

Edgar Filing: Woodward, Inc. - Form 10-Q

Woodward, Inc.
Form 10-Q
January 25, 2017
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 December 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.)

1081 Woodward Way, Fort Collins, Colorado 80524
(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 January 23, 2017, 61,439,846 shares of the registrant’s common stock with a par value of \$0.001455 per share were outstanding.

TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	2
<u>Condensed Consolidated Statements of Earnings</u>	2
<u>Condensed Consolidated Statements of Comprehensive Earnings</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Forward Looking Statements</u>	26
<u>Overview</u>	28
<u>Results of Operations</u>	29
<u>Liquidity and Capital Resources</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	36
PART II – OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	36
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 5. <u>Other Information</u>	37
Item 6. <u>Exhibits</u>	38
<u>Signatures</u>	39

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 December 31,	
	2016	2015
Net sales	\$ 442,894	\$ 445,110
Costs and expenses:		
Cost of goods sold	327,194	333,377
Selling, general and administrative expenses	33,796	40,782
Research and development costs	26,540	31,597
Amortization of intangible assets	6,458	6,946
Interest expense	6,840	6,908
Interest income	(405)	(447)
Other (income) expense, net (Note 15)	(4,588)	(2,009)
Total costs and expenses	395,835	417,154
Earnings before income taxes	47,059	27,956
Income tax expense	511	2,136
Net earnings	\$ 46,548	\$ 25,820
Earnings per share (Note 3):		
Basic earnings per share	\$ 0.76	\$ 0.41
Diluted earnings per share	\$ 0.73	\$ 0.40
Weighted Average Common Shares Outstanding (Note 3):		
Basic	61,559	63,054
Diluted	63,671	64,452

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Cash dividends per share paid to Woodward common stockholders \$ 0.11 \$ 0.10

See accompanying Notes to Condensed Consolidated Financial Statements

2

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

(Unaudited)

	Three-Months Ended December 31,	
	2016	2015
Net earnings	\$ 46,548	\$ 25,820
Other comprehensive earnings:		

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Foreign currency translation adjustments	(18,635)	(10,254)
Gain on foreign currency transactions designated as hedges of net investments in foreign subsidiaries (Note 6)	3,830	862
Taxes on changes in foreign currency translation adjustments	(306)	306
Foreign currency translation and transactions adjustments, net of tax	(15,111)	(9,086)
Reclassification of net realized (gains) losses on derivatives to earnings (Note 6)	(18)	29
Taxes on changes in derivative transactions	7	(11)
Derivative adjustments, net of tax	(11)	18
Amortization of:		
Net prior service cost	56	56
Net loss	641	427
Foreign currency exchange rate changes on minimum retirement benefit liabilities	1,255	284
Taxes on changes in minimum retirement liability adjustments, net of foreign currency exchange rate changes	(693)	(286)
Pension and other postretirement benefit plan adjustments, net of tax	1,259	481
Total comprehensive earnings	\$ 32,685	\$ 17,233

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	December 31, 2016	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 80,885	\$ 81,090
Accounts receivable, less allowance for uncollectible amounts of \$2,641 and \$2,540, respectively	252,761	343,768
Inventories	493,764	461,683
Income taxes receivable	23,129	20,358
Other current assets	34,257	37,525
Total current assets	884,796	944,424
Property, plant and equipment, net	877,077	876,350
Goodwill	553,300	555,684
Intangible assets, net	190,933	197,650
Deferred income tax assets	18,963	20,194
Other assets	51,146	48,060
Total assets	\$ 2,576,215	\$ 2,642,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 150,000	\$ 150,000
Accounts payable	149,280	169,439
Income taxes payable	1,374	4,547
Accrued liabilities	115,823	156,627
Total current liabilities	416,477	480,613
Long-term debt, less current portion	569,878	577,153
Deferred income tax liabilities	9,063	3,777
Other liabilities	358,429	368,224
Total liabilities	1,353,847	1,429,767
Commitments and contingencies (Note 19)		
Stockholders' equity:		

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Preferred stock, par value \$0.003 per share, 10,000 shares authorized, no shares issued	-	-
Common stock, par value \$0.001455 per share, 150,000 shares authorized, 72,960 shares issued	106	106
Additional paid-in capital	142,664	141,570
Accumulated other comprehensive losses	(79,568)	(65,705)
Deferred compensation	6,889	5,089
Retained earnings	1,689,275	1,649,506
	1,759,366	1,730,566
Treasury stock at cost, 11,559 shares and 11,374 shares, respectively	(530,109)	(512,882)
Treasury stock held for deferred compensation, at cost, 183 shares and 157 shares, respectively	(6,889)	(5,089)
Total stockholders' equity	1,222,368	1,212,595
Total liabilities and stockholders' equity	\$ 2,576,215	\$ 2,642,362

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three-Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net earnings	\$ 46,548	\$ 25,820
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	18,913	17,062
Net gain on sales of assets	(3,699)	(1,602)
Stock-based compensation	1,261	8,451
Deferred income taxes	4,777	9,768
(Gain) loss on derivatives reclassified from accumulated comprehensive earnings into earnings	(18)	29
Changes in operating assets and liabilities:		
Accounts receivable	87,615	74,717
Inventories	(37,632)	(25,091)
Accounts payable and accrued liabilities	(54,563)	(56,816)
Current income taxes	(5,731)	(10,517)
Retirement benefit obligations	(897)	(874)
Other	(4,223)	(3,587)
Net cash provided by operating activities	52,351	37,360
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(21,058)	(33,131)
Net proceeds from sale of assets	3,682	1,852
Proceeds from sales of short-term investments	758	-
Net cash used in investing activities	(16,618)	(31,279)
Cash flows from financing activities:		
Cash dividends paid	(6,779)	(6,321)
Proceeds from sales of treasury stock	4,843	1,252
Payments for repurchases of common stock	(24,004)	(30,712)

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Borrowings on revolving lines of credit and short-term borrowings	316,650	220,000
Payments on revolving lines of credit and short-term borrowings	(312,800)	(135,598)
Payments of long-term debt and capital lease obligations	(102)	(50,000)
Net cash used in financing activities	(22,192)	(1,379)
Effect of exchange rate changes on cash and cash equivalents	(13,746)	(2,482)
Net change in cash and cash equivalents	(205)	2,220
Cash and cash equivalents at beginning of year	81,090	82,202
Cash and cash equivalents at end of period	\$ 80,885	\$ 84,422

See accompanying No

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Number of shares				Stockholders' equity					Total accumulated other comprehensive earnings
	Preferred stock	Common stock	Treasury stock	Treasury stock held for deferred compensation	Common stock	Additional paid-in capital	Foreign currency translation adjustments	Unrealized derivative gains (losses)	Minimum retirement benefit liability adjustments	
Balances as of October 1, 2015	-	72,960	(9,763)	(173)	\$ 106	\$ 131,231	\$ (21,610)	\$ 166	\$ (30,014)	\$ (51,164)
Net earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	(9,086)	18	481	(8,587)
Cash dividends paid (\$0.10 per share)	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(624)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	49	-	-	(406)	-	-	-	-
Stock-based compensation	-	-	-	-	-	8,451	-	-	-	-
Purchases of stock by deferred compensation plan	-	-	-	(21)	-	-	-	-	-	-
Distribution of stock from deferred compensation plan	-	-	-	(1)	-	-	-	-	-	-

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Balances as of December 31, 2015	-	72,960	(10,338)	(195)	\$ 106	\$ 139,276	\$ (30,696)	\$ 184	\$ (29,533)	\$ (60,
Balances as of October 1, 2016	-	72,960	(11,374)	(157)	\$ 106	\$ 141,570	\$ (25,971)	\$ 179	\$ (39,913)	\$ (65,
Net earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	(15,111)	(11)	1,259	(13,
Cash dividends paid (\$0.11 per share)	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(350)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	139	-	-	(907)	-	-	-	-
Common shares issued from treasury stock to settle employee liabilities	-	-	26	(26)	-	740	-	-	-	-
Stock-based compensation	-	-	-	-	-	1,261	-	-	-	-
Purchases and transfers of stock by/to deferred compensation plan	-	-	-	-	-	-	-	-	-	-
Distribution of stock from deferred compensation plan	-	-	-	-	-	-	-	-	-	-
Balances as of December 31, 2016	-	72,960	(11,559)	(183)	\$ 106	\$ 142,664	\$ (41,082)	\$ 168	\$ (38,654)	\$ (79,

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Note 1. Basis of presentation

The Condensed Consolidated Financial Statements of Woodward, Inc. (“Woodward” or the “Company”) as of December 31, 2016 and for the three-months ended December 31, 2016 and December 31, 2015, included herein, have not been audited by an independent registered public accounting firm. These Condensed Consolidated Financial Statements reflect all normal recurring adjustments that, in the opinion of management, are necessary to present fairly Woodward’s financial position as of December 31, 2016, and the statements of earnings, comprehensive earnings, cash flows, and changes in stockholders’ equity for the periods presented herein. The results of operations for the three-months ended December 31, 2016 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year. Dollar and share amounts contained in these Condensed Consolidated Financial Statements are in thousands, except per share amounts.

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

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

Management is required to use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported revenues and expenses recognized during the reporting period, and certain financial statement disclosures, in the preparation of the Condensed Consolidated Financial Statements included herein. Significant estimates in these Condensed Consolidated Financial Statements include allowances for uncollectible amounts, net realizable value of inventories, customer rebates earned and payable, warranty reserves, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, the provision for income tax and related valuation reserves, assumptions used in the determination of the funded status and annual expense of pension and postretirement employee benefit plans, the valuation of stock compensation instruments granted to employees and board members, and contingencies. Actual results could vary from Woodward’s estimates.

Note 2. New accounting standards

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

In October 2016, the FASB issued ASU 2016-16, “Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory.” ASU 2016-16 eliminates the current U.S. GAAP exception deferring the tax effects of intercompany asset transfers (other than inventory) until the transferred asset is sold to a third party or otherwise recovered through use. After adoption of ASU 2016-16, Woodward will recognize the tax consequences of intercompany asset transfers in the buyer’s and seller’s tax jurisdictions when the transfer occurs, even though the pre-tax effects of these transactions are eliminated in consolidation. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019 for Woodward), including interim periods within the year of adoption. Early adoption is allowed only in the first quarter of fiscal year 2017 or the first quarter of fiscal year 2018. Modified retrospective adoption is required with any cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. Woodward is currently assessing the impact this guidance may have on its Condensed Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 adds a current expected credit loss (“CECL”) impairment model to U.S. GAAP that is based on expected losses rather than incurred losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021 for Woodward), including interim periods within the year of adoption. Early adoption is permitted for fiscal years beginning after December 15, 2018 (fiscal year 2020 for Woodward), including interim periods within those fiscal years. Woodward has not determined in which period it will adopt the new guidance but does not expect the application of the CECL impairment model to have a significant impact on Woodward’s allowance for uncollectible amounts for accounts receivable and notes receivable from municipalities.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The purpose of ASU 2016-02 is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020 for Woodward), including interim periods within the year of adoption. In transition, Woodward will be required to recognize and measure leases beginning in the earliest period presented using a modified retrospective approach; therefore, Woodward anticipates restating its Consolidated Financial Statements for the two fiscal years prior to the year of adoption. Early adoption is permitted. Woodward has not determined in which period it will adopt the new guidance and is currently assessing the impact this guidance may have on its Consolidated Financial Statements, including which of its existing operating leases will be impacted by the new guidance. Rent expense for all operating leases in fiscal year 2016, none of which was recognized on the balance sheet, was \$7,359. As of September 30, 2016, future minimum rental payments required under operating leases, none of which were recognized on the balance sheet, were \$15,612.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" and has subsequently issued several supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 prescribes a single common revenue standard that replaces most existing U.S. GAAP revenue recognition guidance. ASC 606 outlines a five-step model, under which Woodward will recognize revenue as performance obligations within a customer contract are satisfied. ASC 606 is intended to provide more consistent interpretation and application of the principles outlined in the standard across filers in multiple industries and within the same industries compared to current practices, which should improve comparability. Adoption of ASC 606 is required for annual reporting periods beginning after December 15, 2017 (fiscal year 2019 for Woodward), including interim periods within the reporting period. Woodward may elect to adopt ASC 606 in fiscal year 2018, but does not expect to do so. Upon adoption, Woodward must elect to adopt either retrospectively to each prior reporting period presented or using the cumulative effect transition method with the cumulative effect of initial adoption recognized at the date of initial application. Woodward has not determined what transition method it will use.

Woodward is currently assessing the impact that the future adoption of ASC 606 may have on its Consolidated Financial Statements by analyzing its current portfolio of customer contracts, including a review of historical accounting policies and practices to identify potential differences in applying the guidance of ASC 606. Based on Woodward's preliminary review of its customer contracts, Woodward expects that revenue on the majority of its customer contracts will continue to be recognized at a point in time, generally upon shipment of products, consistent with Woodward's current revenue recognition model. Upon adoption of ASC 606, however, Woodward also believes some of its revenues from sales of products and services to customers will be recognized over time, rather than at a point in time, due to the terms of certain customer contracts. Related to recognizing some revenue over time, inventory levels and accounts receivable balances will be impacted. As such, Woodward believes the adoption of ASC 606 may have an impact on both the timing of revenue recognition and various line items within the Consolidated Balance Sheet.

Note 3. Earnings per share

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