Woodward, Inc.
Form 10-Q
July 26, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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	**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)

Registrant s telephone number, including area code:
(970) 482-5811

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

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

As of July 22, 2011, 68,810,043 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 Ending June 30, 2011	Three-Months Ending June 30, 2010	Nine-Months Ending June 30, 2011	Nine-Months Ending June 30, 2010
Net sales	$ 438,467	$ 356,367	$ 1,222,408	$ 1,045,027
Costs and expenses:				
Cost of goods sold	304,441	249,966	858,138	733,834
Selling, general and administrative expenses	38,470	31,394	109,581	98,359
Research and development costs	29,273	21,419	80,061	59,431
Amortization of intangible assets	8,935	8,635	26,020	26,471
Interest expense	6,361	6,949	19,161	22,524
Interest income	(117)	(97)	(325)	(327)
Other (income) expense, net	249	49	955	(625)
Total costs and expenses	387,612	318,315	1,093,591	939,667
Earnings before income taxes	50,855	38,052	128,817	105,360
Income tax expense	14,799	6,187	38,272	26,873
Net earnings	**36,056**	**31,865**	**90,545**	**78,487**
Earnings attributable to noncontrolling interest, net of taxes		**(120)**		**(318)**
Net earnings attributable to Woodward	**$ 36,056**	**$ 31,745**	**$ 90,545**	**$ 78,169**
Earnings per share (Note 3):				
Basic earnings per share attributable to Woodward	$ 0.52	$ 0.46	$ 1.32	$ 1.14
Diluted earnings per share attributable to Woodward	$ 0.51	$ 0.45	$ 1.29	$ 1.12
Weighted Average Common Shares Outstanding (Note 3):				
Basic	68,793	68,489	68,785	68,428
Diluted	70,166	69,987	70,155	69,871
Cash dividends per share paid to Woodward common stockholders	$ 0.07	$ 0.06	$ 0.20	$ 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 Ending June 30, 2011	Three-Months Ending June 30, 2010	Nine-Months Ending June 30, 2011	Nine-Months Ending June 30, 2010
Comprehensive earnings attributable to Woodward:				
Net earnings attributable to Woodward	$ 36,056	$ 31,745	$ 90,545	$ 78,169
Other comprehensive earnings:				
Foreign currency translation adjustments	8,414	(15,705)	17,043	(29,525)
Reclassification of realized losses on derivatives to earnings	57	70	172	211
Minimum retirement benefit liability adjustment	(139)	(84)	(413)	396
Taxes on changes in other comprehensive earnings	(848)	1,269	(1,711)	1,832
Comprehensive earnings attributable to Woodward	43,540	17,295	105,636	51,083
Comprehensive earnings attributable to noncontrolling interest:				
Net earnings attributable to noncontrolling interest		120		318
Foreign currency translation adjustments,net of tax		22		105
Comprehensive earnings attributable to noncontrolling interest		142		423
Total comprehensive earnings	$ 43,540	$ 17,437	$ 105,636	$ 51,506

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(Unaudited)

	June 30, 2011	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72,598	$ 105,579
Accounts receivable, less allowance for losses of $2,173 and $2,228, respectively	265,420	248,513
Inventories	387,768	295,034
Income taxes receivable	10,328	18,170
Deferred income tax assets	37,104	33,689
Other current assets	26,381	18,157
Total current assets	799,599	719,142
Property, plant and equipment, net	200,042	193,524
Goodwill	465,832	438,594
Intangible assets, net	279,228	292,149
Deferred income tax assets	1,979	8,623
Other assets	15,820	11,201
Total assets	$ 1,762,500	$ 1,663,233
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 41,577	$ 22,099
Current portion of long-term debt	18,459	18,493
Accounts payable	100,769	107,468
Income taxes payable	5,501	5,453
Accrued liabilities	109,726	109,052
Total current liabilities	276,032	262,565
Long-term debt, less current portion	408,750	425,250
Deferred income tax liabilities	88,367	88,249
Other liabilities	91,053	83,975
Total liabilities	864,202	860,039
Commitments and contingencies (Note 18)		
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	80,145	73,915
Accumulated other comprehensive earnings	21,433	6,342
Deferred compensation	4,571	4,888
Retained earnings	912,700	835,919
	1,018,955	921,170
Treasury stock at cost, 4,153 shares and 4,223 shares, respectively	(116,086)	(113,088)
Treasury stock held for deferred compensation, at cost, 315 shares and 356 shares, respectively	(4,571)	(4,888)
Total stockholders equity	898,298	803,194
Total liabilities and stockholders equity	$ 1,762,500	$ 1,663,233

See accompanying Notes to Condensed Consolidated Financial Statements.

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WOODWARD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine-Months Ending June 30, 2011	Nine-Months Ending June 30, 2010
Cash flows from operating activities:		
Net earnings	$ 90,545	$ 78,487
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	57,299	56,455
Net loss (gain) on sales of assets	429	(99)
Stock-based compensation	5,370	5,186
Excess tax benefits from stock-based compensation	(2,581)	(1,588)
Deferred income taxes	(1,011)	5,135
Loss on derivatives reclassified from accumulated comprehensive earnings into earnings	172	185
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(11,922)	7,342
Inventories	(77,389)	6,347
Accounts payable and accrued liabilities	(16,126)	10,587
Current income taxes	10,434	6,871
Retirement benefit obligations	(3,230)	(277)
Other	(5,190)	(13,022)
Net cash provided by operating activities	46,800	161,609
Cash flows from investing activities:		
Payments for property, plant and equipment	(32,640)	(18,834)
Proceeds from the sale of assets	30	268
Business acquisitions, net of cash and marketable securities acquired	(38,698)	(25,000)
Business acquisition, marketable securities acquired	(8,463)	
Proceeds from the sale of marketable securities	8,217	
Proceeds from disposal of Fuel & Pneumatics product line		660
Net cash used in investing activities	(71,554)	(42,906)
Cash flows from financing activities:		
Cash dividends paid	(13,764)	(12,971)
Proceeds from sales of treasury stock	2,078	2,709
Payments for repurchases of common stock	(6,837)	(2,383)
Excess tax benefits from stock compensation	2,581	1,588
Purchase of noncontrolling interest		(8,120)
Borrowings on revolving lines of credit and short-term borrowings	126,098	71,653
Payments on revolving lines of credit and short-term borrowings	(103,158)	(71,653)

Payments of long-term debt	(16,500)	(118,492)
Net cash used in financing activities	(9,502)	(137,669)
Effect of exchange rate changes on cash and cash equivalents	1,275	(3,189)
Net change in cash and cash equivalents	(32,981)	(22,155)
Cash and cash equivalents at beginning of period	105,579	100,863
Cash and cash equivalents at end of period	$ 72,598	$ 78,708

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										
						Accumulated other comprehensive earnings								
rred ck	Common stock	Treasury stock	Treasury stock held for deferred compensation	Common stock	Additional paid-in capital	Foreign currency translation adjustments	Unrealized derivative gains (losses)	Minimum retirement benefit liability adjustments	Total accumulated other comprehensive earnings	Deferred compensaton	Retained earnings	Treasury stock at cost	Treasury stock held for deferred compensation	Nonco int conso subs
	72,960	(4,621)	(389)	$ 106	$ 73,197	$ 29,464	$ (801)	$ (18,534)	$ 10,129	$ 4,904	$ 741,505	$ (115,478)	$ (4,904)	$ 2
											78,169			
											(12,316)			
		(85)										(2,383)		
		266			(1,114)							3,760		
					(6,180)	(116)			(116)					(
					1,588									
					5,186									
		3	(3)		24					144		41	(144)	
			35							(175)			175	
						(29,525)			(29,525)					

						211		211					
							396	396					
					2,233	(80)	(321)	1,832					
72,960	(4,437)	(357)	$ 106	$ 72,701	$ 2,056	$ (670)	$ (18,459)	$ (17,073)	$ 4,873	$ 807,358	$ (114,060)	$ (4,873)	$
72,960	(4,223)	(356)	$ 106	$ 73,915	$ 23,152	$ (627)	$ (16,183)	$ 6,342	$ 4,888	$ 835,919	$ (113,088)	$ (4,888)	$
										90,545			
										(13,764)			
	(242)										(7,961)		
	310			(1,754)							4,963		
				2,581									
				5,370									
	2	(2)		33					128			(128)	
		43							(445)			445	
					17,043			17,043					

						172		172					
							(413)	(413)					
					(1,791)	(65)	145	(1,711)					
72,960	(4,153)	(315)	$ 106	$ 80,145	$ 38,404	$ (520)	$ (16,451)	$ 21,433	$ 4,571	$ 912,700	$ (116,086)	$ (4,571)	$

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)
(Unaudited)

Note 1. Basis of presentation

The Condensed Consolidated Financial Statements of Woodward, Inc. (Woodward or the Company) as of June 30, 2011 and for the three and nine-months ending June 30, 2011 and June 30, 2010, included herein, have not been audited by an independent registered public accounting firm. These Condensed Consolidated Financial Statements reflect all normal recurring adjustments which, in the opinion of management, are necessary to present fairly Woodward s financial position as of June 30, 2011, and the results of operations, cash flows, and changes in stockholders equity for the periods presented herein. The Condensed Consolidated Balance Sheet as of September 30, 2010 was derived from Woodward s Annual Report on Form 10-K for the fiscal year then ended. The results of operations for the three and nine-months ending June 30, 2011 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year. Dollar amounts contained in these Condensed Consolidated Financial Statements are in thousands, except per share amounts.

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

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

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

The Condensed Consolidated Statement of Cash Flows for the nine-months ending June 30, 2010 has been adjusted to conform to the nine-months ending June 30, 2011 presentation. The change in Retirement benefit obligations presented in Cash flows from operating activities has been reclassified from Other.

Note 2. Recent accounting pronouncements

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

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements and ASU 2009-14, Certain Revenue Arrangements That Include Software Elements. ASU 2009-13 and ASU 2009-14 are required to be adopted concurrently in fiscal years beginning on or after June 15, 2010 (fiscal year 2011 for Woodward).

ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available.

ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software is essential to the tangible product s functionality.

ASU 2009-13 and ASU 2009-14 were adopted by Woodward on October 1, 2010. The adoption did not impact the identification of or the accounting for separate units of accounting, including the pattern and timing of revenue recognition, and is not expected to have a significant impact on Woodward s financial position, results of operations or cash flows in future periods. Woodward does not generally sell its products and services through arrangements that include multiple-deliverable arrangements, and the Company had no significant multiple-deliverable arrangements as of June 30, 2011.

WOODWARD, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)
(Unaudited)

In April 2010, the FASB issued ASU 2010-17, Milestone Method of Revenue Recognition. ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions, and requires certain disclosures regarding the use of the milestone method.

ASU 2010-17 was adopted by Woodward on October 1, 2010. The adoption did not impact the pattern or timing of revenue recognition and is not expected to have a significant impact on Woodward s financial position, results of operations or cash flows in future periods. For certain development services provided to customers pursuant to funded long and short-term development contracts, Woodward recognizes revenue based on completion of substantive milestones determined based on the individual facts and circumstances of each arrangement. Total revenues recognized by Woodward based upon completion of substantive milestones as proscribed by ASU 2010-17 was $596 and $1,926 for the three and nine-months ending June 30, 2011, respectively.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income. ASU 2011-05 amends ASC Topic 220, Comprehensive Income, to require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, and it eliminates the option to present components of other comprehensive income as a part of the statement of changes in stockholders equity. In addition, ASU 2011-05 requires an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. These amendments are to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (fiscal 2013 for Woodward), early adoption is permitted. Woodward does not expect this guidance will have a significant impact on its Condensed Consolidated Financial Statements.

Note 3. Earnings per share

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

Diluted earnings per share attributable to Woodward reflects the weighted average number of shares outstanding after the assumed conversion of all dilutive securities.

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

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	**2010**	**2011**	**2010**
Numerator:				
Net earnings attributable to Woodward	$ 36,056	$ 31,745	$ 90,545	$ 78,169
Denominator:				
Basic shares outstanding	68,793	68,489	68,785	68,428
Dilutive effect of employee stock options	1,373	1,498	1,370	1,443
Diluted shares outstanding	70,166	69,987	70,155	69,871
Income per common share:				
Basic earnings per share attribuable to Woodward	$ 0.52	$ 0.46	$ 1.32	$ 1.14
Diluted earnings per share attributable to Woodward	$ 0.51	$ 0.45	$ 1.29	$ 1.12

The following stock option grants were outstanding during the three and nine-months ending June 30, 2011 and 2010, but were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive:

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	**2010**	**2011**	**2010**
Options	678	430	679	447
Weighted-average option price	$ 32.06	$ 32.58	$ 32.03	$ 32.49

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WOODWARD, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)
(Unaudited)

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

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	**2010**	**2011**	**2010**
Weighted average treasury stock shares held for deferred compensation obligation	324	361	340	375

Note 4. Business acquisitions

IDS Acquisition

During the third quarter of fiscal year 2011, Woodward acquired of all of the outstanding stock of 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) for an aggregate purchase price of approximately $48,412. The purchase price remains subject to certain customary post-closing adjustments. The estimated purchase price is included in Cash flows from investing activities in the Condensed Consolidated Statement of Cash Flows.

IDS is a developer and manufacturer of innovative power electronic systems predominantly in utility scale wind turbines and photovoltaic power plants. Additionally, IDS offers key products in power distribution and marine propulsion systems. In addition to wind turbines and photovoltaic plants, its products are used in offshore oil and gas platforms, energy storage and distribution systems, and a variety of industrial applications. IDS is being integrated into Woodward s Electrical Power Systems business segment.

The Company believes the IDS Acquisition expands its presence in wind converter offerings and reduces its time to market with expansion of solar energy, energy storage, and marine drives. Goodwill recorded in connection with the IDS Acquisition, which is not deductible for income tax purposes, represents the estimated value of such future opportunities, the value of potential expansion with new customers and the opportunity to further develop sales opportunities with new and acquired IDS customers, and anticipated synergies expected to be achieved through the integration of IDS into Woodward s Electrical Power Systems business segment.

Woodward is in the process of finalizing valuations of current assets, property, plant and equipment (including estimated useful lives), intangible assets (including estimated useful lives), other current liabilities, postretirement benefits obligations, deferred tax liabilities, and other noncurrent liabilities.

The preliminary purchase price of the IDS Acquisition is as follows:

Cash paid to owners	$ 48,412
Less cash acquired	(1,251)
Total estimated purchase price	47,161
Less marketable securities acquired	(8,463)
Estimated price paid for business assets	$ 38,698

As of June 30, 2011, $8,478 paid in connection with the IDS purchase was deposited into escrow accounts as surety against standard representations and warranties made by the seller. Funds held in escrow will be released upon the payment of certain tax and as otherwise specified in the related purchase agreements.

The preliminary allocation of the purchase price for the IDS Acquisition was accounted for under the purchase method of accounting in accordance with ASC Topic 805, Business Combinations. Assets acquired and liabilities assumed in the transaction were recorded at their acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The Company s allocation was based on an evaluation of the appropriate fair values and represents management s best estimate based on available data. As Woodward is still in the process of finalizing valuations, as mentioned above, the final purchase accounting has not yet been completed.

WOODWARD, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)
(Unaudited)

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the IDS Acquisition.

Current assets	$ 14,627
Investments in marketable securities	8,463
Property, plant, and equipment	1,954
Goodwill	24,188
Intangible assets	11,882
Total assets acquired	61,114
Other current liabilities	5,505
Warranty accrual	2,250
Postretirement benefits	434
Deferred tax liabilities	2,472
Other tax noncurrent	3,292
Total liabilities assumed	13,953
Net assets acquired	$ 47,161

There were no changes to the values of assets acquired and liabilities assumed during the three-months ending June 30, 2011. The fair value of warranty liabilities assumed represents the estimated costs to provide service for contractual warranty obligations on products sold by IDS prior to April 15, 2011. The fair value of Other tax noncurrent represents the estimated value of gross unrecognized tax benefits assumed.

In connection with the IDS Acquisition, Woodward acquired various marketable securities, which are not classified as cash equivalents under U.S. GAAP. These marketable securities were sold during the fiscal quarter ended June 30, 2011 and reinvested into cash and cash equivalents consistent with Woodward s internal investment and risk management policies. Losses on the sale of marketable securities were included in Other (income) expense, net in the Condensed Consolidated Statements of Earnings.

Also, in connection with the IDS Acquisition, Woodward assumed the net postretirement benefit obligations of several Swiss statutory retirement plans which are considered to be defined benefit plans under U.S. GAAP.

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

	Amount	Weighted Average Useful Life	Amortization Method
Customer relationships	$ 3,452	9 years	Straight-line
Process technology	7,752	8.5 years	Straight-line
Other	678	2.5 years	Straight-line

Total	$	11,882	8 years

The operating results of the IDS Acquisition are included in Woodward s Consolidated Statements of Earnings and Comprehensive Earnings as of April 15, 2011. Pro forma financial disclosures have not been presented as the IDS Acquisition was not material to Woodward s results of operations or financial position. The Company incurred transaction costs of $219 and $1,964 for the three and nine-months ending June 30, 2011, which are included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Earnings.

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WOODWARD, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)
(Unaudited)

Note 5. Financial instruments and fair value measurements

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

	At June 30, 2011		At September 30, 2010	
	Estimated Fair Value	Carrying Cost	Estimated Fair Value	Carrying Cost
Cash and cash equivalents	$ 72,598	$ 72,598	$ 105,579	$ 105,579
Investments in deferred compensation program	6,486	6,486	5,633	5,633
Short-term borrowings	(41,577)	(41,577)	(22,099)	(22,099)
Long-term debt, including current portion	(482,374)	(427,190)	(506,120)	(443,673)

The fair values of cash and cash equivalents, which include investments in money market funds, are assumed to be equal to their carrying amounts. Cash and cash equivalents have short-term maturities and market interest rates. Woodward s cash and cash equivalents include funds deposited or invested in the U.S. and overseas that are not insured by the Federal Deposit Insurance Corporation (FDIC). Woodward believes that its deposited and invested funds are held by or invested with credit worthy financial institutions or counterparties.

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

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

The fair value of long-term debt at fixed interest rates was estimated based on a model that discounted future principal and interest payments at interest rates available to the Company at the end of the period for similar debt of the same maturity. The weighted-average interest rates used to estimate the fair value of long-term debt at fixed interest rates were as follows:

	June 30, 2011	September 30, 2010
Weighted-average interest rate used to estimate fair value	2.7%	2.9%

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

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

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

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

WOODWARD, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)
(Unaudited)

The table below presents information about Woodward s financial assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques Woodward utilized to determine such fair value. Woodward had no financial liabilities required to be measured at fair value on a recurring basis as of June 30, 2011 or September 30, 2010.

	At June 30, 2011				At September 30, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Investments in money market funds	$ 8,444	$	$	$ 8,444	$ 50,360	$	$	$ 50,360
Equity securities	6,486			6,486	5,633			5,633
Foreign exchange forward contract						579		579
Total financial assets	$ 14,930	$	$	$ 14,930	$ 55,993	$ 579	$	$ 56,572

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

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

Forward contracts: As of September 30, 2010, Woodward was a party to a forward contract. The fair value of the derivative instrument was derived from published foreign currency exchange rates as of September 30, 2010. The forward contract was settled in December 2010, resulting in a realized loss of $1,033.

Note 6. Derivative instruments and hedging activities

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

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

Woodward did not enter into any hedging transactions during the three or nine-months ending June 30, 2011 and was not a party to any derivative instruments as of June 30, 2011.

In September 2010, Woodward entered into a foreign currency exchange rate contract to purchase 39,000 for approximately $52,549 in early December 2010. The objective of this derivative instrument, which was not designated as an accounting hedge, was to limit the risk of foreign currency exchange rate fluctuations on a short-term intercompany loan balance. At September 30, 2010, an unrealized gain of $579 was recorded in Woodward s Condensed Consolidated Balance Sheet under the caption Other current assets reflecting an adjustment to fair market value for the related foreign currency exchange rate contract. In December 2010, a loss of $1,033 was realized on the settlement of this forward contract and was recorded in Other (income) expense, net. The resulting correlated foreign currency gain realized on the repayment of the short-term intercompany loan balance was recorded in Woodward s Condensed Consolidated Statement of Earnings in Selling, general and administrative expenses.

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The following table discloses the remaining unrecognized gains and losses and recognized gains associated with derivative instruments in Woodward s Condensed Consolidated Balance Sheets:

	June 30, 2011	September 30, 2010
Derivatives designated as hedging instruments	**Unrecognized Gain (Loss)**	
Classified in accumulated other comprehensive earnings	$ (839)	$ (1,011)
Classified in current and long-term debt	19	70
	$ (820)	$ (941)
Derivatives not designated as hedging instruments	**Recognized Gain**	
Classified in other current assets	$	$ 579

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

		Three-Months Ending June 30, 2011			Three-Months Ending June 30, 2010		
Derivatives in:	**Location of (Gain) Loss Recognized in Earnings**	**Amount of (Income) Expense Recognized in Earnings on Derivative**	**Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative**	**Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings**	**Amount of (Income) Expense Recognized in Earnings on Derivative**	**Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative**	**Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings**
Fair value hedging relationships	Interest expense	$ (17)	$	$	$ (31)	$	$
Cash flow hedging relationships	Interest expense	57		57	70		70
Foreign currency relationships	Other (income) expense						
		$ 40	$	$ 57	$ 39	$	$ 70

Derivatives in:	Location of (Gain) Loss Recognized in Earnings	Nine-Months Ending June 30, 2011 Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings	Nine-Months Ending June 30, 2010 Amount of (Income) Expense Recognized in Earnings on Derivative	Amount of (Gain) Loss Recognized in Accumulated OCI on Derivative	Amount of (Gain) Loss Reclassified from Accumulated OCI into Earnings
Fair value hedging relationships	Interest expense	$ (51)	$	$	$ (95)	$	$
Cash flow hedging relationships	Interest expense	172		172	211		211
Foreign currency relationships	Other (income) expense	1,612			(102)		
		$ 1,733	$	$ 172	$ 14	$	$ 211

Based on the carrying value of the unrecognized gains and losses on terminated derivative instruments designated as cash flow hedges as of June 30, 2011, Woodward expects to reclassify $188 of net unrecognized losses on terminated derivative instruments from accumulated other comprehensive earnings to earnings during the next twelve months.

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Note 7. Supplemental statements of cash flows information

	Nine-Months Ending June 30,	
	2011	**2010**
Interest paid	$ 25,596	$ 27,627
Income taxes paid	33,549	27,104
Income tax refunds received	9,269	9,008
Non-cash activities:		
Purchases of property, plant and equipment on account	1,881	751
Cashless exercise of stock options	1,124	
Reduction of accounts receivable and short-term borrowing due to the settlement of accounts receivable previously sold with recourse	3,228	
Reduction of accounts payable due to the assignment of accounts receivable with recourse	570	
Reduction to goodwill due to favorable resolution of lease termination recorded in restructuring reserve	103	
Payment of director fees through issuance of treasury stock	38	

During the first quarter of fiscal 2011, Woodward negotiated a lease settlement that was favorable in comparison to the previously recorded restructuring accrual established in purchase accounting in connection with the fiscal year 2009 acquisition of MPC Products Corporation (MPC Products) and Techni-Core, Inc. (Techni-Core and together with MPC Products MPC). The resulting benefit of $103 was recorded as a reduction to goodwill.

MPC Products, one of Woodward s subsidiaries acquired in fiscal year 2009, was previously subject to an investigation by the Department of Justice (DOJ) regarding certain of its government contract pricing practices prior to June 2005. In the three-months ending December 31, 2009, MPC settled the criminal and civil claims related to the DOJ s investigation and paid $25,000 in compensation and fines. The purchase price Woodward paid in connection with the acquisition of MPC was reduced by $25,000 at the time of the acquisition, which represents the amounts discussed above. Payment of this amount during the nine-months ending June 30, 2010 is reflected as an investing activity in the accompanying Condensed Consolidated Statements of Cash Flows.

Note 8. Inventories

	June 30, 2011	September 30, 2010
Raw materials	$ 46,963	$ 19,457
Work in progress	91,971	86,438
Component parts and finished goods	248,834	189,139
	$ 387,768	$ 295,034

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Note 9. Property, plant, and equipment net

	June 30, 2011	September 30, 2010
Land	$ 14,596	$ 11,372
Buildings and improvements	179,787	171,257
Leasehold improvements	18,891	17,884
Machinery and production equipment	262,611	270,126
Computer equipment and software	62,791	57,518
Other	24,097	22,854
Construction in progress	39,265	13,125
	602,038	564,136
Less accumulated depreciation	(401,996)	(370,612)
Property, plant and equipment, net	$ 200,042	$ 193,524

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Depreciation expense	$ 10,955	$ 9,826	$ 31,279	$ 29,984

During fiscal 2010, Woodward began construction of a new 48,000 square foot system test facility in Rockford, Illinois. The facility, which will house numerous environmental system test cells and a vibration lab, will support, among other development projects, Turbine Systems development efforts of next generation fuel systems for aircraft turbines. The test facility is expected to be completed and placed into service in early fiscal year 2012. Included in construction in progress at June 30, 2011 and September 30, 2010 are $17,384 and $4,836, respectively, of costs associated with the construction of the test facility, including $805 and $165, respectively, of capitalized interest.

In addition at June 30, 2011 and September 30, 2010, Woodward recognized as construction in progress, $8,592 and $1,604, respectively, of costs associated with the development of a new Enterprise Resource Planning (ERP) system for its Airframe Systems segment, including capitalized interest of $239 and $24, respectively.

For the three and nine-months ending June 30, 2011 and June 30, 2010, Woodward had capitalized interest that would have otherwise been included in interest expense of the following:

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Capitalized interest	$ 383	$ 36	$ 896	$ 61

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Note 10. Goodwill

	September 30, 2010	Additions	Adjustments	Effects of Currency Translation	June 30, 2011
Turbine Systems	$ 86,565	$	$	$	$ 86,565
Airframe Systems	294,557		(103)	165	294,619
Electrical Power Systems	16,534	24,188		2,715	43,437
Engine Systems	40,938			273	41,211
Consolidated	$ 438,594	$ 24,188	$ (103)	$ 3,153	$ 465,832

During the first quarter of fiscal 2011, Woodward negotiated a lease settlement that was favorable in comparison to the previously recorded restructuring accrual established in purchase accounting in connection with the fiscal year 2009 acquisition of MPC. The resulting benefit of $103 was recorded as a reduction to goodwill.

During the third quarter of fiscal 2011, Woodward completed the IDS Acquisition (Note 4, *Business acquisitions*), which resulted in the recognition of $24,188 in goodwill. The operations of the IDS Acquisition will be integrated into Woodward's Electrical Power Systems segment.

Woodward tests 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. The impairment tests consist of comparing the fair value of each identified reporting unit with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, Woodward compares the implied 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.

Woodward completed its annual goodwill impairment test during the quarter ended March 31, 2011. As a part of that test, Woodward determined its Turbine Systems, Airframe Systems and Engine Systems operating segments represented individual reporting units. Woodward determined its Electrical Power Systems operating segment was represented through three discrete identifiable reporting units. The fair value of each of Woodward s reporting units was determined using a discounted cash flow method. This method represents a Level 3 input and incorporates various estimates and assumptions, the most significant being projected revenue growth rates, operating earnings margins, and forecasted cash flows based on the discount rate and terminal growth rate. Management projects revenue growth rates, operating earnings margins and cash flows based on each reporting unit s current operational results, expected performance and operational strategies over a five-year period. These projections are adjusted to reflect current economic conditions and demand for certain products and require considerable management judgment. Forecasted cash flows were discounted using an 11.3% weighted average cost of capital assumption. The terminal value of the forecasted cash flows assumed an annual compound growth rate after five years of 4.4% and was calculated using the Gordon Growth Model. These inputs, which are unobservable in the market, represent management s 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 resulting fair values of its reporting units by comparing the aggregate fair value to its market capitalization and assessing the reasonableness of any resulting premium.

The results of Woodward s fiscal year 2011 annual goodwill impairment test performed as of March 31, 2011 indicated the estimated fair value of each reporting unit was in excess of its carrying value, and accordingly, no impairment existed. At March 31, 2011 the goodwill impairment test for Woodward s Airframe Systems reporting unit, which has a significant concentration of business in the business jet and regional jet market segments that lagged in the economic recovery, indicated the closest premium, as compared to this reporting unit s carrying value. Each of Woodward s remaining reporting units had resulting fair values significantly in excess of their carrying values. Increasing the discount rate by 10%, decreasing the growth rate by 10%, or decreasing forecasted cash flow by 10%, as it relates to the Airframe Systems operating segment, would not have resulted in an impairment charge. However, an increase in the discount rate by approximately 11%, decreasing the growth rate by approximately 38%, or decreasing forecasted cash flow by approximately 15%, as it relates to the Airframe Systems operating segment would have resulted in an impairment charge.

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

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Note 11. Other intangibles net

	June 30, 2011			September 30, 2010		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Customer relationships:						
Turbine Systems	$ 44,327	$ (19,331)	$ 24,996	$ 44,327	$ (18,223)	$ 26,104
Airframe Systems	176,667	(25,019)	151,648	176,634	(13,162)	163,472
Electrical Power Systems	5,993	(1,167)	4,826	2,156	(844)	1,312
Engine Systems	20,675	(14,990)	5,685	20,675	(13,577)	7,098
Total	$ 247,662	$ (60,507)	$ 187,155	$ 243,792	$ (45,806)	$ 197,986
Intellectual property:						
Turbine Systems	$	$	$	$	$	$
Airframe Systems						
Electrical Power Systems	7,908	(4,106)	3,802	7,616	(3,567)	4,049
Engine Systems	12,616	(7,611)	5,005	12,599	(6,988)	5,611
Total	$ 20,524	$ (11,717)	$ 8,807	$ 20,215	$ (10,555)	$ 9,660
Process technology:						
Turbine Systems	$ 11,941	$ (5,208)	$ 6,733	$ 11,941	$ (4,909)	$ 7,032
Airframe Systems	62,984	(10,327)	52,657	62,967	(6,797)	56,170
Electrical Power Systems	8,289	(212)	8,077			
Engine Systems	12,593	(5,560)	7,033	12,593	(4,787)	7,806
Total	$ 95,807	$ (21,307)	$ 74,500	$ 87,501	$ (16,493)	$ 71,008
Other intangibles:						
Turbine Systems	$	$	$	$	$	$
Airframe Systems	39,648	(32,900)	6,748	39,638	(27,595)	12,043
Electrical Power Systems	2,337	(583)	1,754	1,510	(389)	1,121
Engine Systems	460	(196)	264	460	(129)	331
Total	$ 42,445	$ (33,679)	$ 8,766	$ 41,608	$ (28,113)	$ 13,495

Total intangibles:						
Turbine Systems	$ 56,268	$ (24,539)	$ 31,729	$ 56,268	$ (23,132)	$ 33,136
Airframe Systems	279,299	(68,246)	211,053	279,239	(47,554)	231,685
Electrical Power Systems	24,527	(6,068)	18,459	11,282	(4,800)	6,482
Engine Systems	46,344	(28,357)	17,987	46,327	(25,481)	20,846
Consolidated Total	$ 406,438	$ (127,210)	$ 279,228	$ 393,116	$ (100,967)	$ 292,149

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	**2010**	**2011**	**2010**
Amortization expense	$ 8,935	$ 8,635	$ 26,020	$ 26,471

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Future amortization expense associated with intangibles is expected to be:

Year Ending September 30:	
2011 (remaining)	$ 8,973
2012	33,062
2013	30,701
2014	27,545
2015	25,029
Thereafter	153,918
	$ 279,228

Note 12. Accrued liabilities

	June 30, 2011	September 30, 2010
Salaries and other member benefits	$ 57,300	$ 43,598
Current portion of restructuring and other charges	2,740	4,862
Warranties	14,522	10,851
Interest payable	5,689	11,925
Accrued retirement benefits	2,735	2,748
Deferred revenues	7,242	12,376
Taxes, other than income	1,956	4,618
Other	17,542	18,074
	$ 109,726	$ 109,052

Warranties

Provisions of Woodward s sales agreements include product warranties customary to these types of agreements. Accruals are established for specifically identified warranty issues that are probable to result in future costs. Warranty costs are accrued on a non-specific basis whenever past experience indicates a normal and predictable pattern exists. Changes in accrued product warranties were as follows:

Warranties, September 30, 2010	$ 10,851
Increases to accruals related to warranties during the period	4,070
Increases due to acquisition of IDS	2,250
Settlements of amounts accrued	(3,226)
Foreign currency exchange rate changes	577
Warranties, June 30, 2011	$ 14,522

Restructuring and other charges

The main components of accrued non-acquisition related restructuring charges include workforce management costs associated with the early retirement and the involuntary separation of employees in connection with a strategic realignment of global workforce capacity. Restructuring charges related to business acquisitions include a number of items such as those associated with integrating similar operations, workforce management, vacating certain facilities, and the cancellation of some contracts.

During the three-months ending December 31, 2010, Woodward negotiated a lease settlement that was favorable in comparison to the previously recorded restructuring accrual established in purchase accounting in connection with the fiscal year 2009 acquisition of MPC. The resulting benefit of $103 was recorded as a non-cash charge to restructuring and a reduction to goodwill previously established at the time of the acquisition of MPC. During the three-months ending December 31, 2010, Woodward also modified its exit plan related to its Pacoima, California location. As a result, the Company intends to occupy and continue operating from the Pacoima location for a longer period than originally anticipated. Accordingly, Woodward has reduced the anticipated exit costs by $1,513 for the Pacoima location.

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The summary of the activity in accrued restructuring charges during the three and nine-months ending June 30, 2011 is as follows:

	Three-Months Ending June 30, 2011		
	Restructuring Charges	Business Acquisitions	Total
Accrued restructuring charges, March 31, 2011	$ 497	$ 3,253	$ 3,750
Payments	(63)	(5)	(68)
Non-cash adjustments	3	(453)	(450)
Foreign currency exchange rates	3		3
Accrued restructuring charges, June 30, 2011	$ 440	$ 2,795	$ 3,235

	Nine-Months Ending June 30, 2011		
	Restructuring Charges	Business Acquisitions	Total
Accrued restructuring charges, September 30, 2010	$ 667	$ 5,446	$ 6,113
Payments	(208)	(705)	(913)
Non-cash adjustments	(28)	(1,946)	(1,974)
Foreign currency exchange rates	9		9
Accrued restructuring charges, June 30, 2011	$ 440	$ 2,795	$ 3,235

Other liabilities included the following amounts of accrued restructuring charges not expected to be settled within twelve months:

	June 30, 2011	September 30, 2010
Non-current accrued restructuring charges	$ 495	$ 1,251

Note 13. Other liabilities

	June 30, 2011	September 30, 2010
Net accrued retirement benefits, less amounts recognized within accrued liabilities	$ 64,797	$ 66,288
	14,441	8,720

Uncertain tax positions, net of offsetting benefits, less amounts recognized within accrued liabilities (Note 15)				
Other		11,815		8,967
	$	91,053	$	83,975

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Note 14. Other (income) expense, net

	Three-Months Ending June 30, 2011	Three-Months Ending June 30, 2010	Nine-Months Ending June 30, 2011	Nine-Months Ending June 30, 2010
Net (gain) loss on sale of assets	$ 428	$ (156)	$ 429	$ (99)
Rent income	(130)	(123)	(437)	(388)
Net (gain) loss on investments in deferred compensation program	(46)	298	(614)	(101)
Net (income) expense recognized in earnings on foreign currency derivatives (Note 6)			1,612	(102)
Other	(3)	30	(35)	65
	$ 249	$ 49	$ 955	$ (625)

For additional information regarding Net (income) expense recognized in earnings on foreign currency derivatives refer to Note 6, *Derivative instruments and hedging activities*.

Included in the Net (gain) loss on sale of assets for the three and nine-months ending June 30, 2011, is a net loss of $246 on the sale of the marketable securities acquired in the IDS Acquisition.

Note 15. Income taxes

U.S. GAAP requires that the interim period tax provision be determined as follows:

At the end of each quarter, Woodward estimates the tax that will be provided for the current fiscal year stated as a percentage of estimated ordinary income . The term ordinary income refers to earnings from continuing operations before income taxes, excluding significant unusual or infrequently occurring items.

The estimated annual effective rate is applied to the year to date ordinary income at the end of each quarter to compute the estimated year to date tax applicable to ordinary income. The tax expense or benefit related to ordinary income in each quarter is the difference between the most recent year to date and the prior quarter year to date computations.

The tax effects of significant unusual or infrequently occurring items are recognized as discrete items in the interim period in which the events occur. The impact of changes in tax laws or rates on deferred tax amounts, the effects of changes in judgment about beginning of the year valuation allowances, and changes in tax reserves resulting from the finalization of tax audits or reviews are examples of significant unusual or infrequently occurring items that are recognized as discrete items in the interim period in which the event occurs.

The determination of the annual effective tax rate is based upon a number of significant estimates and judgments, including the estimated annual pretax income of Woodward in each tax jurisdiction in which it operates, and the development of tax planning strategies during the year. In addition, as a global commercial enterprise, Woodward s tax expense can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The following table sets forth the tax expense and the effective tax rate for Woodward s income from operations:

	Three-Months Ending June 30, 2011	Three-Months Ending June 30, 2010	Nine-Months Ending June 30, 2011	Nine-Months Ending June 30, 2010
Earnings before income taxes	$ 50,855	$ 38,052	$ 128,817	$ 105,360
Income tax expense	14,799	6,187	38,272	26,873

Effective tax rate	29.1%	16.3%	29.7%	25.5%

Income taxes for the nine-months ending June 30, 2011 included an expense reduction of $3,088 related to the retroactive extension of the U.S. research and experimentation tax credit.

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During the nine-months ended June 30, 2010, the Internal Revenue Service concluded an examination of Woodward s U.S. Federal income tax returns for fiscal years 2007 and 2008. During the three-months ended June 30, 2010, Woodward completed certain internal revaluation assessments and certain statutes of limitations expired. As a result, Woodward reduced its liability for unrecognized tax benefits during the three-months ending June 30, 2010 by a net favorable amount of $6,416.

Worldwide unrecognized tax benefits were as follows, including $3,517 recorded in connection with the IDS Acquisition:

	June 30, 2011	September 30, 2010
Gross liability	$ 16,269	$ 10,586
Amount that would impact Woodward s effective tax rate, if recognized, net of expected offsetting adjustments	14,441	8,720

At this time, Woodward estimates that it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as $2,260 in the next twelve months due to the completion of reviews by tax authorities and the expiration of certain statutes of limitations.

Woodward recognizes interest and penalties related to unrecognized tax benefits in tax expense. Woodward had accrued interest and penalties of the following:

	June 30, 2011	September 30, 2010
Accured interest and penalties	$ 2,072	$ 1,431

Woodward s tax returns are audited by U.S., state, and foreign tax authorities, and these audits are at various stages of completion at any given time. Fiscal years remaining open to examination in significant foreign jurisdictions include 2003 and forward. Statutes of limitations on Woodward s U.S. Federal income tax returns remain open for fiscal year 2008 and forward. Certain subsidiaries have open tax years back to 2007, which pre-dates the inclusion of these subsidiaries in the Woodward consolidated return filing group. Woodward is subject to U.S. state income tax examinations for fiscal years 2005 and forward.

Note 16. Retirement benefits

Woodward provides various benefits to eligible members of the Company, including contributions to various defined contribution plans, pension benefits associated with defined benefit plans, postretirement medical benefits and postretirement life insurance benefits. Eligibility requirements and benefit levels vary depending on employee location. A September 30 measurement date is utilized to value plan assets and obligations for all Woodward defined benefit pension and other postretirement benefit plans.

U.S. GAAP requires that, for obligations outstanding as of September 30, 2010, the funded status reported in interim periods shall be the same asset or liability recognized in the previous year end statement of financial position adjusted for (a) subsequent accruals of net periodic benefit cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (b) contributions to a funded plan or benefit payments.

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

	Three-Months Ending June 30,						
	United States		United Kingdom		Japan		Switzerland
	2011	2010	2011	2010	2011	2010	2011
Service cost	$ 858	$ 911	$ 118	$ 92	$ 107	$ 97	$ 48
Interest cost	1,412	1,222	527	483	45	58	12
Expected return on plan assets	(1,673)	(1,189)	(572)	(505)	(65)	(59)	(12)
Amortization of:							
Transition obligation						21	
Net actuarial loss	78	173	165	127	62	54	
Prior service cost (benefit)	19	(65)			(2)	(2)	
Settlement loss						50	
Curtailment loss		165					
Net periodic retirement pension cost	$ 694	$ 1,217	$ 238	$ 197	$ 147	$ 219	$ 48
Contributions	$ 1,290	$ 940	$ 466	$ 392	$	$	$ 36

	Nine-Months Ending June 30,						
	United States		United Kingdom		Japan		Switzerland
	2011	2010	2011	2010	2011	2010	2011
Service cost	$ 2,575	$ 2,735	$ 350	$ 292	$ 321	$ 292	$ 48
Interest cost	4,235	3,667	1,556	1,518	133	178	12
Expected return on plan assets	(5,020)	(3,569)	(1,688)	(1,591)	(195)	(179)	(12)
Amortization of:							
Transition obligation						64	
Net actuarial loss	234	437	487	398	185	165	
Prior service cost (benefit)	56	(195)			(6)	(6)	
Settlement loss						50	
Curtailment loss		165					
Net periodic retirement pension cost	$ 2,080	$ 3,240	$ 705	$ 617	$ 438	$ 564	$ 48

Contributions	$ 1,290	$ 940	$ 1,406	$ 1,318	$ 2,250	$ 913	$ 36

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

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Service cost	$ 23	$ 30	$ 69	$ 90
Interest cost	494	519	1,481	1,560
Amortization of:				
Net actuarial loss	32	48	96	142
Prior service benefit	(218)	(313)	(653)	(937)
Net periodic other postretirement cost	$ 331	$ 284	$ 993	$ 855
Contributions	$ 879	$ 609	$ 2,473	$ 2,075

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The amount of cash contributions made to these plans in any year is dependent upon a number of factors, including minimum funding requirements in the jurisdictions in which Woodward operates and arrangements made with trustees of certain foreign plans. As a result, the actual funding in fiscal 2011 may differ from the current estimate. Woodward estimates its remaining cash contributions in fiscal 2011 will be as follows:

Retirement pension benefits:	
United States	$ 1,290
United Kingdom	430
Japan	
Switzerland	47
Other postretirement benefits	178

Note 17. Stock-based compensation

Stock options

Woodward s 2006 Omnibus Incentive Plan (the 2006 Plan), which is stockholder-approved, provides for the grant of up to 7,410 stock options to its members and directors. Woodward believes that such awards better align the interest of its members with those of its stockholders. Stock option awards are granted with an exercise price equal to the market price of Woodward s stock at the date of grant, and generally with a four-year vesting schedule at a vesting rate of 25% per year and a term of 10 years.

The fair value of each stock option award is estimated on the date of grant using a lattice-based option valuation model that uses the assumptions in the following table. Because the lattice-based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of Woodward s stock, and other factors. Woodward uses historical data to estimate stock option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of stock options granted is derived from the output of the option valuation model and represents the period of time that stock options granted are expected to be outstanding; the range given below results from certain participating groups exhibiting different behavior. The risk-free rate for periods within the contractual life of the stock option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Expected term	5.8 years	6.5 years	5.8 8.7 years	6.5 years
Estimated volatility	53.7%	51.0%	48.0% 54.0%	51.0%
Estimated dividend yield	1.0%	1.4%	1.0% 1.3%	1.4%
Risk-free interest rate	1.8%	2.4%	1.8% 2.6%	3.4%
Forfeiture rate	10.6%	10.8%	0% 10.6%	8.1%

WOODWARD, INC.
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The following is a summary of the activity for stock option awards during the three and nine-months ending June 30, 2011:

	Three-Months Ending June 30, 2011		Nine-Months Ending June 30, 2011	
	Number of options	Weighted-Average Exercise Price per Share	Number of options	Weighted-Average Exercise Price per Share
Options, beginning balance	4,418	$ 19.65	4,011	$ 16.87
Options granted	28	33.04	710	32.10
Options exercised	(49)	15.74	(310)	10.14
Options expired unexercised	(2)	32.73	(2)	32.73
Options forfeited	(6)	26.68	(20)	26.61
Options, ending balance	4,389	$ 19.76	4,389	$ 19.76

As of June 30, 2011, there was $11,254 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the 2002 Stock Option Plan (for which no further grants will be made) and the 2006 Plan. The remaining unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 2.7 years.

Restricted stock

In connection with Woodward s acquisition of MPC Products, restricted stock awards were granted with a two-year graded vesting schedule. The restricted stock shares participated in dividends during the vesting period. On October 1, 2010, the remaining 70 outstanding restricted stock awards vested and there were no outstanding restricted stock awards as of June 30, 2011.

Note 18. Commitments and contingencies

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, workman s compensation claims, contractual disputes, product warranty claims and alleged violations of various laws and regulations. Woodward has accrued for individual matters that it believes are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss.

Woodward is partially self-insured in the U.S. for healthcare and workman s compensation up to predetermined amounts, above which third party insurance applies. Management regularly reviews the probable outcome of these claims and proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for liabilities.

While the outcome of pending claims, proceedings and investigations 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 Woodward s liquidity, financial condition, or results of operations.

In connection with the sale of the Fuel & Pneumatic product line during fiscal year 2009, which was acquired as part of Woodward s acquisition of HR Textron, Inc., Woodward assigned to a subsidiary of the purchaser its rights and responsibilities related to certain contracts with the U.S. Government. Woodward provided to the U.S. Government a customary guarantee of the purchaser s subsidiary s performance obligations under the contracts. The purchaser and its affiliates have agreed to indemnify Woodward for any liability incurred with respect to the guarantee.

In the event of a change in control of Woodward, as defined in change-in-control agreements with its current corporate officers, Woodward may be required to pay termination benefits to such officers.

WOODWARD, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)
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Note 19. Segment information

Woodward has four operating business segments Turbine Systems, Airframe Systems, Electrical Power Systems, and Engine Systems. Woodward uses segment information internally to manage its business, including the assessment of business segment performance and making decisions on the allocation of resources between segments.

The Company s four operating business segments are strategic business units separately identified by the products and services they offer and by the markets in which they operate. Intersegment sales and transfers are made at established intersegment selling prices generally intended to approximate selling prices to unrelated parties. The Chief Executive Officer evaluates segment profit or loss based on internal performance measures for each business in a given period. In connection with that assessment, the Chief Executive Officer excludes matters such as charges for restructuring costs, interest income and expense, and certain gains and losses from asset dispositions.

A summary of consolidated net sales by segment follows:

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Segment net sales:				
Turbine Systems				
External net sales	$ 187,944	$ 148,623	$ 505,797	$ 433,553
Intersegment sales	3,010	2,545	8,744	7,144
Total segment net sales	190,954	151,168	514,541	440,697
Airframe Systems				
External net sales	102,354	93,518	282,065	274,827
Intersegment sales	603	609	1,988	1,900
Total segment net sales	102,957	94,127	284,053	276,727
Electrical Power Systems				
External net sales	54,875	36,147	160,254	128,692
Intersegment sales	17,052	11,133	46,180	29,918
Total segment net sales	71,927	47,280	206,434	158,610
Engine Systems				
External net sales	93,294	78,079	274,292	207,955
Intersegment sales	10,825	7,987	30,049	24,213
Total segment net sales	104,119	86,066	304,341	232,168
Consolidated				

External net sales	438,467	356,367	1,222,408	1,045,027
Intersegment sales	31,490	22,274	86,961	63,175
Total segment net sales	$ 469,957	$ 378,641	$ 1,309,369	$ 1,108,202

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WOODWARD, INC.
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(Amounts in thousands, except per share amounts)
(Unaudited)

A summary of consolidated earnings follows:

	Three-Months Ending June 30, 2011	Three-Months Ending June 30, 2010	Nine-Months Ending June 30, 2011	Nine-Months Ending June 30, 2010
Segment earnings:				
Turbine Systems	$ 46,067	$ 35,934	$ 123,151	$ 100,363
Airframe Systems	5,512	2,852	4,535	10,237
Electrical Power Systems	3,241	3,072	13,437	15,254
Engine Systems	9,833	9,131	28,129	18,513
Total segment earnings	64,653	50,989	169,252	144,367
Nonsegment expenses	(7,554)	(6,085)	(21,599)	(16,810)
Interest expense, net	(6,244)	(6,852)	(18,836)	(22,197)
Consolidated earnings before income taxes	$ 50,855	$ 38,052	$ 128,817	$ 105,360

Segment assets consist of accounts receivable, inventories, property, plant and equipment net, goodwill, and other intangibles net. A summary of consolidated total assets by segment follows:

	June 30, 2011	September 30, 2010
Segment assets:		
Turbine Systems	$ 381,815	$ 347,188
Airframe Systems	745,270	748,297
Electrical Power Systems	231,097	156,788
Engine Systems	229,998	204,495
Total segment assets	1,588,180	1,456,768
Unallocated corporate property, plant and equipment, net	6,853	6,111
Other unallocated assets	167,467	200,354
Consolidated total assets	$ 1,762,500	$ 1,663,233

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

(Amounts in thousands, except per share amounts)

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, 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, outlook, plan, 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;*
- *description 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 into our businesses;*
- *the development, production, and support of advanced technologies and new products and services;*
- *new business opportunities;*
- *restructuring 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 instability in the financial markets and prolonged unfavorable economic and other industry conditions;*
- *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, our restructuring 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 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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the success of, or expenses 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 risk of decline in the level of U.S. defense spending;
future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets;
future subsidiary results or changes in domestic or international tax statutes;
environmental liabilities related to manufacturing activities;
our continued access to a stable workforce and favorable labor relations with our employees;
the geographical location of a significant portion of our Airframe Systems business in California, which historically has been susceptible to natural disasters;
our ability to successfully manage regulatory, tax, and legal matters (including product liability, patent, and intellectual property matters);
liabilities resulting from legal and regulatory proceedings, inquiries, or investigations by private or U.S. Government persons or entities;
risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates, and changes in the legal and regulatory environments of 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; 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 Risk Factors in our Securities and Exchange Commission (SEC) filings and are incorporated herein by reference.

Therefore, actual results could differ materially and adversely from those expressed in any forward-looking statements. For additional information regarding factors that may affect our actual financial condition and results of operations, see the information under the caption Risk Factors in Part I, Item 1A in our most recent Annual Report on Form 10-K filed with the SEC (our Form 10-K). 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 Quarterly Report on Form 10-Q to Woodward, the Company, we, us, and our refer to Woodward, Inc. and its consolidated subsidiaries.

Amounts presented in this Quarterly Report on Form 10-Q are in thousands except per share amounts.

This discussion should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC and the Condensed Consolidated Financial Statements and Notes included in this report.

Non-U.S. GAAP Financial Measures

Earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA) and free cash flow are financial measures not prepared and presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Management uses EBIT to evaluate Woodward s operating performance without the impacts of financing and tax related considerations. 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. Management uses free cash flow, which is derived from cash flows provided by operating activities, in reviewing the financial performance of Woodward s various business segments and evaluating cash generation levels. Securities analysts, investors, and others frequently use EBIT, EBITDA and free cash flow in their evaluation of companies, particularly those with significant property, plant, and equipment, and intangible assets that are subject to amortization. The use 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. Because EBIT and EBITDA exclude certain financial information compared with net earnings, the most comparable U.S. GAAP financial measure, users of this financial information should consider the information that is excluded. 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 calculations of EBIT, EBITDA and free cash flow may differ from similarly titled measures used by other companies, limiting their usefulness as comparative measures.

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EBIT and EBITDA for the three and nine-months ending June 30, 2011 and June 30, 2010 were as follows:

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Net earnings	$ 36,056	$ 31,865	$ 90,545	$ 78,487
Income taxes	14,799	6,187	38,272	26,873
Interest expense	6,361	6,949	19,161	22,524
Interest income	(117)	(97)	(325)	(327)
EBIT	57,099	44,904	147,653	127,557
Amortization of intangible assets	8,935	8,635	26,020	26,471
Depreciation expense	10,955	9,826	31,279	29,984
EBITDA	$ 76,989	$ 63,365	$ 204,952	$ 184,012

Free cash flow for the nine-months ending June 30, 2011 and June 30, 2010 was as follows:

	Nine-Months Ending June 30,	
	2011	2010
Net cash provided by operating activities	$ 46,800	$ 161,609
Capital expenditures	(32,640)	(18,834)
Free cash flow	$ 14,160	$ 142,775

OVERVIEW

Operational Highlights

Quarterly Highlights

Net sales for the third quarter of fiscal 2011 were $438,467, an increase of 23.0% from $356,367 for the third quarter of the prior fiscal year. We saw sales growth across all of our business segments, predominantly as a result of the overall global economic recovery, as compared to the third quarter of fiscal 2010.

Net earnings attributable to Woodward for the third quarter of fiscal 2011 were $36,056, or $0.51 per diluted share, compared to $31,745, or $0.45 per diluted share, for the third quarter of fiscal 2010. Net earnings were positively affected by the increased sales volume, partially offset by increased variable compensation and investment in research and development.

EBIT for the third quarter of fiscal 2011 was $57,099, up 27.2% from $44,904 in the same period of fiscal 2010, primarily due to increased sales volume.

During the third quarter of fiscal 2011, we acquired of all of the outstanding stock of 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) for an aggregate purchase price of approximately $48,412, which included approximately $8,463 in marketable securities.

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IDS is a developer and manufacturer of innovative power electronics systems predominantly in utility scale wind turbines and photovoltaic power plants. Additionally, IDS offers key products in both power distribution and marine propulsion systems. In addition to wind turbines and photovoltaic power plants, its products are used in offshore oil and gas platforms, energy storage and distribution systems, and a variety of industrial applications. IDS is being integrated into Woodward s Electrical Power Systems business segment.

Year to Date Highlights

Net sales for the first nine months of fiscal 2011 were $1,222,408, an increase of 17.0% from $1,045,027 for the first nine months of the prior fiscal year. On a year to date basis, we saw growth across all of our business segments, with the majority of the growth occurring in our Turbine Systems and Engine Systems segments.

Net earnings attributable to Woodward for the first nine months of fiscal 2011 were $90,545, or $1.29 per diluted share, compared to $78,169, or $1.12 per diluted share, for the first nine months of fiscal 2010. Net earnings were positively affected by increased sales volumes, partially offset by increased investment in research and development, increased variable compensation and a reduction in customer funded development revenue. Net earnings attributable to Woodward for the first nine months of fiscal 2011 also included a charge of approximately $2,300, or $0.03 per share, net of approximately $1,300 tax benefit, related to a change in the estimate of future workman s compensation costs. Net earnings attributable to Woodward for the third quarter and first nine months of fiscal 2010 also reflects the favorable resolution of prior year tax matters, which resulted in a reduction to tax expense of $6,416, or $0.09 per share.

EBIT for the first nine months of fiscal 2011 was $147,653, up 15.8% from $127,557 in the same period of fiscal 2010.

Liquidity Highlights

Net cash provided by operating activities for the first nine months of fiscal 2011 was $46,800 compared to $161,609 for the same period of fiscal 2010, reflecting the increase in working capital utilization primarily associated with increased inventory levels necessary to support future sales growth.

Free cash flow for the first nine months of fiscal 2011 was $14,160 compared to $142,775 for the same period of fiscal 2010.

EBITDA increased by $20,940 to $204,952 for the first nine months of fiscal 2011 from $184,012 for the same period of fiscal 2010.

At June 30, 2011, we held $72,598 in cash and cash equivalents, and had total outstanding debt of $468,786. At June 30, 2011, under our $225,000 revolving credit facility, we had additional borrowing availability of $179,330, net of outstanding letters of credit, and additional borrowing capacity of $29,086 under various foreign credit facilities.

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RESULTS OF OPERATIONS

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

	Three-Months Ending				Nine-Months Ending			
	June 30, 2011	**% of Net Sales**	**June 30, 2010**	**% of Net Sales**	**June 30, 2011**	**% of Net Sales**	**June 30, 2010**	**% of Net Sales**
Net sales	$ 438,467	100.0%	$ 356,367	100.0%	$ 1,222,408	100.0%	$ 1,045,027	100.0%
Cost of goods sold	304,441	69.4	249,966	70.1	858,138	70.2	733,834	70.2
Selling, general, and administrative expenses	38,470	8.8	31,394	8.8	109,581	9.0	98,359	9.4
Research and development costs	29,273	6.7	21,419	6.0	80,061	6.5	59,431	5.7
Amortization of intangible assets	8,935	2.0	8,635	2.4	26,020	2.1	26,471	2.5
Interest expense	6,361	1.5	6,949	1.9	19,161	1.6	22,524	2.2
Interest income	(117)	(0.0)	(97)	(0.0)	(325)	(0.0)	(327)	(0.0)
Other (income) expense, net	249	0.1	49	0.0	955	0.1	(625)	(0.1)
Consolidated costs and expenses	387,612	88.4	318,315	89.3	1,093,591	89.5	939,667	89.9
Earnings before income taxes	50,855	11.6	38,052	10.7	128,817	10.5	105,360	10.1
Income tax expense	14,799	3.4	6,187	1.7	38,272	3.1	26,873	2.6
Net earnings	36,056	8.2	31,865	8.9	90,545	7.4	78,487	7.5
Net earnings attributable to noncontrolling interest, net			(120)	(0.0)			(318)	(0.0)
Net earnings attributable to Woodward	$ 36,056	8.2%	$ 31,745	8.9%	$ 90,545	7.4%	$ 78,169	7.5%

Other select financial data:

	June 30, 2011	**September 30, 2010**
Working capital	$ 523,567	$ 456,577
Short-term borrowings	41,577	22,099
Total debt	468,786	465,842
Total stockholders equity	898,298	803,194

Net sales

Consolidated net sales for the third quarter and first nine months of fiscal 2011 increased by $82,100, or 23.0%, and $177,381, or 17.0%, respectively, compared to the same periods of fiscal 2010. Details of the changes in consolidated net sales are as follows:

	Three-Month Period	Nine-Month Period
Consolidated net sales for the period ending June 30, 2010	$ 356,367	$ 1,045,027
Turbine Systems volume changes	32,957	60,258
Airframe Systems volume changes	11,259	16,410
Airframe Systems customer funded development	(2,423)	(9,172)
Electrical Power Systems volume changes	14,882	33,251
Engine Systems volume changes	11,232	60,617
Price changes	2,748	6,742
Effects of changes in foreign currency rates	11,445	9,275
Consolidated net sales for the period ending June 30, 2011	$ 438,467	$ 1,222,408

The increase in net external sales in the third quarter and first nine months of fiscal 2011 was attributable to sales volume increases across all our segments, offset partially by decreased customer funded development project revenue within Airframe Systems. Net external sales for the third quarter and first nine months of fiscal 2011 were also impacted by favorable price changes and foreign currency exchange rates.

As part of their component and system offerings, Turbine Systems and Engine Systems in some cases sell electronic controls manufactured by Electrical Power Systems. Engine Systems also manufactures certain components of larger systems ultimately sold by Turbine Systems.

Price changes: Increases in selling prices across several products in Turbine Systems and Engine Systems were partially offset by decreases in selling prices for some wind related Electrical Power Systems products. Selling price changes were in response to prevailing market conditions.

Foreign currency exchange rates: 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). A 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. For additional information on foreign currency exchange rate risk refer to the risks summarized under the caption Risk Factors in Part I, Item 1A of our most recent Annual Report on Form 10-K filed with the SEC.

Costs and Expenses

Cost of goods sold increased by $54,475 to $304,441, or 69.4% of net sales, for the third quarter of fiscal 2011 from $249,966, or 70.1% of net sales, for the third quarter of fiscal 2010. Cost of goods sold increased to $858,138, or 70.2% of net sales, for the first nine months of fiscal 2011 from $733,834, or 70.2% of net sales, for the first nine months of fiscal 2010. Correspondingly, gross margins (as measured by net sales less cost of goods sold, divided by net sales) increased to 30.6% for the third quarter of fiscal 2011 compared to 29.9% for the same period of the prior year and remained flat at 29.8% for the first nine months of fiscal 2011 compared to fiscal 2010.

Selling, general, and administrative expenses increased by $7,076, or 22.5%, to $38,470 for the third quarter of fiscal 2011 as compared to $31,394 for the same period of fiscal 2010. Selling, general and administrative expenses were flat as a percentage of net sales at 8.8% for the third quarter of fiscal 2011 compared to fiscal 2010. Selling, general, and administrative expenses increased by $11,222, or 11.4%, to $109,581 for the first nine months of fiscal 2011 as compared to $98,359 for the same period of fiscal 2010. Selling, general and administrative expenses decreased as a percentage of net sales to 9.0% for the first nine months of fiscal 2011 as compared to 9.4% for the same period of fiscal 2010.

Research and development costs increased by $7,854, or 36.7%, to $29,273 for the third quarter of fiscal 2011 as compared to $21,419 for the same period of fiscal 2010. Research and development costs increased by $20,630, or 34.7%, to $80,061 for the first nine months of fiscal 2011 as compared to $59,431 for the same period of fiscal 2010. Research and development costs increased as a percentage of net sales to 6.7% and 6.5% for the third quarter and first nine months of fiscal 2011, respectively, as compared to 6.0% and 5.7% for the same respective periods of fiscal 2010. Our research and development activities extend across almost our entire customer base. The increase in research and development costs is primarily due to our investment in development of next generation technology and successful capture of new product platforms.

Amortization of intangible assets increased slightly to $8,935 and decreased slightly to $26,020 for the third quarter and first nine months of fiscal 2011, respectively, compared to $8,635 and $26,471 for the same periods in fiscal 2010. As a percentage of net sales, amortization of intangible assets decreased to 2.0% and 2.1% for the third quarter and first nine months of fiscal 2011, respectively, as compared to 2.4% and 2.5% for the same respective periods of the prior year.

Interest expense decreased to $6,361, or 1.5% of net sales, and $19,161, or 1.6% of net sales, for the third quarter and first nine months of fiscal 2011, respectively, compared to $6,949, or 1.9% of net sales, and $22,524, or 2.2% of net sales, for the same respective periods of the prior fiscal year. The decrease in interest expense is due to related debt reductions.

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Income taxes were provided at an effective rate on earnings before income taxes of 29.1% and 29.7% for the third quarter and first nine months of fiscal 2011, respectively, compared to 16.3% and 25.5% for the same respective periods of fiscal 2010. The change in the effective tax rate (as a percentage of earnings before income taxes) was attributable to the following:

	Three-Month Period	Nine-Month Period
Effective tax rate for the period ending June 30, 2010	16.3%	25.5%
Research credit in fiscal 2011 as compared to fiscal 2010	(3.1)	(3.0)
Adjustment of tax issues recorded in the period ending June 30, 2010	18.2	8.2
Adjustment of tax issues recorded in the period ending June 30, 2011	(3.1)	(1.3)
Domestic production activities deduction	(0.9)	(0.9)
Foreign tax rate differences	1.2	1.2
Other changes, net	0.5	
Effective tax rate for the period ending June 30, 2011	29.1%	29.7%

During the nine-months ending June 30, 2010, the Internal Revenue Service concluded an examination of our U.S. Federal income tax returns for fiscal years 2007 and 2008. During the three-months ending June 30, 2010, we completed certain internal revaluation assessments and certain statues of limitations expired. As a result, we reduced our liability for unrecognized tax benefits during the three-months ending June 30, 2010 by a net favorable amount of $6,416.

On December 17, 2010, legislation was enacted that retroactively extended the U.S. research tax credit, which had expired as of December 31, 2009. As a result of this extension, the first nine months of fiscal 2011 includes the effect of recognizing a tax benefit of $3,088 related to recognition of the retroactive impact to the prior year.

In January 2011, the State of Illinois increased its corporate income tax rate from 7.3% to 9.5% effective January 1, 2011. This tax rate increase is not expected to have a material impact on Woodward s Consolidated Financial Statements.

Segment Results

The following table presents sales by segment:

	Three-Months Ending June 30,				Nine-Months Ending June 30,			
	2011		2010		2011		2010	
Segment net sales:								
Turbine Systems	$ 190,954	43.6%	$ 151,168	42.4%	$ 514,541	42.1%	$ 440,697	42.2%
Airframe Systems	102,957	23.5	94,127	26.4	284,053	23.2	276,727	26.5
Electrical Power Systems	71,927	16.4	47,280	13.3	206,434	16.9	158,610	15.2
Engine Systems	104,119	23.7	86,066	24.2	304,341	24.9	232,168	22.2
Total segment net sales	469,957	107.2	378,641	106.3	1,309,369	107.1	1,108,202	106.0
Less intersegment net sales:								
Turbine Systems	(3,010)	(0.7)	(2,545)	(0.7)	(8,744)	(0.7)	(7,144)	(0.7)
Airframe Systems	(603)	(0.1)	(609)	(0.2)	(1,988)	(0.2)	(1,900)	(0.2)
Electrical Power Systems	(17,052)	(3.9)	(11,133)	(3.1)	(46,180)	(3.8)	(29,918)	(2.9)
Engine Systems	(10,825)	(2.5)	(7,987)	(2.2)	(30,049)	(2.5)	(24,213)	(2.3)
	(31,490)	(7.2)	(22,274)	(6.3)	(86,961)	(7.1)	(63,175)	(6.0)

Total intersegment net sales								
Consolidated net sales	$ 438,467	100.0%	$ 356,367	100.0%	$ 1,222,408	100.0%	$ 1,045,027	100.0%

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The following table presents earnings by segment:

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Turbine Systems	$ 46,067	$ 35,934	$ 123,151	$ 100,363
Airframe Systems	5,512	2,852	4,535	10,237
Electrical Power Systems	3,241	3,072	13,437	15,254
Engine Systems	9,833	9,131	28,129	18,513
Total segment earnings	64,653	50,989	169,252	144,367
Nonsegment expenses	(7,554)	(6,085)	(21,599)	(16,810)
Interest expense, net	(6,244)	(6,852)	(18,836)	(22,197)
Consolidated earnings before income taxes	50,855	38,052	128,817	105,360
Income tax expense	(14,799)	(6,187)	(38,272)	(26,873)
Consolidated net earnings	$ 36,056	$ 31,865	$ 90,545	$ 78,487

The following table presents earnings by segment as a percentage of segment net sales, which includes intersegment sales:

	Three-Months Ending June 30,		Nine-Months Ending June 30,	
	2011	2010	2011	2010
Turbine Systems	24.1%	23.8%	23.9%	22.8%
Airframe Systems	5.4	3.0	1.6	3.7
Electrical Power Systems	4.5	6.5	6.5	9.6
Engine Systems	9.4	10.6	9.2	8.0

Turbine Systems

Turbine Systems segment net sales (including intersegment sales) were $190,954 and $514,541 for the third quarter and first nine months of fiscal 2011, respectively, compared to $151,168 and $440,697 for the same periods of fiscal 2010. Sales were higher in both industrial turbine and aerospace markets during the third quarter and first nine months of fiscal 2011. Third quarter 2011 sales for the industrial turbine market were particularly strong in the steam, aeroderivative and heavy frame products, which also show favorable net sales results for the first nine months of fiscal 2011 as compared to the same period in the previous year. Sales for the aerospace aftermarket, in the third quarter and first nine months of fiscal 2011, continued to benefit from increased passenger and cargo air traffic, and the production of new aircraft platforms on which Turbine Systems products are used.

We believe the fleet dynamics of commercial aircraft platforms on which we have content, such as the Airbus A320, the Boeing 777, the Embraer and the Bombardier 70- to 90-seat regional jets, allowed our aftermarket business to be somewhat less negatively impacted by the effects of the recent economic down-cycle than some of our competitors and have supported sales growth as a result of the more recent rebound in air traffic. Commercial original equipment manufacturer (OEM) aircraft deliveries of narrow-body and wide-body aircraft have increased based on an increase in OEM production rates and orders. Sales in the power generation market have benefited from the continued recovery of the global economy and shift to natural gas. As a result, demand for industrial turbine equipment has strengthened, particularly in emerging markets and Japan.

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Turbine Systems segment earnings increased by $10,133, or 28.2%, and $22,788, or 22.7%, for the third quarter and first nine months of fiscal 2011, as compared to the same periods of fiscal 2010 due to the following:

	Three-Month Period	Nine-Month Period
Earnings for the period ending June 30, 2010	$ 35,934	$ 100,363
Sales volume changes	12,117	21,985
Selling price changes	3,093	8,559
Sales mix	1,584	8,654
Investments in engineering and research and development	(1,700)	(5,921)
Changes in variable compensation	(2,709)	(5,612)
Increased costs to support sales growth	(1,450)	(2,807)
Effects of changes in foreign currency rates	249	(271)
Other, net	(1,051)	(1,799)
Earnings for the period ending June 30, 2011	$ 46,067	$ 123,151

The increases in Turbine Systems segment earnings in the third quarter and first nine months of fiscal 2011 compared to the same periods of fiscal 2010 were primarily as a result of sales volume increases, selling price changes and a more favorable sales mix due to increased levels of aftermarket sales, partially offset by increased costs associated with new product development, variable compensation and costs associated with organizational infrastructure to support sales growth. The sales mix during the third quarter and first nine months of fiscal 2011 continued to include a higher proportion of aftermarket sales than the same period in fiscal 2010 as a result of increased air traffic. Earnings as a percentage of sales increased to 24.1% and 23.9% in the third quarter and first nine months of fiscal 2011, respectively, compared to 23.8% and 22.8% for the same periods of fiscal 2010.

Airframe Systems

Airframe Systems segment net sales (including intersegment sales) were $102,957 and $284,053 for the third quarter and first nine months of fiscal 2011, respectively, compared to $94,127 and $276,727 for the same periods of fiscal 2010. The increase in sales for the third quarter continues to reflect recovering demand for business and regional jets and a steady level of military sales, partially offset by reduced levels of customer funded development revenue. Additionally, military sales, primarily in our guided weapons products, contributed to increased fiscal 2011 third quarter sales. The increase in sales for the first nine months of fiscal 2011, as compared to the same period of the previous year, is attributable to increased OEM sales, primarily for rotorcraft and business and regional jets, offset by reduced demand for various military applications, which occurred in the first quarter of fiscal 2011, and decreased funding for customer development projects.

Airframe Systems segment earnings increased to $5,512 in the third quarter from $2,852 in the same period of fiscal 2010 and decreased to $4,535 in the first nine months of fiscal 2011 compared to $10,237 for the same period of fiscal 2010 due to the following:

	Three-Month Period	Nine-Month Period
Earnings for the period ending June 30, 2010	$ 2,852	$ 10,237
Sales volume changes	4,490	4,678
Sales mix	741	(1,237)
Customer funded development	(2,130)	(8,879)
Changes in variable compensation	(2,072)	(3,402)
Savings related to workforce management		2,369
Workman s compensation costs		(2,232)
Restructuring costs		1,411

Other, net	1,631	1,590
Earnings for the period ending June 30, 2011	5,512	4,535

The increase in Airframe Systems segment earnings for the third quarter of fiscal 2011 was primarily due to increases in sales volume and favorable sales mix, partially offset by decreases in customer funded development revenue and increases in variable compensation. The decrease in Airframe Systems segment earnings for the first nine months of fiscal 2011 is due to decreased customer funded development revenue, increased variable compensation, and a charge related to a change in the estimate of future workman s compensation costs, partially offset by increased sales volume, savings related to workforce management, and a reversal of previously accrued restructuring costs attributable to the early termination of a leased facility.

Electrical Power Systems

Electrical Power Systems segment net sales (including intersegment sales) were $71,927 and $206,434 for the third quarter and first nine months of fiscal 2011, respectively, compared to $47,280 and $158,610 for the same periods of fiscal 2010. During the third quarter fiscal 2011, wind turbine converter sales increased as a result of increased market share, primarily in China and India, and an increase in demand from existing customers. The third quarter of fiscal 2011 also experienced sales increases in non-wind power generation and distribution equipment, partially offset by strategic price decreases. Sales for the first nine months of fiscal 2011 increased principally due to increased demand for our wind turbine converters and non-wind power generation and distribution equipment, with sales related to power station projects down slightly as compared to the same period of fiscal 2010.

Although wind turbine converter sales increased in the first nine months of fiscal 2011 as compared to the same period in fiscal 2010, wind converter demand continues to be impacted by tight lender requirements for project financing and uncertainty regarding government stimulus programs due to a lack of clear policy direction in the U.S. and elsewhere.

Intersegment sales increased to $17,052 and $46,180 in the third quarter and first nine months of fiscal 2011, respectively, from $11,133 and $29,918 for the same periods of fiscal 2010 reflecting the strength in demand from Engine Systems and Turbine Systems customers.

Electrical Power Systems segment earnings increased by $169, or 5.5%, for the third quarter as compared to the same period in fiscal 2010 and decreased by $1,817, or 11.9%, for first nine months of fiscal 2011 as compared to the same period of fiscal 2010 due to the following:

	Three-Month Period	Nine-Month Period
Earnings for the period ending June 30, 2010	$ 3,072	$ 15,254
Sales volume changes	3,499	14,446
Selling price changes	(478)	(2,640)
Sales mix	(1,271)	(2,819)
Investments in engineering and research and development	(718)	(1,854)
Changes in variable compensation	(1,163)	(2,794)
Increase in global expansion efforts		(3,625)
Quality costs		(1,249)
Effects of changes in foreign currency rates	410	(605)
Other, net	(110)	(677)
Earnings for the period ending June 30, 2011	$ 3,241	$ 13,437

The increase in Electrical Power Systems segment earnings for the third quarter of fiscal 2011 as compared to the same period in the prior year was due to increased volume, partially offset by unfavorable sales mix, increased variable compensation costs, and price reductions to support market share gains. The decrease in Electrical Power Systems segment earnings for the first nine months of fiscal 2011 as compared to the same period in the prior year was driven mainly by increased global expansion effort costs, strategic price reductions to support market share gains and increased variable compensation. The benefit attributable to increased sales volume includes the affect of costs associated with recently expanded production facilities to serve the global customer base and product mix. These factors associated with the first nine months of fiscal 2011 were partially offset by increased sales volume of both wind turbine converters and non-wind power generation and distribution equipment.

Engine Systems

Engine Systems segment net sales (including intersegment sales) were $104,119 and $304,341 for the third quarter and first nine months of fiscal 2011, respectively, compared to $86,066 and $232,168 for the same periods of fiscal 2010. The overall increase in sales for both the third quarter and the first nine months of fiscal 2011 compared to the same periods of fiscal 2010 was driven by increased sales volume in all markets served by Engine Systems. The strong growth continued to be recognized in the sales of energy control solutions used in small diesel and natural gas engine applications, which serve primarily construction, agricultural, and on-highway natural gas vehicles. Sales increases of energy control solutions used in large engine applications, which serve the power generation, marine, and process markets, were primarily attributable to increased demand for engines burning specialty fuels or for new power projects.

Engine Systems segment earnings increased by $702, or 7.7%, and $9,616, or 51.9%, for the third quarter and first nine months of fiscal 2011, respectively, as compared to the same periods of fiscal 2010 due to the following:

	Three-Month Period	Nine-Month Period
Earnings for the period ending June 30, 2010	$ 9,131	$ 18,513
Sales volume changes	5,114	24,447
Selling price changes	133	823
Sales mix	(616)	(5,097)
Investments in engineering and research and development	(1,509)	(5,124)
Changes in variable compensation	(1,388)	(3,111)
Freight and duty costs	(200)	(1,512)
Effects of changes in foreign currency rates	363	924
Other, net	(1,195)	(1,734)
Earnings for the period ending June 30, 2011	$ 9,833	$ 28,129

For both the third quarter and the first nine months of fiscal 2011, increased segment earnings, compared to the same periods in fiscal 2010, were primarily driven by higher sales volumes, partially offset by increased investment in research and development, increases in variable compensation and an unfavorable sales mix.

Non-segment expenses

Non-segment expenses for the third quarter and first nine months of fiscal 2011 increased to $7,554, or 1.7% of net sales, and $21,599, or 1.8% of net sales, respectively, compared to $6,085, or 1.7% of net sales, and $16,810, or 1.6% of net sales, for the same periods of fiscal 2010. The increase in non-segment expenses for the third quarter and first nine months of fiscal 2011 resulted primarily from increased variable compensation.

LIQUIDITY AND CAPITAL RESOURCES

We believe liquidity and cash generation are important to our strategy of self-funding our ongoing operating needs. Historically, we have been able to satisfy our working capital needs, including capital expenditures, product development and other liquidity requirements associated with our operations, with cash flow provided by operating activities. We expect that cash generated from our operating activities will be sufficient to fund our continuing operating needs.

Our aggregate cash and cash equivalents were $72,598 and $105,579 and our working capital was $523,567 and $456,577 at June 30, 2011 and September 30, 2010, respectively. Of the $72,598 of cash and cash equivalents held at June 30, 2011, $64,902 is held in foreign subsidiaries. We are not presently aware of any restrictions on the repatriation of these funds, although a portion is considered permanently invested in these foreign subsidiaries. If these funds were needed to fund our operations or satisfy obligations in the U.S., they could be repatriated and their repatriation into the U.S. may cause us to incur additional U.S. income taxes on foreign withholding taxes. Any additional taxes could be offset, in part or in whole, by foreign tax credits. The amount of such taxes and application of tax credits would be dependent on the income tax laws and other circumstances at the time these amounts are repatriated.

In the event we are unable to generate sufficient cash flows from operating activities, we have a revolving credit facility comprised of unsecured financing arrangements with a syndicate of U.S. banks totaling $225,000. Under the revolving credit facility, we have an option to increase our available borrowings by $125,000 to $350,000, subject to the lenders participation. In addition, we have various foreign lines of credit, some of which are tied to net amounts on deposit at certain foreign financial institutions: these are generally reviewed annually for renewal. Historically, we have used borrowings under these foreign lines of credit to finance certain local operations on a periodic basis.

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At June 30, 2011, we had $41,000 of borrowings outstanding under our revolving credit facility and had foreign short-term borrowings outstanding of $577. The maximum daily balance during the period occurred in connection with the IDS Acquisition. Short-term borrowing activity during the nine-months ending June 30, 2011 follows:

Maximum daily balance during the period	$ 67,573
Average daily balance during the period	27,167
Weighted average interest rate on average daily balance	1.08%

At June 30, 2011, we had total outstanding debt of $468,786 with additional borrowing availability of $179,330 under our $225,000 revolving credit facility, net of outstanding letters of credit, and additional borrowing availability of $29,086 under various foreign credit facilities.

We were in compliance with all covenants under our revolving credit facility and long-term debt agreements during the nine-months ending June 30, 2011.

In addition to utilizing our cash resources to fund the working capital needs of our business, we evaluate additional strategic uses of our funds, including the repurchase of our stock, payment of dividends, and consideration of strategic acquisitions and other potential uses of cash.

We believe we have adequate access to several sources of contractually committed borrowings and other available credit facilities. However, we could be adversely affected if the banks supplying our short-term borrowing requirements refuse to honor their contractual commitments, cease lending, or declare bankruptcy. While we believe the lending institutions participating in our credit arrangements are financially capable, recent events in the global credit markets, including the failure, takeover or rescue by various government entities of major financial institutions, have created uncertainty with respect to credit availability.

Our ability to service our long-term debt, to remain in compliance with the various restrictions and covenants contained in our debt agreements and to fund working capital, capital expenditures and product development efforts will depend on our ability to generate cash from operating activities which in turn is subject to, among other things, future operating performance as well as general economic, financial, competitive, legislative, regulatory, and other conditions, some of which may be beyond our control.

Cash Flows Summary

	Nine-Months Ending June 30,	
	2011	**2010**
Net cash provided by operating activities	$ 46,800	$ 161,609
Net cash used in investing activities	(71,554)	(42,906)
Net cash used in financing activities	(9,502)	(137,669)
Effect of exchange rate changes on cash and cash equivalents	1,275	(3,189)
Net change in cash and cash equivalents	(32,981)	(22,155)
Cash and cash equivalents at beginning of period	105,579	100,863
Cash and cash equivalents at end of period	$ 72,598	$ 78,708

Net cash flows provided by operating activities for the first nine months of fiscal 2011 was $46,800 compared to $161,609 in the same period of fiscal 2010. The decrease during the first nine months of fiscal 2011 is attributable to the utilization of working capital primarily associated with increased investment in inventory levels and accounts receivable. The increase in inventory is due to anticipated deliveries scheduled for coming quarters as well as the effect of some sourcing inefficiencies.

Net cash flows used in investing activities for the first nine months of fiscal 2011 was $71,554 compared to $42,906 in the same period of fiscal 2010. The increase of $28,474 compared to the same period of the last fiscal year is due primarily to the IDS Acquisition completed in the third quarter of fiscal 2011 utilizing net cash of $47,161. Cash paid for capital expenditures was $32,640 during the first nine months of fiscal 2011, compared to $18,834 during the same period of fiscal 2010. Cash flows used in investing activities for the first nine months of fiscal 2010 included a $25,000 settlement with the Department of Justice (DOJ) associated with a liability assumed in the acquisition of MPC Products Corporation (MPC Products) and Techni-Core, Inc. (Techni-Core and together with MPC Products, MPC). The purchase price we paid in connection with the acquisition of MPC was reduced by a corresponding amount and the payment was recognized as cash used for business acquisition.

Net cash flows used in financing activities for the first nine months of fiscal 2011 was $9,502 as compared to $137,669 in net cash flows used for the same period of fiscal 2010. During the first nine months of fiscal 2011, we had net short-term borrowings of $22,940, repaid $16,500 in scheduled long-term debt reductions, and paid stockholder dividends of $13,764. In addition, during this same period, we utilized $6,837 to repurchase 208 shares of our common stock.

During the first nine months of fiscal 2010, we repaid $118,582 of outstanding long-term debt, including unscheduled prepayments of $90,000, paid stockholder dividends of $12,971, and purchased the remaining non-controlling interest in Woodward Governor India Limited, a Woodward consolidated subsidiary, for $8,120. As a result of acquiring the remaining non-controlling interest, Woodward owns 100% of Woodward Governor India Limited. In addition, during the first nine months of fiscal 2010, we utilized $2,383 to purchase 85 shares of treasury stock, including $1,515 that was used to repurchase 55 shares of our common stock on the open market.

Contractual Obligations

We have various contractual obligations, including obligations related to long-term debt, operating leases, purchases, retirement pension benefit plans, and other postretirement benefit plans. These contractual obligations are summarized and discussed more fully in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC. There have been no material changes to our various contractual obligations during the first nine months of fiscal 2011.

Critical Accounting Policies

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 Condensed Consolidated Financial Statements and accompanying notes. Note 1, *Operations and summary of significant accounting policies*, to the Consolidated Financial Statements in our most recent Annual Report on Form 10-K filed with the SEC describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Our critical accounting estimates, identified in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC include the discussion of estimates used for revenue recognition, purchase accounting, inventory valuation, postretirement benefit obligations, reviews for impairment of goodwill, and our provision for income taxes. Such accounting policies and estimates require significant judgments and assumptions to be used in the preparation of the Condensed Consolidated Financial Statements, and actual results could differ materially from the amounts reported.

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. The impairment tests consist of comparing the fair value of each identified reporting unit with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, we compare the implied 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.

We completed our annual goodwill impairment test during the quarter ended March 31, 2011. As a part of that test, we determined our Turbine Systems, Airframe Systems and Engine Systems operating segments represented individual reporting units. We determined our Electrical Power Systems operating segment was represented through three discrete identifiable reporting units. The fair value of each of our reporting units was determined using a discounted cash flow method. This method represents a Level 3 input and incorporates various estimates and assumptions, the most significant being projected revenue growth rates, operating earnings margins, and forecasted cash flows based on the discount rate and terminal growth rate. Management projects revenue growth rates, operating earnings margins and cash flows based on each reporting unit s current operational results, expected performance and operational strategies over a five-year period. These projections are adjusted to reflect current economic conditions and demand for certain products and require considerable management judgment.

Forecasted cash flows were discounted using an 11.3% weighted average cost of capital assumption. The terminal value of the forecasted cash flows assumed an annual compound growth rate after five years of 4.4% and was calculated using the Gordon Growth Model. These inputs, which are unobservable in the market, represent management s estimate of what market participants would use in determining the present value of our forecasted cash flows. Changes in these estimates and assumptions can have a significant impact on the fair value of forecasted cash flows. We evaluated the reasonableness of the resulting fair values of our reporting units by comparing the aggregate fair value to our market capitalization and assessing the reasonableness of any resulting premium.

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The results of our fiscal year 2011 annual goodwill impairment test performed as of March 31, 2011 indicated the estimated fair value of each reporting unit was in excess of its carrying value, and accordingly, no impairment existed. At March 31, 2011 the goodwill impairment test for our Airframe Systems reporting unit, which has a significant concentration of business in the business jet and regional jet market segments that lagged in the economic recovery, indicated the closest premium, as compared to this reporting unit s carrying value. Each of our remaining reporting units had resulting fair values significantly in excess of their carrying values. Increasing the discount rate by 10%, decreasing the growth rate by 10%, or decreasing forecasted cash flow by 10%, as it relates to the Airframe Systems operating segment, would not have resulted in an impairment charge. However, an increase in the discount rate by approximately 11%, decreasing the growth rate by approximately 38%, or decreasing forecasted cash flow by approximately 15%, as it relates to our Airframe Systems operating segment, would have resulted in an impairment charge.

As part of our ongoing monitoring efforts, we will continue to consider the global economic environment and its potential impact on our business in assessing goodwill recoverability. There can be no assurance that our estimates and assumptions regarding forecasted cash flows of certain reporting units, the period or strength of the current economic recovery, or the other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

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). Unless otherwise discussed, we believe that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on our Condensed Consolidated Financial Statements upon adoption.

To understand the impact of recently issued guidance, whether adopted or to be adopted, please review the information provided in Note 2, *Recent accounting pronouncements,* in the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we have exposures to interest rate risk from our long-term and short-term debt, and our postretirement benefit plans, and foreign currency exchange rate risk related to our foreign operations and foreign currency transactions. We are also exposed to various market risks that arise from transactions entered into in the normal course of business related to items such as the cost of raw materials and changes in inflation. Certain contractual relationships with customers and vendors mitigate risks from changes in raw material costs and foreign currency exchange rate changes that arise from normal purchasing and normal sales activities.

These market risks are discussed more fully in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Annual Report on Form 10-K filed with the SEC. These market risks have not materially changed since the date our most recent Annual Report on Form 10-K was filed with the SEC.

Item 4. Controls and Procedures

We have established disclosure controls and procedures, which are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Act is accumulated and communicated to management, including our Principal Executive Officer (Thomas A. Gendron, Chief Executive Officer and President) and Principal Financial Officer (Robert F. Weber, Jr., Chief Financial Officer and Treasurer), as appropriate, to allow timely decisions regarding required disclosures.

Thomas A. Gendron and Robert F. Weber, Jr., evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on their evaluations, they concluded that our disclosure controls and procedures were effective as of June 30, 2011.

Furthermore, there have been no changes in our internal control over financial reporting during the fiscal quarter covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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During the third quarter of fiscal 2011, we completed the IDS Acquisition as discussed in Note 4, *Business acquisitions,* in the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q. We considered the results of our pre-acquisition due diligence activities, the continuation by IDS of its established internal control over financial reporting, and our implementation of additional internal control over financial reporting activities as part of our overall evaluation of disclosure controls and procedures as of June 30, 2011. The objectives of IDS established internal control over financial reporting was predominately associated with local statutory financial reporting. We are in the process of completing a more complete review of IDS internal control over financial reporting and will be implementing changes to better align its reporting and controls with the rest of Woodward. As a result of the timing of the acquisition and the changes that are anticipated to be made, and in accordance with the general guidance issued by the SEC regarding exclusion of certain acquired businesses, we currently intend to exclude IDS from the September 30, 2011 assessment of Woodward s internal controls over financial reporting. IDS will be included in the September 30, 2012 assessment of Woodward s internal controls over financial reporting. IDS accounted for approximately 3% of Woodward s total assets at June 30, 2011. IDS accounted for less than 2%of Woodward s total net sales for the quarter ending June 30, 2011.

PART II OTHER INFORMATION

Item 1. 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, workman s compensation claims, regulatory, legal or contractual disputes, product warranty claims and alleged violations of various environmental laws. We have accrued for individual matters that we believe are likely to 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 liquidity, financial condition, or results of operations.

Item 1A. Risk Factors

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized under the caption Risk Factors in Part I, Item 1A of our most recent Annual Report on Form 10-K filed with the SEC, when making investment decisions regarding our securities. The risk factors that were disclosed in our most recent Annual Report on Form 10-K filed with the SEC have not materially changed since the date our most recent Annual Report on Form 10-K was filed with the SEC.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Recent Sales of Unregistered Securities

Sales of common stock issued from treasury during the second quarter of fiscal 2011 consisted of the following:

	Total Shares Sold (2)	Consideration Received
April 1, 2011 through April 30, 2011 (1)	372	$ 14
May 1, 2011 through May 31, 2011		
June 1, 2011 through June 30, 2011		

(1) On April 28, 2011, one of our directors received 372 shares of common stock from treasury in lieu of cash payment of Board of Director retainer fees. The securities were issued by Woodward in reliance upon the exemption contained in Section 4(2) of the Securities Act of 1933.

(2) Actual number of shares (not in thousands).

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

	Total Number of Shares Purchased (3)	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)
April 1, 2011 through April 30, 2011		$		$ 190,162
May 1, 2011 through May 31, 2011				190,162
June 1, 2011 through June 30, 2011 (2)	625	34.86		190,162

(1) In July 2010, our Board of Directors authorized a stock repurchase program 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 end in July 2013.

(2) The Woodward Governor Company Executive Benefit Plan, which is a separate legal entity, aquired 625 shares of common stock on the open market related to the reinvestment of dividends for shares of treasury stock held for deferred compensation in June 2011.

(3) Actual number of shares (not in thousands).

Item 6. Exhibits

(a) Exhibits filed as Part of this Report are listed in the Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	WOODWARD, INC.
Date: July 25, 2011	/s/ Thomas A. Gendron Thomas A. Gendron *Chief Executive Officer and President* *(Principal Executive Officer)*
Date: July 25, 2011	/s/ Robert F. Weber, Jr. Robert F. Weber, Jr. *Chief Financial Officer and Treasurer* *(Principal Financial and Accounting Officer)*

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WOODWARD, INC.
EXHIBIT INDEX

Exhibit Number	Description:
10.1	Mr. Martin V. Glass employment letter dated April 27, 2011, filed as an exhibit.
10.2	Sagar Patel employment letter dated June 17, 2011, filed as an exhibit.
31.1	Rule 13a-14(a)/15d-14(a) certification of Thomas A. Gendron, filed as an exhibit.
31.2	Rule 13a-14(a)/15d-14(a) certification of Robert F. Weber, Jr., filed as an exhibit.
32.1	Section 1350 certifications, filed as an exhibit.
101.1	The following materials from Woodward, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Earnings, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Stockholders Equity, (vi) the Notes to Condensed Consolidated Financial Statements, and (vii) document and entity information. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.