deferred income tax assets	38,311	13,105
Other assets	44,903	44,886
Total assets	\$ 2,569,416	\$ 2,513,916
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 100,000	\$ 2,430
Accounts payable	177,423	173,287
Income taxes payable	78,430	6,555
Accrued liabilities	123,397	155,936
Total current liabilities	479,250	338,208
Long-term debt, less current portion	617,000	850,000
Deferred income tax liabilities	936	56,414
Other liabilities	353,269	116,190
Total liabilities	1,450,455	1,360,812
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, par value \$0.003 per share, 10,000 shares authorized, no shares issued	-	-
Common stock, par value \$0.001455 per share, 150,000 shares authorized, 72,960 shares issued	106	106
Additional paid-in capital	145,606	131,231
Accumulated other comprehensive losses	(50,369)	(51,458)
Deferred compensation	5,219	4,322
Retained earnings	1,548,832	1,495,274
	1,649,394	1,579,475

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Treasury stock at cost, 11,735 shares and 9,763 shares, respectively	(525,214)	(422,049)
Treasury stock held for deferred compensation, at cost, 174 shares and 173 shares, respectively	(5,219)	(4,322)
Total stockholders' equity	1,118,961	1,153,104
Total liabilities and stockholders' equity	\$ 2,569,416	\$ 2,513,916

(a) Retrospectively adjusted as discussed in Note 2, Recent accounting pronouncements

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six-Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		(a)
Net earnings	\$ 66,644	\$ 87,639
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	32,621	37,249
Net gain on sales of assets	(1,601)	(718)
Stock-based compensation	11,422	7,890
Deferred income taxes	(81,496)	3,628
Loss on derivatives reclassified from accumulated comprehensive earnings into earnings	57	49
Proceeds from formation of joint venture (Note 4)	250,000	-
Changes in operating assets and liabilities:		
Accounts receivable	53,666	26,417
Inventories	(45,918)	(36,085)
Accounts payable and accrued liabilities	(10,734)	6,231
Current income taxes	91,800	(9,173)
Retirement benefit obligations	(1,969)	(2,490)
Other	(2,810)	2,639
Net cash provided by operating activities	361,682	123,276
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(99,316)	(109,402)
Proceeds from sale of assets	2,112	2,345
Net cash used in investing activities	(97,204)	(107,057)
Cash flows from financing activities:		
Cash dividends paid	(13,086)	(11,752)
Proceeds from sales of treasury stock	5,288	2,460
Payments for repurchases of common stock	(117,820)	(32,118)
Borrowings on revolving lines of credit and short-term borrowings	300,000	255,000
Payments on revolving lines of credit and short-term borrowings	(385,596)	(252,000)
Payments of long-term debt and capital lease obligations	(50,075)	-
Net cash used in financing activities	(261,289)	(38,410)
Effect of exchange rate changes on cash and cash equivalents	(646)	(12,335)
Net change in cash and cash equivalents	2,543	(34,526)
Cash and cash equivalents at beginning of period	82,202	115,287

Cash and cash equivalents at end of period	\$ 84,745	\$ 80,761
(a) Retrospectively adjusted as discussed in Note 2, Recent accounting pronouncements		

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

Number of shares			Stockholders' equity							
Preferred stock	Common stock	Treasury stock	Treasury stock held for deferred compensation	Company stock	Additional paid-in capital	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock held for deferred compensation	Total stockholders' equity