Woodward, Inc.
Form 10-K
November 12, 2015
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2015

or

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

For the transition period from _____ to _____

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

Delaware	36-1984010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 East Drake Road, Fort Collins, Colorado	80525
(Address of principal executive offices)	(Zip Code)

(970) 482-5811
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common stock, par value $.001455 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

Aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on March 31, 2015 as reported on The NASDAQ Global Select Market on that date: $2,237,673,753. For purposes of this calculation, shares of common stock held by (i) persons holding more than 5% of the outstanding shares of stock, (ii) officers and directors of the registrant, and (iii) the Woodward Governor Company Profit Sharing Trust, Woodward Governor Company Deferred Shares Trust, or the Woodward Charitable Trust, as of March 31, 2015, are excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive of affiliate status.

Number of shares of the registrant's common stock outstanding as of November 6, 2015: 63,209,585.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for the Annual Meeting of Stockholders to be held January 20, 2016, are incorporated by reference into Parts II and III of this Form 10-K, to the extent indicated.

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PART I

Forward Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are statements that are deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of management. Words such as “anticipate,” “believe,” “estimate,” “seek,” “goal,” “expect,” “forecast,” “intend,” “continue,” “o “project,” “target,” “strive,” “can,” “could,” “may,” “should,” “will,” “would,” variations of such words, and similar expressio intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characteristics of future events or circumstances are forward-looking statements. Forward-looking statements may include, among others, statements relating to:

· future sales, earnings, cash flow, uses of cash, and other measures of financial performance;
· descriptions of our plans and expectations for future operations;
· investments in new campuses, business sites and related business developments;
· the effect of economic trends or growth;
· the effect of changes in the level of activity in particular industries or markets;
· the scope, nature, or impact of acquisition activity and integration of such acquisition into our business;
· the research, development, production, and support of new products and services;
· new business opportunities;
· restructuring and alignment costs and savings;
· our plans, objectives, expectations and intentions with respect to business opportunities that may be available to us;
· our liquidity, including our ability to meet capital spending requirements and operations;
· future repurchases of common stock;
· future levels of indebtedness and capital spending; and
· pension and other postretirement 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;
· global economic uncertainty and instability in the financial markets;
· our ability to manage product liability claims, product recalls or other liabilities associated with the products and services that we provide;
· our ability to obtain financing, on acceptable terms or at all, to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to business pressures;
· the long sales cycle, customer evaluation process, and implementation period of some of our products and services;
· our ability to implement and realize the intended effects of any restructuring and alignment efforts;
· our ability to successfully manage competitive factors, including prices, promotional incentives, competitor product development, industry consolidation, and commodity and other input cost increases;
· our ability to manage our expenses and product mix while responding to sales increases or decreases;
· the ability of our subcontractors to perform contractual obligations and our suppliers to provide us with materials of sufficient quality or quantity required to meet our production needs at favorable prices or at all;

- our ability to monitor our technological expertise and the success of, and/or costs associated with, our product development activities;
- consolidation in the aerospace market and our participation in a strategic joint venture with General Electric may make it more difficult to secure long-term sales in certain aerospace markets;
- 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;
- our ability to manage additional tax expense and exposures;
- risks related to our U.S. Government contracting activities, including liabilities resulting from legal and regulatory proceedings, inquiries, or investigations related to such activities;
- the potential of a significant reduction in defense sales due to decreases in the amount of U.S. Federal defense spending or other specific budget cuts impacting defense programs in which we participate;
- changes in government spending patterns, priorities, subsidy programs and/or regulatory requirements;
- future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets;
- future results of our subsidiaries;

- environmental liabilities related to manufacturing activities and/or real estate acquisitions;
- our continued access to a stable workforce and favorable labor relations with our employees;
- physical and other risks related to our operations and suppliers, including natural disasters, which could disrupt production;
- our ability to successfully manage regulatory, tax, and legal matters (including the adequacy of amounts accrued for contingencies, the U.S. Foreign Corrupt Practices Act, and product liability, patent, and intellectual property matters);
- risks related to our common stock, including changes in prices and trading volumes;
- risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates, and compliance with and changes in the legal and regulatory environments of the United States and the countries in which we operate;
- fair value of defined benefit plan assets and assumptions used in determining our retirement pension and other postretirement benefit obligations and related expenses including, among others, discount rates and investment return on pension assets;
- industry risks, including changes in commodity prices for oil, natural gas, and other minerals, unforeseen events that may reduce commercial aviation, and changing emissions standards;
- our operations may be adversely affected by information systems interruptions or intrusions; and
- certain provisions of our charter documents and Delaware law that could discourage or prevent others from acquiring our company.

These factors are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed or forecast in our forward-looking statements. Other factors are discussed under the caption “Risk Factors” in Part I, Item 1A in this Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (this “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 Form 10-K to “Woodward,” “the Company,” “we,” “us,” and “our” refer to Woodward, Inc. and its consolidated subsidiaries.

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

Item 1. Business

General

Woodward enhances the global quality of life, creating innovative energy control solutions that optimize the performance, efficiency and emissions of our customers' products. We are an independent designer, manufacturer, and service provider of energy control and optimization solutions. We design, produce and service reliable, efficient, low-emission, and high-performance energy control products for diverse applications in challenging environments. We have significant production and assembly facilities in the United States, Europe and Asia, and promote our products and services through our worldwide locations.

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

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

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

Markets and Principal Lines of Business

We serve the aerospace, industrial and energy markets through our two reportable segments – Aerospace and Energy. Our customers require technological solutions to meet their needs for performance, efficiency, and reliability, and to reduce their costs of operation.

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

- Propulsion and combustion control solutions for turbine powered aircrafts; and
- Fluid and motion control solutions for critical aerospace and defense applications.

Within the industrial and energy markets, our key focus areas are:

- Applications and control solutions for machines that produce electricity utilizing conventional or renewable energy sources; and
- Fluid, motion, and combustion control solutions for complex oil and gas, industrial, and transportation applications.

Additional information about our operations in fiscal year 2015 and outlook for the future, including certain segment information, is included in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations." Additional information about our business segments and certain geographical information is included in Note 20, Segment information and Note 21, Supplemental quarterly financial data (Unaudited), to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data."

Products, Services and Applications

Aerospace

Our Aerospace segment designs, manufactures and services systems and products for the management of fuel, air, combustion and motion control. These products include main fuel pumps, metering units, actuators, air valves, specialty valves, fuel nozzles, and thrust reverser actuation systems for turbine engines and nacelles, as well as flight deck controls, actuators, servocontrols, motors and sensors for aircraft. These products are used on commercial and private aircrafts and helicopters, as well as in military fixed-wing aircraft and rotorcraft, weapons and defense systems.

We have significant content on a wide variety of commercial aircraft, rotorcraft and business jet platforms, including the Airbus A320, Boeing 737 and 787, Bell 429 and Gulfstream G650. We also have significant content on such defense applications as the Blackhawk and Apache helicopters, F-18 and F-35 fighter jets, M1A1 Abrams Tank and guided tactical weapons (for example, the Joint Direct Attack Munition ("JDAM")).

Revenues from the Aerospace segment are generated by sales to OEMs, tier-one suppliers, and prime contractors, and through aftermarket sales of components, such as provisioning spares or replacements. We also provide aftermarket repair, overhaul and other services to commercial airlines, turbine OEM repair facilities, military depots, third party repair shops, and other end users.

Energy

Our Energy segment designs, produces and services systems and products for the management of fuel, air, fluids, gases, electricity, motion, and combustion. These products include actuators, valves, pumps, injectors, solenoids, ignition systems, speed controls, electronics and software, power converters, and devices that measure, communicate and protect electrical distribution systems. Our products are used on industrial gas turbines (including heavy frame and aeroderivative turbines), steam turbines, reciprocating engines, electric power generation and power distribution systems, wind turbines, and compressors. The equipment on which our products are found is used to extract and distribute fossil and renewable fuels; generate and distribute power; and convert fuel to work in marine, mobile, and industrial equipment applications.

Revenues from the Energy segment are generated primarily by sales to OEMs and by providing aftermarket products and other related services to our OEM customers. The Energy segment also sells products through an independent network of distributors and, in some cases, directly to end users.

Customers

For the fiscal year ended September 30, 2015, approximately 40% of our consolidated net sales were made to our five largest customers. Sales to our five largest customers represented approximately 39% of our consolidated net sales for both fiscal years ended September 30, 2014 and September 30, 2013.

Sales to our largest customer, General Electric, accounted for approximately 18% of our consolidated net sales in the fiscal year ended September 30, 2015 and 15% of our consolidated net sales in both fiscal years ended September 30, 2014 and September 30, 2013. Our accounts receivable from General Electric represented approximately 15% of total accounts receivable as of September 30, 2015 and 12% as of September 30, 2014. No other customer represented greater than 10% of our total accounts receivable. We believe General Electric and our other significant customers are creditworthy and will be able to satisfy their credit obligations to us.

The following customers account for approximately 10% or more of sales to each of our reporting segments for the fiscal year ended September 30, 2015.

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

Competitive Environment

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

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

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

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

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

Energy operates in the global markets for industrial turbines, industrial reciprocating engines, electric power generation systems, power distribution networks, and wind turbines.

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

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

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

Government Contracts and Regulation

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

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

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

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

Sales made directly to U.S. Government agencies and entities, or indirectly through third party manufacturers utilizing Woodward parts and subassemblies, collectively represented 18% of our sales for fiscal year 2015, 17% of our sales for fiscal year 2014, and 21% of our sales for fiscal year 2013. The level of U.S. spending for defense, alternative energy and other programs, and the mix of programs to which such funding is allocated, is subject to periodic congressional appropriation actions, and is subject to change, including elimination, at any time.

U.S. Government related sales from our reporting segments for fiscal years 2015, 2014 and 2013 were as follows:

	Direct U.S. Government Sales	Indirect U.S. Government Sales	Commercial Sales	Total
Fiscal year ended September 30, 2015				
Aerospace	$ 92,322	$ 258,391	$ 810,170	$ 1,160,883
Energy	4,836	8,839	863,745	877,420
Total net external sales	$ 97,158	$ 267,230	$ 1,673,915	$ 2,038,303
Percentage of total net sales	5 %	13 %	82 %	100 %
Fiscal year ended September 30, 2014				
Aerospace	$ 76,982	$ 254,806	$ 752,237	$ 1,084,025
Energy	2,517	5,588	909,110	917,215
Total net external sales	$ 79,499	$ 260,394	$ 1,661,347	$ 2,001,240
Percentage of total net sales	4 %	13 %	83 %	100 %
Fiscal year ended September 30, 2013				
Aerospace	$ 104,410	$ 289,197	$ 667,870	$ 1,061,477
Energy	3,649	8,106	862,744	874,499
Total net external sales	$ 108,059	$ 297,303	$ 1,530,614	$ 1,935,976
Percentage of total net sales	6 %	15 %	79 %	100 %

Seasonality

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

Sales Order Backlog

Our backlog of unshipped sales orders by segment as of October 31, 2015 and 2014 was as follows:

	October 31, 2015	% Expected to be filled by September 30, 2016	October 31, 2014

Aerospace	$ 571,329	77	%	$ 566,134
Energy	208,347	95		261,735
	$ 779,676	82	%	$ 827,869

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

Manufacturing

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

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

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

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

The Securities and Exchange Commission ("SEC") adopted disclosure rules for companies that use tantalum, tin, tungsten, and gold or their derivatives (collectively referred to as "conflict minerals") in their products, with substantial supply chain verification requirements in the event the conflict minerals come or may come from the Democratic Republic of Congo or adjoining countries. The European Union is considering the imposition of similar reporting obligations. Our conflict minerals report was filed with the SEC on June 1, 2015. We may face reputational challenges with our customers, stockholders and other stakeholders if we use and/or are unable to sufficiently verify the origins of the conflict minerals used in our products. Further, due to the complexity of our supply chain, the implementation of the existing U.S. requirements and any additional European requirements could affect the sourcing and availability of metals used in the manufacture of a number of parts contained in our products. Regardless, we have and will continue to incur costs associated with compliance, including time-consuming and costly efforts to determine the source of conflict minerals that may be used in our products.

Research and Development

We finance our research and development activities with our own independent research and development funds. Our research and development costs include basic research, applied research, component and systems development, and other concept formulation studies.

Company funded expenditures related to new product development activities are expensed as incurred and are separately reported in the Company's Consolidated Statements of Earnings. Across both of our segments, research and development costs totaled $134,485 in fiscal year 2015, $138,005 in fiscal year 2014, and $130,250 in fiscal year 2013. Research and development costs were 6.6% of consolidated net sales in fiscal year 2015 compared to 6.9% in fiscal year 2014 and 6.7% in fiscal year 2013. See "Research and development costs" in Note 1, Operations and summary of significant accounting policies, to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data."

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

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

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

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

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

We are currently developing the fuel system, air management, and actuation hardware for CFM International's LEAP engine program, and actuation system, combustion system and oil system components for Pratt & Whitney's PurePower engine program. These programs target applications in the single aisle and regional aircraft markets with expected entry into service in the 2015 to 2018 timeframe. Both the LEAP engine and the PurePower engine have been selected by Airbus as options to power its re-engined A320neo aircraft. In addition, the LEAP engine has been selected exclusively by Boeing for its re-engined 737 MAX and by Comac for its C919 aircraft. The PurePower engine has been selected exclusively by Bombardier for its CSeries aircraft, by Embraer for its EJets E2 aircraft family, and by Irkut for the MS-21 aircraft.

We are the selected supplier for the thrust reverser actuation system ("TRAS") for the Boeing 737 MAX and the CFM LEAP-engined Airbus A320neo. In fiscal year 2015, we were awarded TRAS programs for the Boeing 777X and the Airbus A330neo. In addition, we were awarded the fuel system for the GE9X engine (which is used for the Boeing 777X) as part of a joint venture agreement with General Electric ("GE") for production and support of fuel systems for GE large engine programs. The A330neo is scheduled to enter service in 2018, and the 777X in 2020.

We are also currently developing the fuel system, air management, and actuation hardware for the Passport engine program, as well as TRAS for the integrated propulsion system. Passport is the next generation GE Aviation engine for the large business aviation market, and has been selected by Bombardier to power its Global 7000 and 8000 long-range business aircraft, expected to enter into service in 2018 and 2019, respectively.

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

Energy is focused on developing improved technologies, including integrated control systems and system components, that will enable our OEM customers to cost-effectively meet mandated emissions regulations and fuel efficiency demands, allow for usage of a wider range of fuel sources, increase reliability, reduce total cost of ownership, support global infrastructure growth, and safely distribute power on the electrical grid.

Our efforts include research and development of technologies and products that improve combustion processes and provide more precise flow of various fuels and gases in our customers' gas turbines and industrial reciprocating engines. We also develop electronic devices and software that provide improved control and protection of reciprocating engines, gas turbines, steam turbines, wind turbines, and engine- and turbine-powered equipment. Major development projects include diesel common rail fuel injection systems, comprehensive gas engine control systems, fuel flow control valves and actuators, and various other technologies. Our technologies help our OEM customers' engines, turbines, power generation, power distribution, compressor and other powered equipment operate more efficiently and more reliably.

Employees

As of October 31, 2015, we employed approximately 6,900 full-time employees of which approximately 1,700 were located outside of the United States. We consider the relationships with our employees to be good.

Approximately 17% of our total full-time workforce were union employees as of October 31, 2015, all of whom work for our Aerospace segment. The collective bargaining agreements with our union employees are generally renewed through contract renegotiation near the contract expiration dates. The MPC Employees Representative Union contract, which covers 491 employees as of October 31, 2015, expires September 30, 2017. The Local Lodge 727-N International Association of Machinists and Aerospace Workers agreement, which covers 443 employees as of October 31, 2015, expires April 21, 2017. The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America and Local No. 509 agreement, which covers 216 employees as of October 31, 2015, expires June 3, 2017. We believe our relationships with our union employees and the representative unions are good.

All of our other employees in the United States were at-will employees as of October 31, 2015, and therefore, not subject to any type of employment contract or agreement. Our executive officers each have change-in-control agreements which have been filed with the SEC.

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

Patents, Intellectual Property, and Licensing

We own numerous patents and have licenses for the use of patents owned by others, which relate to our products and their manufacture. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. For example, the U.S. Government has certain rights in our patents and other intellectual property developed in performance of certain government contracts, and it may use or authorize others to use the inventions covered by such patents for government purposes as allowed by law.

Some of our intellectual property is not covered by patents (or patent applications) and includes trade secrets and other know-how that is not patentable or for which we have elected not to seek patent protection, including intellectual property relating to our manufacturing processes and engineering designs. Such unpatented technology, including research, development and engineering technical skills and know-how, as well as unpatented software, is important to our overall business and to the operations of each of our segments.

While our intellectual property assets taken together are important, we do not believe our business or either of our segments would be materially affected by the expiration of any particular intellectual property right or termination of any particular intellectual property patent license agreement.

As of September 30, 2015, our Consolidated Balance Sheet includes $225,138 of net intangible assets. This value represents the carrying values, net of amortization, of certain assets acquired in various business acquisitions and does not purport to represent the fair value of our intellectual property as of September 30, 2015.

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

Environmental Matters and Climate Change

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

We use hazardous materials and/or regulated materials in our manufacturing operations. We also own, operate, and may acquire facilities that were formerly owned and operated by others that used such materials. We believe that the risk that a significant release of regulated materials has occurred in the past or will occur in the future cannot be completely eliminated or prevented. We are engaged in environmental remedial activities, generally in coordination with other companies, pursuant to federal and state laws. When it is reasonably probable we will pay remediation costs at a site, and those costs can be reasonably estimated, we accrue a liability for such future costs with a related charge against our earnings. In formulating that estimate and recognizing those costs, we do not consider amounts expected to be recovered from insurance companies, or others, until such recovery is assured. Our accrued liability for environmental remediation costs is not significant and is included in the line item “Accrued liabilities” in the Consolidated Balance Sheets in “Item 8 – Financial Statements and Supplementary Data.”

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

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

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

Executive Officers of the Registrant

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

Thomas A. Gendron, Age 54. Chairman of the Board since January 2008; Chief Executive Officer, President, and Director since July 2005; Chief Operating Officer and President September 2002 through June 2005; Vice President and General Manager of Industrial Controls June 2001 through September 2002; Vice President of Industrial Controls April 2000 through May 2001; Director of Global Marketing and Industrial Controls’ Business Development February 1999 through March 2000.

Robert F. Weber, Jr., Age 61. Vice Chairman, Chief Financial Officer and Treasurer since September 2011, and Chief Financial Officer and Treasurer since August 2005. Prior to August 2005, Mr. Weber was employed at Motorola, Inc. for 17 years, where he held various positions, including Corporate Vice President and General Manager - EMEA Auto. Prior to this role, Mr. Weber served in a variety of financial positions at both a corporate and operating unit level with Motorola.

Martin V. Glass, Age 58. President, Airframe Systems since April 2011; President, Turbine Systems October 2009 through April 2011; Group Vice President, Turbine Systems September 2007 through September 2009; Vice President of the Aircraft Engine Systems Customer Business Segment December 2002 through August 2007; Director of Sales, Marketing, and Engineering February 2000 through December 2002.

Sagar Patel, Age 49. President, Aircraft Turbine Systems since June 2011. Prior to this role, Mr. Patel was employed at General Electric for 18 years, most recently serving as President, Mechanical Systems, GE Aviation, from March 2009 through June 2010. He served as President, Aerostructures, GE Aviation from July 2008 through July 2009 and as President and General Manager, MRS Systems, Inc., GE Aircraft Engines, from October 2005 through June 2008.

Chad R. Preiss, Age 50. President, Engine Systems since October 2009; Group Vice President, Engine Systems October 2008 through September 2009; Vice President, Sales, Service, and Marketing, Engine Systems December 2007 through September 2008; and Vice President, Industrial Controls September 2004 through December 2007. Prior to this role, Mr. Preiss served in a variety of engineering and marketing/sales management roles, including Director of Business Development, since joining Woodward in 1988.

James D. Rudolph, Age 54. President, Industrial Turbomachinery Systems since April 2011; Corporate Vice President, Global Sourcing October 2009 through April 2011; Vice President, Global Sourcing April 2009 through October 2009; Director of Global Sourcing April 2005 through April 2009; Director of Engineering for Industrial Controls March 2000 through April 2005. Prior to March 2000, Mr. Rudolph served in a variety of engineering, operations and sales roles since joining Woodward in 1984.

A. Christopher Fawzy, Age 46. Corporate Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer since October 2009; Vice President, General Counsel, and Corporate Secretary June 2007 through September 2009. Mr.

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

Other Corporate Officers of the Registrant

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

Steven J. Meyer, Age 55. Corporate Vice President, Human Resources since October 2009; Vice President, Human Resources November 2006 through September 2009; Director, Global Human Resources November 2002 through October 2006; Director, Human Resources for Industrial Controls July 1997 through October 2002. Prior to joining Woodward, Mr. Meyer was employed by PG&E Corporation and Nortel in a variety of roles in human resources.

Matthew F. Taylor, Age 53. Corporate Vice President, Supply Chain since February 2011; Vice President, Engine Fluid Systems and Controls Center of Excellence ("CoE") October 2009 through February 2011; General Manager, Fluid Systems and Controls CoE December 2006 through October 2009; Director of Operations, Fluid Systems and Controls June 2005 through December 2006. Prior to joining Woodward in June 2005, Mr. Taylor was the Vice President and General Manager, Warner Electric and served in a variety of general management roles at Eaton Corporation from February 1998 through August 2003.

Matt R. Cook, Age 44. Corporate Vice President, Information Technology since January 2014; Director, Global Business Systems July 2012 through January 2014. Prior to joining Woodward, Mr. Cook was employed by Satcon Corporation as Vice President, Global Information Technology. Prior to Satcon, Mr. Cook served in a variety of senior roles in information technology and business development.

Information available on Woodward's Website and Social Media

Through a link on the Investor Information section of our website, www.woodward.com, we make available, free of charge, the following filings as soon as reasonably practicable after they are electronically filed or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The SEC also maintains a website that contains our SEC filings. The address of the site is www.sec.gov. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. We provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases as part of our investor relations website. We have used, and intend to continue to use, our investor relations website, as well as the following as of the date of this filing, as means of disclosing material non-public information and for complying with the disclosure obligations under Regulation FD:

- Twittter: @woodward_inc
- Facebook: Facebook.com/woodwardinc
- LinkedIn: Linkedin.com/company/woodward
- Google Plus: +WoodwardInc
- YouTube: YouTube.com/user/woodwardinc
- Goldenline (Poland): http://www.goldenline.pl/firma/woodward
- XING (Germany): https://www.xing.com/companies/woodwardinc.

None of the information contained on our website, or the above mentioned social media sites is incorporated into this document by reference.

Stockholders may obtain, without charge, a single copy of Woodward's 2015 Annual Report on Form 10-K upon written request to the Corporate Secretary, Woodward, Inc., 1000 East Drake Road, Fort Collins, Colorado 80525.

Item 1A.Risk Factors

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

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

Company Risks

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

We have fewer customers than many companies with similar sales volumes. For the fiscal year ended September 30, 2015, approximately 40% of our consolidated net sales were made to our five largest customers. Sales to our five largest customers for fiscal year ended September 30, 2014 represented approximately 39% of our consolidated net sales. Sales to our largest customer, General Electric, accounted for approximately 18% of our consolidated net sales in the fiscal year ended September 30, 2015 and 15% in both fiscal years ended September 30, 2014 and September 30, 2013. Accounts receivable from General Electric represented approximately 15% of accounts receivable at September 30, 2015 and 12% at September 30, 2014. Sales to our next largest customer accounted for approximately 7% of our consolidated net sales in each of the fiscal years ended September 30, 2015, September 30, 2014, and September 30, 2013. If any of our significant customers were to change suppliers, in-source production, institute significant restructuring or cost-cutting measures, or experience financial distress, these significant customers may substantially reduce, or otherwise be unable to pay for, purchases from us. Accordingly, our consolidated net sales could decrease significantly or we may experience difficulty collecting or be unable to collect amounts due and payable, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

During the last several years, there has been widespread concern over the instability in the financial markets and their influence on the global economy. As a result of the extreme volatility in the credit and capital markets and global economic uncertainty, our current or potential customers may experience cash flow problems and, as a result, may modify, delay or cancel plans to purchase our products. Additionally, if our customers face financial distress or are unable to secure necessary financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Any inability of current or potential customers to pay us for our products may adversely affect our earnings and cash flows.

In addition, the general economic environment significantly affects demand for our products and services. Periods of slowing economic activity may cause global or regional slowdowns in spending on infrastructure development in the markets in which we operate, and customers may reduce their purchases of our products and services.

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

Our profitability may suffer if we are unable to manage our expenses due to sales increases, sales decreases, or impacts of capital expansion projects, or if we experience change in product mix.

Some of our expenses are relatively fixed in relation to changes in sales volume and are difficult to adjust in the short term. Expenses driven by business activity other than sales level and other long-term expenditures, such as fixed manufacturing overhead, capital expenditures and research and development costs, may be difficult to reduce in a timely manner in response to a reduction in sales. Expenses such as depreciation or amortization, which are the result of past capital expenditures or business acquisitions, are generally fixed regardless of sales levels. In addition, the achievement of manufacturing efficiencies associated with capital expansion projects may not meet management's current expectations. Due to our long sales cycle, in periods of sales increases it may be difficult to rapidly increase our production of finished goods, particularly if such sales increases are unanticipated. An increase in the production of our finished goods requires increases in both the purchases of raw materials and components and in the size of our workforce. If a sudden, unanticipated need for raw materials, components and labor arises in order to meet unexpected sales demand, we could experience difficulties in sourcing raw materials, components and labor at a favorable cost or to meet our production needs. These factors could result in delays in fulfilling customer sales contracts, damage to our reputation and relationships with our customers, an inability to meet the demands of the markets that we serve, which in turn could prevent us from taking advantage of business opportunities or responding to competitive pressures, and result in an increase in variable and fixed costs leading to a decrease in net earnings or even net losses. In addition, we sell products that have varying profit margins, and increases or decreases in sales of our various products may change the mix of products that we sell during any period. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

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

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

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

Our business may be adversely affected by government contracting risks.

Sales made directly to U.S. Government agencies and entities were 5% of total net sales during fiscal year 2015, 4% during fiscal year 2014, and 6% during fiscal year 2013, primarily in the aerospace market. Sales made directly to U.S. Government agencies and entities, or indirectly through third party manufacturers, such as tier-one prime contractors, utilizing Woodward parts and subassemblies, accounted for approximately 18% of total sales in fiscal year 2015, 17% in fiscal year 2014, and 21% in fiscal year 2013. Our contracts with the U.S. Government are subject to certain unique risks, including the risks set forth below, some of which are beyond our control, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

- The level of U.S. defense spending is subject to periodic congressional appropriation actions, including significant reductions in defense spending under the sequestration of appropriations in fiscal year 2013 under the Budget Control Act of 2011 (the "Budget Act"), and is subject to change at any time. The mix of programs to which such funding is allocated is also uncertain, and we can provide no assurance that an increase in defense spending will be allocated to programs that would benefit our business. If the amount of spending were to decrease, or there were a shift from certain aerospace and defense programs on which we have content to other programs on which we do not, our sales could decrease. In addition, one or more of the aerospace or defense programs that we currently support could be phased-out or terminated. Any such reductions in U.S. Government needs under these existing aerospace and defense programs, unless offset by other aerospace and defense programs and opportunities, could have a material adverse effect on our sales.
- Our U.S. Government contracts and the U.S. Government contracts of our customers are subject to modification, curtailment or termination by the government, either for the convenience of the government or for default as a result of a failure by us or our customers to perform under the applicable contract. If any of our contracts are terminated by the U.S. Government, our backlog would be reduced, in accordance with contract terms, by the expected value of the remaining work under such contracts. In addition, we are not the prime contractor on most of our contracts for supply to the U.S. Government, and the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our products and services as a subcontractor.
- We must comply with procurement laws and regulations relating to the formation, administration and performance of our U.S. Government contracts and the U.S. Government contracts of our customers. The U.S. Government may change procurement laws and regulations from time to time. A violation of U.S. Government procurement laws or regulations, a change in U.S. Government procurement laws and regulations, or a termination arising out of our

default could expose us to liability, debarment, or suspension and could have an adverse effect on our ability to compete for future contracts and orders.

· We are subject to government inquiries, audits and investigations due to our business relationships with the U.S. Government and the heavily regulated industries in which we do business. In addition, our contract costs are subject to audits by the U.S. Government. U.S. Government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit government contractors and subcontractors. These agencies review our performance under contracts, cost structure and compliance with applicable laws, regulations, and standards, as well as the adequacy of and our compliance with our internal control systems and policies. Any costs found to be misclassified or inaccurately allocated to a specific contract would be deemed non-reimbursable, and to the extent already reimbursed, would be refunded. Any inadequacies in our systems and policies could result in withholds on billed receivables, penalties and reduced future business. Any inquiries or investigations, including those related to our contract pricing, could potentially result in civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, suspension, and/or debarment from participating in future business opportunities with the U.S. Government. Such actions could harm our reputation, even if such allegations are later determined to be unfounded, and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

The manufacture and sale of our products and the services we provide expose us to risks of product liability and other tort claims. We currently have and have had in the past product liability claims relating to our products, and we will likely be subject to additional product liability claims in the future for both past and current products. Some of these claims may have a material adverse effect on our business, financial condition, results of operations and cash flows. We also provide certain services to our customers and are subject to claims with respect to the services provided. In providing such services, we may rely on subcontractors to perform all or a portion of the contracted services. It is possible that we could be liable to our customers for work performed by a subcontractor. Regardless of the outcome, product liability claims can be expensive to defend, can divert the attention of management and other personnel for significant periods of time, and can cause reputational damage. While we believe that we have appropriate insurance coverage available to us related to any such claims, our insurance may not cover all liabilities or be available in the future at a cost acceptable to us. An unsuccessful result in connection with a product liability claim, where the liabilities are not covered by insurance or for which indemnification or other recovery is not available, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

We are dependent upon suppliers for parts and raw materials used in the manufacture of components that we sell to our customers, and our raw material costs are subject to commodity market fluctuations. We may experience an increase in costs for parts or raw materials that we source from our suppliers, or we may experience a shortage of parts or raw materials for various reasons, such as the loss of a significant supplier, high overall demand creating shortages in parts and supplies we use, financial distress, work stoppages, natural disasters, fluctuations in commodity prices, or production difficulties that may affect one or more of our suppliers. In particular, current or future global economic uncertainty may affect the financial stability of our key suppliers or their access to financing, which may in turn affect their ability to perform their obligations to us. Our customers rely on us to provide on-time delivery and have certain rights if our delivery standards are not maintained. A significant increase in our supply costs, including for raw materials that are subject to commodity price fluctuations, or a protracted interruption of supplies for any reason, could result in the delay of one or more of our customer contracts or could damage our reputation and relationships with customers. In addition, quality and sourcing issues that our suppliers may experience can also adversely affect the quality and effectiveness of our products and services and may result in liability or reputational harm to us. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Subcontractors may fail to perform contractual obligations, which would adversely affect our ability to meet our obligations to our customers.

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

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

From time to time, we have responded to changes in our industry and the markets we serve by restructuring or aligning our operations. Our restructuring activities have included workforce management and other restructuring charges related to our recently acquired businesses, including, among others, changes associated with integrating similar operations, managing our workforce, vacating or consolidating certain facilities and cancelling certain contracts. Based on cost reduction measures or changes in the industry and markets in which we compete, we may decide to implement restructuring or alignment activities in the future, such as closing plants, moving production lines, or making additions, reductions or other changes to our management or workforce. These restructuring and/or alignment activities generally result in charges and expenditures that may adversely affect our financial results for one or more periods.

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

- higher than expected severance costs related to staff reductions;
- higher than expected retention costs for employees that will be retained;
- higher than expected stand-alone overhead expenses;

· delays in the anticipated timing of activities related to our cost-saving plan; and
· other unexpected costs associated with operating the business.

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

Consolidation in the aerospace market and our participation in a strategic joint venture with GE may make it more difficult to secure long-term sales in certain aerospace markets

In May 2015, Woodward and General Electric Company ("GE"), acting through its GE Aviation business unit, entered into a binding agreement to form a strategic joint venture between Woodward and GE (the "JV"). The JV agreement does not restrict Woodward from entering into any market, however, consolidation in the aircraft engine market is increasingly prevalent, resulting in fewer engine manufacturers, and thus it may become more difficult for Woodward to secure new business with GE competitors on similar product applications both within and outside the specific JV market space. Additionally, if GE fails to win new content in the market space covered by the JV, Woodward may be prevented from expanding content on future commercial aircraft engines in those markets.

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

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

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

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

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

We may not be able to obtain financing, on acceptable terms or at all, to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to competitive pressures.

During the last several years, global financial markets, including the credit and debt and equity capital markets, and economic conditions have been volatile. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk, and the global economic uncertainty, have in the past made, and may in the future make, it difficult to obtain financing. In addition, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets may increase as many lenders and institutional investors have or may increase interest rates, enact tighter lending standards, refuse to refinance existing debt at maturity either at all or on terms similar to existing debt, and reduce and, in some cases, cease to provide financing to borrowers. Due to these factors, we cannot be certain that financing, to the extent needed, will be available on acceptable terms or at all. If financing is not available when needed, or is available only on unacceptable terms, we may be unable to implement our business plans, complete acquisitions, fund significant capital expenditures, or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

As of September 30, 2015, our total long-term debt was $850,000, including $350,000 of borrowings on our revolving credit facility. Our debt obligations could require us to dedicate a portion of our cash flow from operations to payments on our indebtedness, reducing the availability of our cash flow for other purposes, including business development efforts and mergers and acquisitions. We are contractually obligated under the agreements governing our long-term debt to make principal payments of $107,000 in fiscal year 2016, $0 in fiscal year 2017, $0 in fiscal year 2018, $143,000 in fiscal year 2019, $0 in fiscal year 2020, and the remaining $250,000 is due in subsequent fiscal years. Interest on the majority of our long-term notes is payable semi-annually, with the exception of the Series J Notes which is payable quarterly, each year until all principal is paid. Our debt obligations could make us more vulnerable to general adverse economic and industry conditions and could limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, thereby placing us at a disadvantage to our competitors that have less indebtedness.

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

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

- incur additional indebtedness;
- pay dividends or make distributions on our capital stock or certain other restricted payments or investments;
- purchase or redeem stock;
- issue stock of our subsidiaries;
- make domestic and foreign investments and extend credit;
- engage in transactions with affiliates;
- transfer and sell assets;
- effect a consolidation or merger or sell, transfer, lease, or otherwise dispose of all or substantially all of our assets; and
- create liens on our assets to secure debt.

These agreements contain certain customary events of default, including certain cross-default provisions related to other outstanding debt arrangements. Any breach of the covenants under these agreements or other event of default could cause a default under these agreements and/or a cross-default under our other debt arrangements, which could restrict our ability to borrow under our revolving credit facility. If there were an event of default under certain provisions of our debt arrangements that was not cured or waived, the holders of the defaulted debt may be able to cause all amounts outstanding with respect to the debt instrument to be due and payable immediately. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. If we are unable to repay, refinance, or restructure our indebtedness as required, or amend the covenants contained in these agreements, the lenders or note holders may be entitled to obtain a lien or institute foreclosure proceedings against our assets. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

In fiscal year 2015, approximately 28% of our earnings before income taxes was earned in jurisdictions outside the United States. Accordingly, we are subject to income taxes in both the United States and various non-U.S.

jurisdictions. Our tax liabilities are dependent upon the distribution mix of operating income among these different jurisdictions. Our tax expense includes estimates of additional tax that may be incurred and reflects various estimates, projections, and assumptions that could impact the valuation of our deferred tax assets and liabilities. Our future operating results could be adversely affected by changes in the effective tax rate, including:

- changes in the mix of earnings in countries with differing statutory tax rates;
- changes in our overall profitability;
- changes in tax legislation and tax rates;
- changes in tax incentives;
- changes in U.S. GAAP;
- changes in the projected realization of deferred tax assets and liabilities;
- changes in management’s assessment of the amount of earnings indefinitely reinvested offshore; and
- the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures.

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

In 2015, approximately 48% of our total sales were made to customers in jurisdictions outside of the United States (including products manufactured in the United States and sold outside the United States as well as products manufactured in international locations), including approximately 9% of our total sales to Brazil, Russia, India and China, known as the "BRIC" countries.

Accordingly, our business and results of operations are subject to risks associated with doing business internationally, including:

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

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

In 2015, approximately 5% of our total sales were recorded in the Peoples' Republic of China ("China") and we have significant operations in China. Certain of our independent registered public accounting firm's audit documentation related to their audit report included in this annual report may be located in the China. The Public Company Accounting Oversight Board ("PCAOB") currently cannot inspect audit documentation located in China and, as such, prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China, including that performed by our independent auditors in China. As a result, investors may be deprived of the full benefits of PCAOB oversight of our global audits via their inspections. The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our Chinese independent auditor's audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections on all of their work.

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

Of the $82,202 of cash and cash equivalents held at September 30, 2015, $78,426 was held by our foreign locations. We are not presently aware of any significant restrictions on the repatriation of these funds, although a portion is considered indefinitely reinvested in these foreign subsidiaries. If these funds were needed to fund our operations or satisfy obligations in the United States, then they could be repatriated and their repatriation into the U.S. may cause us to incur additional U.S. income taxes or foreign withholding taxes. Any additional U.S. taxes could be offset, in whole or in part, 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. Based on these variables, it is impractical to determine the income tax liability that might be incurred if these funds were to be repatriated.

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

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

Over time, the fair values of long-lived assets change. At September 30, 2015, we had $556,977 of goodwill, representing 22% of our total assets. We test goodwill for impairment at the reporting unit level on an annual basis and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Based on the relevant U.S. GAAP authoritative guidance, we aggregate components of a single operating segment into a reporting unit, if appropriate. Future goodwill impairment charges may occur if estimates of fair values decrease, which would reduce future earnings. We also test property, plant, and equipment and other intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Future asset impairment charges may occur if asset utilization declines, if customer demand decreases, or for a number of other reasons, which would reduce future earnings. Any such impairment charges could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Impairment charges would also reduce our consolidated stockholders' equity and increase our debt-to-total-capitalization ratio, which could negatively impact our credit rating and access to the debt and equity markets.

We completed our annual goodwill impairment test during the quarter ended September 30, 2015. In performing the annual goodwill impairment test, we determined it was appropriate to aggregate certain components of the same operating segment into a single reporting unit. The identification of reporting units and consideration of aggregation criteria requires management's judgment. Further, we use the income approach based on a discounted cash flow method that incorporates various estimates and assumptions. The results of our fiscal year 2015 annual goodwill impairment test performed as of July 31, 2015 indicated the estimated fair values of each of our reporting units were in excess of their carrying amounts, and accordingly, no impairment existed. There can be no assurance that our estimates and assumptions of the fair value of our reporting units, the current economic environment, the level of U.S. defense spending, or the other inputs used in forecasting the present value of forecasted cash flows used to estimate the fair value of our reporting units will prove to be accurate projections of future performance.

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

Our manufacturing activities may result in future environmental costs or liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

Accounting for retirement, pension and postretirement benefit obligations and related expense requires the use of assumptions, including a weighted-average discount rate, an expected long-term rate of return on assets, a net healthcare cost trend rate, and projected mortality rates, among others. Benefit obligations and benefit costs are sensitive to changes in these assumptions. As a result, assumption changes could result in increases in our obligation amounts and expenses. If interest rates decline, the present value of our postretirement benefit plan liabilities may increase faster than the value of plan assets, resulting in significantly higher unfunded positions in some of our pension plans. As of September 30, 2015, we had $196,253 in invested pension plan assets. Investment losses may result in decreases to our pension plan assets.

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

In addition, our existing revolving credit facility and note purchase agreements contain continuing covenants and events of default regarding our pension plans, including provisions regarding the unfunded liabilities related to those pension plans. See the discussion above concerning "Our debt obligations and the restrictive covenants in the agreements governing our debt could limit our ability to operate our business or pursue our business strategies, and could adversely affect our business, financial condition, results of operations, and cash flows."

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

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

We are dependent on various information systems throughout our company to administer, store and support multiple business activities. If these systems are damaged, cease to function properly or are subject to cybersecurity attacks, such as unauthorized access, malicious software and other violations, we could experience production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. While we attempt to mitigate these risks by employing a number of measures, including technical security controls, employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks, products, solutions and services remain potentially vulnerable to additional known or unknown threats.

Industry Risks

Unforeseen events may occur that significantly reduce commercial aviation, which could adversely affect our business, financial condition and results of operations.

A significant portion of our business is related to commercial aviation. Global economic downturn and uncertainty in the marketplace typically lead to a general reduction in demand for air transportation services, leading some airlines to withdraw aircraft from service, which negatively affects sales of our aerospace components and services. These economic conditions can similarly affect our sales of systems and components for new business jet aircraft. The commercial airline industry tends to be cyclical and capital spending by airlines and aircraft manufacturers may be influenced by a variety of factors, including current and future traffic levels, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels. In the event these or other economic indicators stagnate or worsen, market demand for our components and systems could be negatively affected by renewed reductions in demand for air transportation services or commercial airlines' financial difficulties, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The U.S. Government may change acquisition priorities and/or reduce spending, which could adversely affect our business, financial condition and results of operations.

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

The Budget Act triggered automatic reductions, under sequestration, in both defense and discretionary spending in March 2013. The resulting automatic across-the-board budget cuts in sequestration have had and will likely continue to have significant consequences for the aerospace and defense industries. The effects of these actions on our fiscal year 2014 results were realized in our reduced defense sales, and the impact in future years, could continue to have an adverse effect on our business, financial condition, results of operations and cash flows.

Shifts in domestic and international spending and tax policy, changes in security, defense, and intelligence priorities, changes in government budget appropriations, general and political economic conditions and developments, and other factors may affect a decision to fund, or the level of funding for, existing or proposed programs. If the priorities of the U.S. Government change and/or defense spending is reduced, this may adversely affect our business, financial condition, results of operations, and cash flows.

Increasing emission standards that drive certain product sales may be eased or delayed, which could reduce our competitive advantage.

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

Natural gas prices may increase significantly and disproportionately to other sources of fuels used for power generation, which could reduce our sales and adversely affect our business, financial condition and results of operations.

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

Long-term reduced commodity prices for oil, natural gas, and other minerals may depress the markets for certain of our products and services.

Many of our Energy segment OEM and aftermarket customers and our Aerospace segment rotorcraft product lines' customers provide goods and services that support various industrial extraction activities, including mining, oil and gas exploration and extraction, and transportation of raw materials from extraction sites to refineries and/or processing facilities. Long-term lower prices for commodities such as oil, natural gas, gold, tin, and various other minerals could reduce exploration activities and place downward pressure on demand for Woodward's goods and services that support exploration and extraction activities.

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

The U.S. Government, as well as various foreign governments, provide for various stimulus programs or subsidies, such as grants, loan guarantees and tax incentives, relating to renewable energy, alternative energy, energy efficiency and electric power infrastructure. Some of these programs have expired, which may affect the economic feasibility or timing of future projects. Additionally, while a significant amount of stimulus funds and subsidies are available to support various projects, we cannot predict the timing and scope of any investments to be made by our customers under stimulus funding and subsidies or whether stimulus funding and subsidies will result in increased demand for our products. Investments for renewable energy, alternative energy and electric power infrastructure under stimulus programs and subsidies may not occur, may be less than anticipated or may be delayed, any of which would negatively impact demand for our products.

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

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

We operate in a highly competitive industry and, if we are unable to compete effectively in one or more of our markets, our business, financial condition and results of operations may be adversely affected.

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

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

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

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

Investment Risks

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

The market price of our common stock has fluctuated over time. Stock markets in general have experienced extreme price and volume volatility particularly over the past few years. The trading price of our common stock ranged from a high of $56.55 per share to a low of $39.82 per share during the twelve months ended September 30, 2015. The following factors, among others, could cause the price of our common stock in the public market to fluctuate significantly:

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

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

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

As of September 30, 2015, we had 72,960 shares of common stock issued, of which 9,763 shares were held as treasury shares. In addition, stockholders who each own 5% or greater of our shares hold a total of approximately 25% of the outstanding shares of our common stock. During the fourth quarter of fiscal year 2015, the average daily trading volume of our stock was approximately 416 shares. While the level of trading activity will vary each day, our typical daily trading volume is relatively low and represents only a small percentage of total shares of stock outstanding. As a result, a stockholder who sells a significant number of shares of stock in a short period of time could negatively affect our share price.

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

Our certificate of incorporation and bylaws contain provisions that:

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

In addition, Section 203 of the Delaware General Corporation Law limits business combinations with owners of more than 15% of our stock that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. Our board of directors could choose not to negotiate a potential acquisition that it does not believe to be in our best interest. Accordingly, the potential acquirer could be discouraged from offering to acquire us, or could be prevented by the anti-takeover measures, from successfully completing a hostile acquisition.

Item 1B.Unresolved Staff Comments

None.

Item 2.Properties

Our principal plants are as follows:

United States

Duarte, California – Aerospace segment manufacturing and engineering

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

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

Loveland, Colorado –Energy segment manufacturing and Aerospace and Energy segments engineering

Niles, Illinois – Aerospace segment manufacturing and Aerospace and Energy segments engineering

Rockford, Illinois – Aerospace segment manufacturing and engineering

Santa Clarita, California – Aerospace segment manufacturing and engineering

Zeeland, Michigan – Aerospace segment manufacturing and engineering

Other Countries

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

Kempen, Germany –Energy segment manufacturing and engineering

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

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

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

For our Aerospace segment, we completed construction of a manufacturing and office building on a second campus in the greater-Rockford, Illinois area and have begun occupying the new facility. This campus is intended to support our expected growth over the next ten years and beyond stimulated by our being awarded a substantial number of new system platforms, particularly on narrow-body aircraft. In addition, in fiscal year 2015, we completed an addition to and renovation of a building in Niles, Illinois that we had acquired in September 2013. Most of our operations that formerly resided in nearby Skokie, Illinois, were relocated to this new facility in fiscal year 2015.

We are currently developing a new campus at our corporate headquarters in Fort Collins, Colorado to support the continued growth of our Energy segment by supplementing our existing Colorado manufacturing facilities and corporate headquarters.

We anticipate spending approximately $100,000 in fiscal year 2016 related to these investments.

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

Item 3.Legal Proceedings

Woodward is currently involved in claims, pending or threatened litigation or other legal proceedings, investigations and/or regulatory proceedings arising in the normal course of business, including, among others, those relating to product liability claims, employment matters, worker's compensation claims, contractual disputes, product warranty claims and alleged violations of various laws and regulations. We accrue for known individual matters where we believe that it is probable the matter will result in a loss when ultimately resolved using estimates of the most likely amount of loss.

While the outcome of pending claims, legal and regulatory 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 effect on Woodward's liquidity, financial condition, or results of operations.

Item 4.Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock is listed on The NASDAQ Global Select Market and is traded under the symbol “WWD.” At November 6, 2015, there were approximately 1,000 holders of record.

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

	Fiscal Year Ended September 30,					
	2015			2014		
	High	Low	Cash Dividends	High	Low	Cash Dividends
First quarter	$ 53.13	$ 44.79	$ 0.08	$ 46.23	$ 38.80	$ 0.08
Second quarter	$ 51.43	$ 41.01	$ 0.10	$ 46.69	$ 40.09	$ 0.08
Third quarter	$ 56.55	$ 46.37	$ 0.10	$ 51.12	$ 40.14	$ 0.08
Fourth quarter	$ 55.59	$ 39.82	$ 0.10	$ 55.76	$ 47.20	$ 0.08

Performance Graph

The following graph compares the cumulative 10-year total return to stockholders on our common stock relative to the cumulative total returns of the S&P Midcap 400 index and the S&P Industrial Machinery index. The graph shows total stockholder return assuming an investment of $100 (with reinvestment of all dividends) was made on September 30, 2005 in our common stock and in each of the two indexes and tracks relative performance through September 30, 2015. We have used a period of 10 years as we believe that our stock performance should be reviewed over a period that is reflective of our long-term business cycle.

	9/05	9/06	9/07	9/08	9/09	9/10	9/11	9/12	9/13	9/14	9/15
Woodward, Inc.	$ 100.00	$ 119.62	$ 224.60	$ 255.32	$ 177.63	$ 239.48	$ 204.06	$ 255.03	$ 309.06	$ 363.07	$ 312.72
	100.00	106.56	126.55	105.44	102.16	120.33	118.79	152.69	194.95	217.99	221.03

S&P Midcap 400 S&P Industrial Machinery	100.00	111.36	148.00	109.23	107.59	137.70	120.92	176.47	242.41	266.70	254.05

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

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities (In thousands, except for shares and per share amounts)	Total Number of Shares Purchased	Weighted Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased under the Plans or Programs at Period End (1)
July 1, 2015 through July 31, 2015	-	$ -	-	$ 175,000
August 1, 2015 through August 31, 2015 (2)	377	45.60	-	175,000
September 1, 2015 through September 30, 2015 (3)	457,848	49.89	457,848	175,000

(1) In the second quarter of fiscal year 2015, our Board of Directors authorized a program for the repurchase of up to $300,000 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 2018.

(2) Under a trust established for the purposes of administering the Woodward Executive Benefit Plan, 377 shares of common stock were acquired on the open market related to the reinvestment of dividends for shares of treasury stock held for deferred compensation in August 2015. Shares owned by the trust, which is a separate legal entity, are included in "Treasury stock held for deferred compensation" in the Condensed Consolidated Balance Sheets.

(3) On June 2, 2015, Woodward entered into an accelerated share repurchase agreement (the “ASR Agreement”) with Goldman, Sachs & Co. (“Goldman”) under which Woodward repurchased shares of its common stock for an aggregate purchase price of $125,000. Upon execution of the ASR Agreement, Goldman delivered to Woodward 2,047,601 shares of common stock, which represented an initial delivery of 85% of the estimated shares to be purchased by Woodward, based on a reference price of $51.89, the closing price on June 2, 2015 of Woodward stock listed on the NASDAQ Global Select Market. Goldman completed the ASR Agreement on September 3, 2015 and delivered 457,848 additional shares to Woodward. The final number of shares delivered to Woodward was based generally on the average daily volume-weighted average price of Woodward stock during the term of the ASR Agreement of $49.89.

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Item 6. Selected Financial Data

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

	Year Ended September 30,				
	2015	2014	2013	2012	2011
	(In thousands except per share amounts)				
Net sales (1)	$ 2,038,303	$ 2,001,240	$ 1,935,976	$ 1,865,627	$ 1,711,702
Net earnings (1)(2)(3)	181,452	165,844	145,942	141,589	132,235
Earnings per share:					
Basic earnings per share	2.81	2.50	2.13	2.06	1.92
Diluted earnings per share	2.75	2.45	2.10	2.01	1.89
Cash dividends per share	0.38	0.32	0.32	0.31	0.27
Income taxes (3)	59,497	61,400	53,629	56,218	55,332
Interest expense	24,864	22,804	26,703	26,003	25,399
Interest income	787	271	273	542	534
Depreciation expense	45,994	43,773	37,254	35,808	40,400
Amortization expense	29,241	33,580	36,979	32,809	34,993
Capital expenditures	286,612	207,106	141,600	64,900	48,255
Weighted-average shares outstanding:					
Basic shares outstanding	64,684	66,432	68,392	68,880	68,797
Diluted shares outstanding	66,056	67,776	69,602	70,307	70,140

	At September 30,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Working capital	$ 609,254	$ 668,628	$ 541,183	$ 623,609	$ 536,936
Total assets	2,539,965	2,397,202	2,218,518	1,859,964	1,781,434
Long-term debt, less current portion	850,000	710,000	450,000	384,375	406,875
Total debt	852,430	710,000	550,000	392,204	425,249
Total liabilities	1,386,861	1,236,258	1,075,973	851,849	862,337
Stockholders’ equity	1,153,104	1,160,944	1,142,545	1,008,115	919,097
Full-time worker members	6,955	6,701	6,736	6,650	6,199

Notes:

1. On December 28, 2012, Woodward acquired from GE Aviation Systems LLC (the “Seller”) substantially all of the assets and certain liabilities of the Seller's thrust reverser actuation systems business located in Duarte, California

(the “Duarte Business”). On April 14, 2011, Woodward acquired Integral Drive Systems AG and its European companies, including their respective holding companies (“IDS”), and the assets of IDS’ business in China (together, the “IDS Acquisition”).

2. In the third quarter of fiscal year 2013, Woodward recorded a specific charge of $15,707 related to the alignment of its renewable power business to the economic environment and then foreseeable future.
3. In fiscal year 2015, Woodward recognized a tax benefit of $5,818, or $0.09 per basic and diluted share, related to the retroactive impact of the reinstatement of the U.S. research and experimentation credit pertaining to fiscal year 2014. In fiscal year 2013, Woodward recognized a tax benefit of $4,911, or $0.07 per basic and diluted share, related to the retroactive impact from the reinstatement of the U.S. research and experimentation credit pertaining to fiscal year 2012. In fiscal year 2011, Woodward recognized a tax benefit of $3,088, or $0.04 per basic and diluted share, related to the retroactive impact from the reinstatement of the U.S. research and experimentation credit pertaining to fiscal year 2010.

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

OVERVIEW

Woodward enhances the global quality of life and sustainability by optimizing energy use through improved efficiency and lower emissions. We are an independent designer, manufacturer, and service provider of energy control and optimization solutions. We design, produce and service reliable, efficient, low-emission, and high-performance energy control products for diverse applications in challenging environments. We have significant production and assembly facilities in the United States, Europe and Asia, and promote our products and services through our worldwide locations.

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

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

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

BUSINESS ENVIRONMENT AND TRENDS

We serve the aerospace, industrial and energy markets.

Aerospace Markets

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

Commercial and Civil Aircraft – In the commercial aerospace markets, global air traffic continued to grow in fiscal year 2015. Commercial aircraft production has increased with the introduction of new aircraft models and as aircraft operators continue to take delivery of more fuel efficient aircraft and retire older and less efficient aircraft. This trend toward more fuel efficient aircraft favors our product offerings because we have more content on the newer generation of aircraft that have recently entered service or are scheduled to go into production over the next several years. We have been awarded content on the Airbus A320neo and A330neo, Bell 429, Boeing 737 MAX, 787, 747-8 and 777X, Bombardier CSeries, Comac 919, Irkut MS-21 and a variety of business jet platforms, among others. We continue to explore opportunities on new engine and aircraft programs that are under consideration or have been recently announced.

Defense – The defense industry has been negatively impacted by the sequestration of appropriations under the Budget Act, as well as threats of additional budget cuts and related program delays. Our involvement with a wide variety of defense programs in fixed-wing aircraft, rotorcraft and weapons systems has provided relative stability for our defense market sales, although the levels of future defense spending remain uncertain. Key programs on which our deliveries have been stable or growing include the F/A-18 E/F, the F-35 (Joint Strike Fighter), and the Black Hawk and Apache helicopter programs. We have significant motion control system content for the refueling boom on the KC-46A refueling tanker program, which continues in development. Weapons programs for which we have significant sales include the JDAM, SDB and AIM9X guided tactical weapon systems.

Aftermarket – U.S. government sustainment funds continue to be prioritized to defense aircraft platforms on which we have content. Accordingly, our defense aftermarket has shown improvement in fiscal year 2015, but can be expected to continue to be variable in future periods, as it has been in the past. Variability is generally attributable to the cycling of various upgrade programs. Our commercial aftermarket business has increased slightly as our products have been selected for new aerospace platforms and our content has increased across existing platforms. We have experienced the strongest gains in commercial aftermarket sales related to programs like Airbus A320 and Boeing 777. While some legacy programs have been negatively impacted by the availability of surplus hardware from aircraft retirements (and subsequent disassembly for parts re-use), combined with increasingly tight budget control by airline maintenance departments, we saw moderate growth in fiscal year 2015.

Energy Markets

Our industrial and energy products are used worldwide in various types of turbine- and reciprocating engine-powered equipment, including electric power generation and distribution systems, ships, locomotives, compressors, pumps, and other mobile and industrial machines.

Industrial Turbines and Compressors – The power generation gas turbine market for new capacity, which consists mainly of heavy frames and aero derivatives, was essentially flat in fiscal year 2015 compared to fiscal year 2014. Demand for gas turbine aftermarket products and services for fiscal year 2015 increased mainly in North America driven by increased maintenance and performance requirements. Though the increasing demand for energy supports long-term growth for gas turbines, we are expecting new capacity global turbine sales to remain flat in fiscal year 2016 as compared to fiscal year 2015.

In fiscal year 2016, start reliability, fuel flexibility, and part-load efficiency are all expected key drivers as the conversion from coal to gas usage continues, and we believe Woodward is well-positioned to meet these market needs on the next generation gas turbines. We expect an increase in revenues for fiscal year 2016 as a result of customer share gains and increased scope for the latest generation gas turbines. We anticipate continued increasing demand for aftermarket products and services in fiscal year 2016.

We continue to be well-positioned in the gas turbine market, supporting our customers with high reliability systems enabling efficiency gains and maintaining emissions compliance.

The global steam turbine and compressor market for new capacity declined in fiscal year 2015 primarily as a result of significant declines in Chinese domestic and export sales. We believe the new capacity steam turbine and compressor market to have bottomed out in fiscal year 2015 and will remain flat in fiscal year 2016.

We anticipate growth for fiscal year 2016 in our steam turbine and compressor products and services based on new product introductions in controls, actuation and safety. The new complete steam portfolio positions us well for market share gains on new turbines and aftermarket services and upgrades.

In the oil and gas process industry, demand for industrial gas, steam turbines and compressors has been weak, and we expect it will continue to be slightly down in fiscal year 2016 as compared to fiscal year 2015, primarily due to low crude oil prices.

In fiscal year 2015, upstream (extraction/production) new installations were down, and we expect this low demand to continue in fiscal year 2016. We estimate downstream (petrochemical, refining) installations to be flat for fiscal year 2016 with low crude oil prices in the coming period providing some support to the continuation of infrastructure build-out.

Liquefied natural gas production, gas-to-liquids processing, gas processing, oil refining and other chemical refining processes drive demand for gas/steam turbines and compressor applications. We believe we are well-positioned to capture many of these opportunities with a renewed steam turbine portfolio and expanded focus on compressor controls.

Reciprocating Engines – Industrial Production indices grew more slowly throughout many of Woodward's key markets for engine control technologies, and demand diminished for many types of our customers' engine-driven equipment used in mining, construction, oil and gas, and shipping industries. Thus, in fiscal year 2015 as compared to 2014, we experienced lower demand for controls used on small and large diesel engines, and level demand for controls for large industrial natural gas engines.

Longer term, government emissions requirements across many regions and engine applications is driving demand for more sophisticated control systems, as is customer demand for improved engine efficiencies and increased reliability. Energy policies in some countries encourage the use of natural gas and other alternative fuels over carbon-rich petroleum fuels, which we expect will drive increased demand for our alternative fuel clean engine control technologies over the next five years.

Government incentives, natural gas supplies, and other factors have reduced the demand for natural gas-fueled trucks and buses in China and other key markets, which also reduced demand for our control systems used in these applications. We believe this business has strong potential as the long-term demand for natural gas increases.

Renewable Power – The renewable power industry strengthened in fiscal year 2015. We expect the uncertainty regarding government renewable mandates and subsidies will contribute to continued volatility in the renewable energy industry. In many regions of the world, such as Brazil and India, new renewable generation will be limited by grid connectivity constraints. In the longer term, we anticipate improvement in the market as demand for low emission power sources increases and technology advancements allow renewable energy to be more competitive with conventional energy sources.

Electrical Power Generation and Distribution – Demand for controls used in critical power applications was solid, which helped drive increased sales of our power generation controls, although revenue growth was offset by the unfavorable impact of foreign currency exchange rates.

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

RESULTS OF OPERATIONS

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"). However, we believe these non-GAAP financial measures provide additional information that enables readers to evaluate our business from the perspective of management.

Earnings based non-U.S. GAAP financial measures

Management uses EBIT to evaluate Woodward's performance without financing and tax related considerations, as these elements may not fluctuate with operating results. Management uses EBITDA in evaluating Woodward's operating performance, making business decisions, including developing budgets, managing expenditures, forecasting future periods, and evaluating capital structure impacts of various strategic scenarios. Securities analysts, investors and others frequently use EBIT and EBITDA in their evaluation of companies, particularly those with significant property, plant, and equipment, and intangible assets subject to amortization.

EBIT and EBITDA for the fiscal years ended September 30, 2015, September 30, 2014, and September 30, 2013 were as follows:

	Year Ended September 30,		
	2015	2014	2013
Net earnings	$ 181,452	$ 165,844	$ 145,942
Income taxes	59,497	61,400	53,629
Interest expense	24,864	22,804	26,703
Interest income	(787)	(271)	(273)
EBIT	265,026	249,777	226,001
Amortization of intangible assets	29,241	33,580	36,979
Depreciation expense	45,994	43,773	37,254
EBITDA	$ 340,261	$ 327,130	$ 300,234

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. As 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. Our calculations of EBIT and EBITDA may differ from similarly titled measures used by other companies, limiting their usefulness as comparative measures.

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

Management uses free cash flow, which is defined as net cash flows provided by operating activities less payments for property, plant and equipment, in reviewing the financial performance of Woodward's various business groups and evaluating cash levels. Securities analysts, investors, and others frequently use free cash flow in their evaluation of companies. The use of this non-U.S. GAAP financial measure is not intended to be considered in isolation of, or as a substitute for, the financial information prepared and presented in accordance with U.S. GAAP. Free cash flow does not necessarily represent funds available for discretionary use and is not necessarily a measure of our ability to fund our cash needs. Our calculation of free cash flow may differ from similarly titled measures used by other companies, limiting its usefulness as a comparative measure.

Free cash flow for the fiscal years ended September 30, 2015, September 30, 2014, and September 30, 2013 were as follows:

	Year Ended September 30,		
	2015	2014	2013

Net cash provided by operating activities	$ 287,429	$ 268,083	$ 222,592
Payments for property, plant and equipment	(286,612)	(207,106)	(141,600)
Free cash flow	$ 817	$ 60,977	$ 80,992

Operational Highlights

Net sales for fiscal year 2015 were $2,038,303, an increase of 1.9% from $2,001,240 for the prior fiscal year. Net sales for fiscal year 2015 were negatively impacted by $65,573 related to unfavorable changes in foreign currency exchange rates compared to the prior fiscal year.

Net earnings for fiscal year 2015 were $181,452, or $2.75 per diluted share, an increase of $15,608, or 9.4%, compared to $165,844, or $2.45 per diluted share, for fiscal year 2014.

The effective tax rate in fiscal year 2015 was 24.7% compared to 27.0% for the prior fiscal year.

EBIT for fiscal year 2015 was $265,026, up 6.1% from $249,777 in fiscal year 2014. EBIT for fiscal year 2015 was negatively impacted by approximately $14,100 related to unfavorable changes in foreign currency exchange rates compared to the prior fiscal year. EBITDA for fiscal year 2015 was $340,261, up 4.0% from $327,130 for fiscal year 2014.

Liquidity Highlights

Net cash provided by operating activities for fiscal year 2015 was $287,429, compared to $268,083 for fiscal year 2014.

Free cash flow for fiscal year 2015 was $817, compared to $60,977 for fiscal year 2014, primarily attributable to higher capital expenditures in fiscal year 2015 as compared to the prior fiscal year.

On April 28, 2015, Woodward amended its revolving credit facility to increase its borrowing capacity from $600,000 to $1,000,000 (the “Amended Revolving Credit Agreement”). The terms and conditions of the Amended Revolving Credit Agreement are similar to the prior credit agreement. The Amended Revolving Credit Agreement matures in April 2020. The Amended Revolving Credit Agreement provides for the option to increase available borrowings to up to $1,200,000, subject to lenders’ participation.

At September 30, 2015, we held $82,202 in cash and cash equivalents, and had total outstanding debt of $852,430 with additional borrowing availability of $641,723, net of outstanding letters of credit, under our Amended Revolving Credit Agreement. There was additional borrowing capacity of $37,759 under various foreign lines of credit and foreign overdraft facilities.

Joint Venture

On May 20, 2015, Woodward and General Electric Company (“GE”), acting through its GE Aviation business unit, entered into a binding agreement to form a strategic joint venture between Woodward and GE (the “JV”). The JV will design, develop, source, supply and service the fuel system (including components from the fuel inlet up to the fuel nozzle) for specified existing and all future GE commercial aircraft engines that produce thrust in excess of fifty thousand pounds.

Upon formation of the JV, Woodward will assign certain contractual rights to the JV in exchange for a payment from GE of $250,000. In addition, GE will pay Woodward fifteen annual payments of approximately $4,900 each per year. Because the contractual rights have no cost basis in Woodward’s financial records, Woodward expects to account for the fair value of the proceeds received as a deferred gain that will be recognized over the economic lives of the assigned contractual rights. During the fourth quarter of fiscal year 2015, all required regulatory approvals were obtained from various global jurisdictions. Closing of the JV transaction and concurrent formation of the JV is expected to occur early in the second quarter of fiscal year 2016.

Woodward will own 50% of the JV, which will be jointly managed by Woodward and GE, and any significant decisions and/or actions of the JV will require mutual consent of both Woodward and GE. Woodward expects to account for the JV using the equity method, as neither Woodward nor GE will exercise operating control over the JV.

Consolidated Statements of Earnings and Other Selected Financial Data

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

	Year Ended September 30,					
	2015		2014		2013	
		% of Net Sales		% of Net Sales		% of Net Sales
Net sales	$ 2,038,303	100 %	$ 2,001,240	100 %	$ 1,935,976	100 %
Costs and expenses:						
Cost of goods sold	1,453,718	71.3	1,425,839	71.2	1,376,271	71.1

Selling, general, and administrative expenses	156,995	7.7	155,339	7.8	168,097	8.7
Research and development costs	134,485	6.6	138,005	6.9	130,250	6.7
Amortization of intangible assets	29,241	1.4	33,580	1.7	36,979	1.9
Interest expense	24,864	1.2	22,804	1.1	26,703	1.4
Interest income	(787)	(0.0)	(271)	(0.0)	(273)	(0.0)
Other (income) expense, net	(1,162)	(0.1)	(1,300)	(0.1)	(1,622)	(0.1)
Total costs and expenses	1,797,354	88.2	1,773,996	88.6	1,736,405	89.7
Earnings before income taxes	240,949	11.8	227,244	11.4	199,571	10.3
Income tax expense	59,497	2.9	61,400	3.1	53,629	2.8
Net earnings	$ 181,452	8.9	$ 165,844	8.3	$ 145,942	7.5

Other select financial data:

	September 30, 2015	September 30, 2014
Working capital	$ 609,254	$ 668,628
Short-term borrowings	2,430	-
Total debt	852,430	710,000
Total stockholders' equity	1,153,104	1,160,944

2015 RESULTS OF OPERATIONS

2015 Sales Compared to 2014

Consolidated net sales in fiscal year 2015 increased 1.9% to $2,038,303 from $2,001,240 in fiscal year 2014. Details of the changes in consolidated net sales are as follows:

Consolidated net sales for the period ended September 30, 2014	$ 2,001,240
Aerospace volume	60,065
Energy volume	25,300
Effects of changes in price and sales mix	17,271
Effects of changes in foreign currency rates	(65,573)
Consolidated net sales for the period ended September 30, 2015	$ 2,038,303

The increase in net sales for fiscal year 2015 was primarily attributable to improvements in many of our markets in both the Aerospace and Energy segments, partially offset by the negative impacts of unfavorable changes in foreign currency exchange rates compared to the prior fiscal year. In Aerospace, we saw improvements across all markets over the prior year. In Energy, we saw increased sales volume of industrial gas turbine systems and wind turbine converters, partially offset by lower sales of natural gas truck systems in Asia.

Changes in selling prices and sales mix were driven primarily by our Aerospace segment markets.

During the fiscal year ended September 30, 2015, our net sales were negatively impacted by $65,573 due to unfavorable impacts of fluctuations in foreign currency exchange rates compared to the same period of fiscal year 2014. Nearly all of the negative foreign currency impact to our net sales was realized through our Energy segment.

Our worldwide sales activities are primarily denominated in U.S. dollars (“USD”), European Union countries (“EUR”), Great Britain Pounds (“GBP”), Japanese Yen (“JPY”), Brazilian Real (“BRL”), and Chinese Renminbi (“RMB”). As the USD, EUR, GBP, JPY, BRL and RMB fluctuate against each other and other currencies, we are exposed to gains or losses on sales transactions. For additional information on foreign currency exchange rate risk, please refer to the risk factor titled “We derive a significant portion of our revenues from non-U.S. sales and are subject to the risks inherent in doing business in other countries” set forth under the caption “Risk Factors” in Part I, Item 1A of this Form 10-K.

2015 Costs and Expenses Compared to 2014

Cost of goods sold increased by $27,879 to $1,453,718, or 71.3%% of net sales, for fiscal year 2015 from $1,425,839, or 71.2% of net sales, for fiscal year 2014. The increase in cost of goods sold is primarily attributable to higher sales volumes and planned start-up costs related to our new Aerospace segment facilities, partially offset by the favorable cost impact of fluctuations in foreign currency exchange rates compared to fiscal year 2014.

Gross margin (as measured by net sales less cost of goods sold, divided by net sales) was 28.7% for fiscal year 2015, compared to 28.8% for fiscal year 2014. Gross margin for fiscal year 2015 was consistent with fiscal year 2014 as fixed cost leverage on increases in sales offset planned start-up costs related to our new Aerospace segment facilities.

Selling, general, and administrative expenses increased by $1,656, or 1.1%, to $156,995 for fiscal year 2015 as compared to $155,339 for fiscal year 2014. Selling, general, and administrative expenses decreased as a percentage of net sales to 7.7% for fiscal year 2015 as compared to 7.8% for fiscal year 2014. The slight increase in selling, general and administrative expenses in fiscal year 2015 is primarily due to normal variability in costs as well as costs associated with the completion of the JV agreement between Woodward and GE, partially offset by the favorable cost impact of fluctuations in foreign currency exchange rates compared to the same period of fiscal year 2014.

Research and development costs decreased by $3,520, or 2.6%, to $134,485 for fiscal year 2015, as compared to $138,005 for fiscal year 2014. Research and development costs decreased as a percentage of net sales to 6.6% for fiscal year 2015 as compared to 6.9% for fiscal year 2014. The decrease in research and development costs for fiscal year 2015 as compared to fiscal year 2014 is primarily due to the favorable cost impact of fluctuations in foreign currency exchange rates compared to the same period of fiscal year 2014 in addition to the variability in the timing of projects and related milestones. Our research and development activities extend across most of our customer base, and we anticipate ongoing variability in research and development due to the timing of customer business needs on current and future programs.

Amortization of intangible assets decreased to $29,241 for fiscal year 2015, compared to $33,580 for fiscal year 2014. As a percentage of net sales, amortization of intangible assets decreased to 1.4% for fiscal year 2015, as compared to 1.7% for fiscal year 2014. The decrease in amortization expense is primarily related to some intangible assets becoming fully amortized during fiscal years 2014 and 2015.

Interest expense increased to $24,864, or 1.2% of net sales, for fiscal year 2015, compared to $22,804, or 1.1% of net sales, for fiscal year 2014. The increase in interest expense is primarily attributable to additional interest expense on higher levels of debt in fiscal year 2015, partially offset by increased capitalized interest in fiscal year 2015 related primarily to interest capitalized to our three significant facility expansion projects.

Income taxes were provided for at an effective rate on earnings before income taxes of 24.7% for fiscal year 2015, compared to 27.0% for fiscal year 2014. The changes in components of our effective tax rate (as a percentage of earnings before income taxes) were attributable to the following:

Effective tax rate at September 30, 2014	27.0 %
Research and experimentation credit	(0.1)
Retroactive extension of research and experimentation credit	(2.4)
Adjustment of prior period tax items	0.8
Taxes on international activities	(0.1)
Other	(0.5)
Effective tax rate at September 30, 2015	24.7 %

The decrease in the year-over-year effective tax rate for fiscal year 2015 is primarily attributable to the retroactive impact of the reinstatement of the U.S. research and experimentation credit through December 31, 2014 in fiscal year 2015. In addition, there were fewer favorable resolutions, reviews of tax matters, and lapses of applicable statutes of limitations in fiscal year 2015 as compared to fiscal year 2014.

The total amount of the gross liability for worldwide unrecognized tax benefits reported in other liabilities in the Consolidated Balance Sheets was $21,469 at September 30, 2015 and $22,687 at September 30, 2014. At September 30, 2015, the amount of unrecognized tax benefits that would impact Woodward's effective tax rate, if recognized, was $10,494. At this time, we estimate it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as $4,393 in the next twelve months due to a number of factors including the completion of reviews by tax authorities and the expiration of certain statutes of limitations. We accrue for potential interest and penalties related to unrecognized tax benefits in tax expense. Woodward had accrued interest and penalties of $859 as of September 30, 2015 and $1,158 as of September 30, 2014.

Woodward's tax returns are subject to audits by U.S. federal, state, and foreign tax authorities, and these audits are at various stages of completion at any given time. Reviews of tax matters by authorities and lapses of the applicable statutes of limitations may result in changes to tax expense. With a few exceptions, fiscal years remaining open to examination in significant foreign jurisdictions include 2008 and forward. Woodward has concluded U.S. federal income tax examinations through fiscal year 2012. Woodward is generally subject to U.S. state income tax examinations for fiscal years 2012 and forward.

SEGMENT RESULTS

Woodward serves the aerospace, industrial and energy markets through our two reportable segments – Aerospace and Energy. Our reportable segments are aggregations of our operating segments. See Note 20, Segment information, in the Notes to the Consolidated Financial Statements for further information regarding our segments. The following table presents sales by segment:

	Year Ended September 30,					
	2015		2014		2013	
Net sales:						
Aerospace	$ 1,160,883	57.0 %	$ 1,084,025	54.2 %	$ 1,061,477	54.8 %
Energy	877,420	43.0	917,215	45.8	874,499	45.2
Consolidated net sales	$ 2,038,303	100.0 %	$ 2,001,240	100.0 %	$ 1,935,976	100.0 %

The following table presents earnings by segment:

	Year Ended September 30,		
	2015	2014	2013
Aerospace	$ 187,747	$ 159,200	$ 166,122
Energy	126,641	134,278	98,940
Total segment earnings	314,388	293,478	265,062
Nonsegment expenses	(49,362)	(43,701)	(39,061)
Interest expense, net	(24,077)	(22,533)	(26,430)
Consolidated earnings before income taxes	240,949	227,244	199,571
Income tax expense	59,497	61,400	53,629
Consolidated net earnings	$ 181,452	$ 165,844	$ 145,942

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

Year Ended September 30,		
2015	2014	2013

Aerospace	16.2 %	14.7 %	15.7 %
Energy	14.4	14.6	11.3

2015 Segment Results Compared to 2014

Aerospace

Aerospace segment net sales were $1,160,883 for fiscal year 2015, up 7.1% compared to $1,084,025 for fiscal year 2014. Increases in fiscal year 2015 were driven primarily by increased sales volumes in all of our markets, with the highest increase in commercial OEM and defense aftermarket sales.

Commercial OEM aircraft deliveries of narrow-body and wide-body aircraft have continued to increase based on steady airline demand and new product introductions. Business aviation sales increased primarily due to new aircraft introductions. The commercial aftermarket has shown some quarterly variability but was up in fiscal year 2015 compared to the prior year, as global passenger traffic growth continues to drive aircraft utilization and Woodward's market share continues to grow.

U.S. government sustainment funds continue to be prioritized to defense aircraft platforms on which we have content and continue to see significant utilization for military operations. Defense sales, for both aftermarket and OEM, have increased in fiscal year 2015, primarily related to conflicts in the Middle East.

Aerospace segment earnings increased by $28,547, or 17.9%, to $187,747 for fiscal year 2015, compared to $159,200 for fiscal year 2014. The reasons for the net increases in Aerospace segment earnings for fiscal year 2015 were as follows:

Earnings for the period ended September 30, 2014	$ 159,200
Sales volume	28,287
Price, sales mix and productivity	13,548
Increases in manufacturing expenses	(15,478)
Other, net	2,190
Earnings for the period ended September 30, 2015	$ 187,747

Aerospace segment earnings as a percentage of sales were 16.2% for fiscal year 2015, compared to 14.7% for fiscal year 2014. The increase was primarily attributable to increased sales, partially offset by increased manufacturing expenses primarily related to planned start-up costs related to our new facilities.

Energy

Energy segment net sales decreased 4.3% to $877,420 for fiscal year 2015, compared to $917,215 for fiscal year 2014. The decrease in segment net sales for fiscal year 2015 as compared to the same period of fiscal year 2014 was driven primarily by the unfavorable impact of changes in foreign currency exchange rates of approximately $63,700. Excluding the impact of foreign currency exchange rates, sales increased in fiscal year 2015 as compared to fiscal year 2014 primarily related to increased sales volume of industrial gas turbine systems and wind turbine converters, partially offset by lower sales of natural gas truck systems in Asia.

Energy segment earnings decreased by $7,637, or 5.7%, to $126,641 for fiscal year 2015, compared to $134,278 for fiscal year 2014. The reasons for the net decrease in Energy segment earnings for fiscal year 2015 were as follows:

Earnings for the period ended September 30, 2014	$ 134,278
Sales volume	9,909
Price, sales mix and productivity	(3,619)
Effects of changes in foreign currency rates	(15,480)
Other, net	1,553
Earnings for the period ended September 30, 2015	$ 126,641

Energy segment earnings as a percentage of sales were 14.4% for fiscal year 2015, compared to 14.6% for fiscal year 2014. The slight decrease in segment earnings for fiscal year 2015 as compared to the same period of the prior year was primarily attributable to the unfavorable impact of changes in foreign currency exchange rates, partially offset by the effects of increased sales volume.

Nonsegment expenses

Nonsegment expenses increased to $49,362 for fiscal year 2015, compared to $43,701 for fiscal year 2014. As a percent of sales, nonsegment expenses increased to 2.4% of net sales for fiscal year 2015, compared to 2.2% of net sales for fiscal year 2014. The increase in nonsegment expenses in fiscal year 2015 is primarily due to normal variability in costs, as well as costs associated with the completion of the JV agreement between Woodward and GE of approximately $2,000.

2014 RESULTS OF OPERATIONS

2014 Sales Compared to 2013

Consolidated net sales in fiscal year 2014 increased 3.4% to $2,001,240 from $1,935,976 in fiscal year 2013. As previously disclosed, on December 28, 2012, Woodward acquired substantially all of the assets and certain liabilities related to the thrust reverser actuation systems business of GE Aviation Systems LLC. The business was located in Duarte, California and we refer to it as the Duarte Business. See Note 4, Joint ventures and business acquisitions, for further information. Details of the changes in consolidated net sales are as follows:

Consolidated net sales for the period ended September 30, 2013	$ 1,935,976
Aerospace segment volume	(30,394)
Energy segment volume	42,975
Effects of changes in price and sales mix	18,951
Duarte Business net sales from October 2013 through December 2013	31,432
Effects of changes in foreign currency rates	2,300
Consolidated net sales for the period ended September 30, 2014	$ 2,001,240

Net sales in fiscal year 2014 include sales from the Duarte Business for the first quarter of fiscal year 2014 for which there were no comparable sales in the first quarter of fiscal year 2013 due to the timing of the acquisition. The remaining increase in net sales for fiscal year 2014 was primarily attributable to improvements in a number of markets within both our Energy and Aerospace segments, mostly offset by decreased volumes in defense sales in our Aerospace segment and lower sales of natural gas bus and truck systems in our Energy segment.

Increases in selling prices were driven primarily by our Aerospace segment markets.

During the fiscal year ended September 30, 2014, our net sales were positively impacted by $2,300 due to favorable fluctuations in foreign currency exchange rates compared to the same period of fiscal year 2013.

2014 Costs and Expenses Compared to 2013

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

Variable compensation expense, which is tied to relative financial and operating performance, can vary significantly from fiscal year to year. During fiscal year 2014, variable compensation increased $29,667 as compared to fiscal year 2013 and impacted cost of goods sold, selling, general and administrative expenses, and research and development costs.

During the fourth quarter of fiscal year 2014, we recorded the following in costs and expenses: a curtailment gain of $6,624 that pertained to amendments made to one of our defined benefit pension plans that resulted in a freeze to the benefits of certain U.S. employees, an impairment charge of $3,138 related to the write down to fair market value of certain non-U.S. held for sale assets, and accelerated cost recognition on lease commitments and related assets for property no longer in use of $2,651. The majority of these amounts were recorded in cost of goods sold.

Cost of goods sold increased by $49,568 to $1,425,839, or 71.2% of net sales, for fiscal year 2014 from $1,376,271, or 71.1% of net sales, for 2013. The increase in costs of goods sold is primarily attributable to increased sales in our Energy segment and significant increases in variable compensation compared to the prior year periods. Cost of goods sold for fiscal year 2013 included $8,300 of the specific charges (discussed above) related to the realignment of the renewable power business within our Energy segment.

Gross margins (as measured by net sales less cost of goods sold, divided by net sales) were 28.8% for fiscal year 2014 and 28.9% for fiscal year 2013. Gross margins for the fiscal year 2014 were down slightly compared to fiscal year 2013, primarily related to significant increases in variable compensation in fiscal year 2014, partially offset by the $8,300 of specific charges included in gross margin in fiscal year 2013.

Selling, general, and administrative expenses decreased by $12,758 or 7.6%, to $155,339 for fiscal year 2014 as compared to $168,097 for fiscal year 2013. Selling, general and administrative expenses decreased as a percentage of net sales to 7.8% for fiscal year 2014 as compared to 8.7% for fiscal year 2013. The decrease in selling, general and administrative expenses in fiscal year 2014 is due to cost control initiatives as well as the $7,407 of specific charges (discussed above) that were included in selling, general and administrative expenses in fiscal year 2013 and that more than offset significantly higher levels of variable compensation in fiscal year 2014.

Research and development costs increased by $7,755, or 6.0%, to $138,005 for fiscal year 2014 as compared to $130,250 for fiscal year 2013. Research and development costs increased as a percentage of net sales to 6.9% for fiscal year 2014 as compared to 6.7% for fiscal year 2013. Research and development costs for fiscal year 2014 reflected increased variable compensation when compared to the prior fiscal year and ongoing variability in spending.

Amortization of intangible assets decreased to $33,580 for fiscal year 2014, compared to $36,979 for fiscal year 2013. As a percentage of net sales, amortization of intangible assets decreased to 1.7% for fiscal year 2014 as compared to 1.9% fiscal year 2013. The decrease in amortization expense is primarily related to intangible assets becoming fully amortized in the current year.

Interest expense decreased to $22,804, or 1.1% of net sales, for fiscal year 2014, compared to $26,703, or 1.4% of net sales, for fiscal year 2013. The decrease in interest expense is primarily attributable to an increase in the amount of interest capitalized on our capital improvement projects partially offset by increased borrowing year over year.

Income taxes were provided for at an effective rate on earnings before income taxes of 27.0% for fiscal year 2014, compared to 26.9% for fiscal year 2013. The changes in components of our effective tax rate (as a percentage of earnings before income taxes) were attributable to the following:

Effective tax rate at September 30, 2013	26.9 %
Research and experimentation credit	2.4
Retroactive extension of research and experimentation credit	2.5
Adjustment of prior period tax items	(1.9)
Taxes on international activities	(2.0)
Other	(0.9)
Effective tax rate at September 30, 2014	27.0 %

The year-over-year effective tax rate for fiscal year 2014 increased slightly due to the retroactive impact of the reinstatement of the U.S. research and experimentation credit in fiscal year 2013, which did not recur in fiscal year 2014. This increase was offset by larger net favorable resolutions and reviews of tax matters and lapses of applicable statutes of limitations, higher earnings in jurisdictions with lower tax rates, and reduced taxes on current and anticipated future distributions of foreign earnings to the U.S in the fiscal year 2014.

2014 Segment Results Compared to 2013

Aerospace

Aerospace segment net sales were $1,084,025 for fiscal year 2014, compared to $1,061,477 for fiscal year 2013. Segment net sales for fiscal year 2014, excluding the sales from the acquired Duarte Business for the first quarter of fiscal year 2014, for which there were no comparable sales in the first quarter of fiscal year 2013 due to the timing of the acquisition, were $1,052,593, a decrease of $8,884, or 0.8%, compared to the prior fiscal year. The decrease in segment net sales for fiscal year 2014 compared to fiscal year 2013 after excluding the net sales from the acquired Duarte Business for the first quarter of fiscal year 2014, was driven primarily by significantly lower defense sales in both aftermarket and OEM, partially offset by increases in commercial OEM and aftermarket sales.

Defense sales continued to reflect the ongoing U.S. government budget constraints, which impacted the timing of contracts and upgrade programs and resulted in variability during the fiscal year, causing lower defense sales in fiscal year 2014 as compared to the prior fiscal year. Defense aftermarket sales in fiscal year 2013 were strong compared to fiscal year 2012 levels. Fiscal year 2014 defense sales decreased significantly from the prior year, particularly related to sales for rotorcraft programs, but were comparable to fiscal year 2012. The majority of the decline in fiscal year 2014 related to defense aftermarket sales as defense OEM sales declined, but not as significantly.

Commercial OEM aircraft deliveries of narrow-body and wide-body aircraft continued to increase in fiscal year 2014 based on improved airline demand and new product introduction. The commercial aftermarket showed improvement as global passenger traffic growth continued to drive aircraft utilization.

Aerospace segment earnings decreased by $6,922, or 4.2%, to $159,200 for fiscal year 2014, compared to $166,122 for fiscal year 2013 due to the following:

Earnings for the period ended September 30, 2013	$ 166,122
Sales volume	(13,256)
Price, sales mix and productivity	5,502
Research and development expenses	4,578
Variable compensation	(14,220)
Cost control initiatives	4,755
Other, net	5,719
Earnings for the period ended September 30, 2014	$ 159,200

Segment earnings as a percentage of sales were 14.7% for fiscal year 2014 compared to 15.7% for fiscal year 2013. The decrease in Aerospace segment earnings in fiscal year 2014 compared to fiscal year 2013 was primarily attributable to the impact of reduced defense sales volumes and increases in variable compensation, partially offset by cost control initiatives and lower research and development expenses.

Energy

Energy segment net sales were $917,215 for fiscal year 2014, compared to $874,499 for fiscal year 2013. The increase in sales was primarily attributable to improvements in several markets, including the wind turbine converter, aero-derivative turbine, and large gas and diesel engine markets, partially offset by lower sales of natural gas bus and truck systems.

Energy segment earnings increased by $35,338, or 35.7%, to $134,278 for fiscal year 2014 as compared to $98,940 for fiscal year 2013 due to the following:

Earnings for the period ended September 30, 2013	$ 98,940
Sales volume	18,140
Price, sales mix and productivity	3,862
Research and development expenses	(6,758)
Specific charges related to renewable power business in fiscal year 2013	15,707
Realignment savings	6,566
Variable compensation	(10,738)
Effects of changes in foreign currency rates	1,187
Other, net	7,372
Earnings for the period ended September 30, 2014	$ 134,278

Segment earnings as a percentage of sales increased to 14.6% in fiscal year 2014 compared to 11.3% for fiscal year 2013.

Uncertainty with respect to U.S. and other government renewable power incentives and economic factors associated with alternate energy sources resulted in significant overcapacity and financial distress in the renewable power industry, particularly in our fiscal year 2013. As a result, we made a decision in fiscal year 2013 to align our renewable power business appropriately for the then current environment and foreseeable future, through revaluation of its assets and liabilities, including workforce management actions, which resulted in specific charges of $15,707 in the third quarter of fiscal year 2013. The savings benefits of these realignment changes contributed to improved earnings results in fiscal year 2014.

The remaining increase for fiscal year 2014 compared to the prior year in the Energy segment earnings, excluding the specific charges of $15,707 taken in fiscal year 2013, was driven primarily by increased sales volume and related fixed cost leverage, lean implementation and productivity improvements and realignment savings, partially offset by increases in variable compensation and research and development expenses. Foreign currency exchange rates had a favorable impact of $1,187 in fiscal year 2014 compared to fiscal year 2013.

Nonsegment expenses

Nonsegment expenses for fiscal year 2014 increased to $43,701, or 2.2% of net sales, compared to $39,061, or 2.0% of net sales, for fiscal year 2013. The increase in nonsegment expense was primarily related to increases in variable compensation.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have satisfied our working capital needs, as well as capital expenditures, product development and other liquidity requirements associated with our operations, with cash flow provided by operating activities and borrowings under our credit facilities. We expect that cash generated from our operating activities, together with borrowings under our revolving credit facility, will be sufficient to fund our continuing operating needs, including capital expansion funding for the foreseeable future.

Our aggregate cash and cash equivalents were \$82,202 at September 30, 2015 and \$115,287 at September 30, 2014, and our working capital was \$609,254 at September 30, 2015 and \$668,628 at September 30, 2014. Of the \$82,202 of cash and cash equivalents held at September 30, 2015, \$78,426 was held by our foreign locations. We are not presently aware of any significant restrictions on the repatriation of these funds, although a portion is considered indefinitely reinvested in these foreign subsidiaries. If these funds were needed to fund our operations or satisfy obligations in the United States, then they could be repatriated and their repatriation into the U.S. may cause us to incur additional U.S. income taxes or foreign withholding taxes. Any additional U.S. 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. Based on these variables, it is impractical to determine the income tax liability that might be incurred if these funds were to be repatriated.

Our revolving credit facility, which we amended on April 28, 2015 to increase the borrowing capacity from \$600,000 to \$1,000,000, matures in April 2020 and provides the option to increase total available borrowings to up to \$1,200,000, subject to lenders' participation. We can borrow against our \$1,000,000 revolving credit facility as long as we are in compliance with all of our debt covenants. Historically, we have used borrowings under our revolving credit facilities to meet certain short-term working capital needs, as well as for strategic uses, including repurchases of our stock, payments of dividends, acquisitions, and facilities expansions. In addition, we have various foreign credit facilities, some of which are tied to net amounts on deposit at certain foreign financial institutions. These foreign credit facilities are reviewed annually for renewal. We use borrowings under these foreign credit facilities to finance certain local operations on a periodic basis. For further discussion of our $1,000,000 revolving credit facility and our other credit facilities, see Note 12, Credit facilities, short-term borrowings and long-term debt in the Notes to the Consolidated Financial Statements in “Item 8 – Financial Statements and Supplementary Data.”

At September 30, 2015, we had total outstanding debt of $852,430, with additional borrowing availability of $641,723 under our revolving credit facility, net of outstanding letters of credit, and additional borrowing availability of $37,759 under various foreign credit facilities.

At September 30, 2015, we had $350,000 of borrowings outstanding under our revolving credit facility, which was classified as long-term, and $2,430 of borrowings outstanding under our Brazilian line of credit. Revolving credit facility and short-term borrowing activity during the fiscal year ended September 30, 2015 were as follows:

Maximum daily balance during the period	$ 507,430
Average daily balance during the period	$ 365,730
Weighted average interest rate on average daily balance	1.31%

We were in compliance with all our debt covenants at September 30, 2015. See Note 12, Credit facilities, short-term borrowings and long-term debt, to the Consolidated Financial Statements in “Item 8 – Financial Statements and Supplementary Data” for more information about our covenants.

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, significant capital expenditures, consideration of strategic acquisitions and other potential uses of cash.

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.

On May 20, 2015, we entered into a binding agreement with GE to form a strategic joint venture between us and GE (the “JV”). The JV will design, develop, source, supply and service the fuel system (including components from the fuel inlet up to the fuel nozzle) for specified existing and all future GE commercial aircraft engines that produce thrust in excess of fifty thousand pounds. Upon formation of the JV, we will assign certain contractual rights to the JV in exchange for a payment from GE of $250,000. In addition, GE will pay us fifteen annual payments of approximately $4,900 each per year. Because the contractual rights have no cost basis in our financial records, we expect to account for the fair value of the proceeds received as a deferred gain that will be recognized over the economic lives of the assigned contractual rights. During the fourth quarter of fiscal year 2015, all required regulatory approvals were obtained from various global jurisdictions. Closing of the JV transaction and concurrent formation of the JV is expected to occur early in the second quarter of fiscal year 2016.

In the second quarter of fiscal year 2015, our Board of Directors terminated our previous stock repurchase program and replaced it with a new program for the repurchase of up to $300,000 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 2018 (the “2015 Authorization”).

On June 2, 2015, we entered into an accelerated share repurchase agreement (the “ASR Agreement”) with Goldman, Sachs & Co. (“Goldman”) under which we repurchased shares of our common stock for an aggregate purchase price of $125,000. Upon execution of the ASR Agreement, Goldman initially delivered to us 2,048 shares of common stock. Goldman completed the ASR Agreement on September 3, 2015 and delivered 458 additional shares to us. The final number of shares delivered was based generally on the average daily volume-weighted average price of Woodward stock during the term of the ASR Agreement.

For our Aerospace segment, we completed construction of a manufacturing and office building on a second campus in the greater-Rockford, Illinois area and have begun occupying the new facility. This campus is intended to support our expected growth over the next ten years and beyond stimulated by our being awarded a substantial number of new system platforms, particularly on narrow-body aircraft. In addition, in fiscal year 2015, we completed an addition to and renovation of a building in Niles, Illinois that we had acquired in September 2013. Most of our operations that formerly resided in nearby Skokie, Illinois, were relocated to this new facility in fiscal year 2015.

We are currently developing a new campus at our corporate headquarters in Fort Collins, Colorado to support the continued growth of our Energy segment by supplementing our existing Colorado manufacturing facilities and corporate headquarters.

We anticipate spending approximately $100,000 in fiscal year 2016 related to these investments.

We believe that cash flows from operations, along with our contractually committed borrowings and other borrowing capability, will continue to be sufficient to fund anticipated capital spending requirements and our operations for the foreseeable future. However, we could be adversely affected if the financial institutions providing our capital 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 stable, 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.

Cash Flows

	Year Ended September 30,		
	2015	2014	2013
Net cash provided by operating activities	$ 287,429	$ 268,083	$ 222,592
Net cash used in investing activities	(284,083)	(205,829)	(340,042)
Net cash provided by (used in) financing activities	(25,445)	9,477	102,473
Effect of exchange rate changes on cash and cash equivalents	(10,986)	(5,000)	1,704
Net change in cash and cash equivalents	(33,085)	66,731	(13,273)
Cash and cash equivalents at beginning of period	115,287	48,556	61,829
Cash and cash equivalents at end of period	$ 82,202	$ 115,287	$ 48,556

2015 Cash Flows Compared to 2014

Net cash flows provided by operating activities for fiscal year 2015 was $287,429, compared to $268,083 in fiscal year 2014. The increase is primarily attributable to increased earnings in fiscal year 2015.

Net cash flows used in investing activities for fiscal year 2015 was $284,083, compared to $205,829 in fiscal year 2014. The increase in cash used in investing activities compared to the same period of the prior fiscal year is due to increases in capital expenditures. Payments for property, plant and equipment increased by $79,506 to $286,612 in fiscal year 2015 as compared to $207,106 in fiscal year 2014 related mainly to the development of a second campus in the greater-Rockford, Illinois area, our new facility in Niles, Illinois, and our new campus headquarters in Fort Collins, Colorado.

Net cash flows used in financing activities for fiscal year 2015 was $25,445, compared to net cash flows provided by financing activities of 9,477 in fiscal year 2014. During fiscal year 2015, we had net debt borrowings of $143,361 compared to net debt borrowings of $160,002 in fiscal year 2014. We utilized $157,160 to repurchase 3,128 shares of our common stock in fiscal year 2015 under our existing stock repurchase program, compared to $141,488 to repurchase 3,272 shares of our common stock in fiscal year 2014.

2014 Cash Flows Compared to 2013

Net cash flows provided by operating activities for fiscal year 2014 was $268,083, compared to $222,592 in fiscal year 2013. The increase of $45,491 was primarily attributable to improved working capital utilization and higher earnings in fiscal year 2014.

Accounts receivable provided $30,880 of cash in fiscal year 2014 compared to $9,774 of cash utilized in fiscal year 2013, accounting for the majority of the increase in operating cash flows. The amount of cash provided by accounts receivable in fiscal year 2014 reflected a decrease in accounts receivable in fiscal year 2014 as compared to fiscal year 2013 due to better collections in fiscal year 2014. The increase in operating cash flows was also attributable to higher net earnings in fiscal year 2014 as compared to fiscal year 2013. These increases in cash were partially offset by an increase in cash utilized for inventory in fiscal year 2014. Inventory utilized $27,788 of cash in fiscal year 2014 compared to cash utilized of $1,485 in fiscal year 2013. The increase in cash utilized was the result of inventory builds to meet the future demands of our customers.

Net cash flows used in investing activities for fiscal year 2014 was $205,829, compared to $340,042 in fiscal year 2013. The decrease in cash used in investing activities compared to the same period of fiscal year 2013 was due primarily to the acquisition of the Duarte Business in the first quarter of fiscal year 2013, which utilized $198,860 of cash. This decrease was partially offset by increased payments for property, plant and equipment of $65,506 to $207,106 in fiscal year 2014 as compared to $141,600 in fiscal year 2013 related mainly to the development of a second campus in the greater-Rockford, Illinois area, a new facility in Niles, Illinois, and a new campus at our headquarters in Fort Collins, Colorado.

Net cash flows provided by financing activities for fiscal year 2014 was $9,477, compared to $102,473 for fiscal year 2013. During fiscal year 2014, we had net short and long-term borrowings of $160,002 compared to net debt borrowings of $157,713 in the fiscal year 2013. Slightly higher borrowings in fiscal year 2014 were primarily attributable to increased payments for property, plant and equipment. We utilized $141,488 to repurchase 3,272 shares of our common stock in fiscal year 2014, compared to $45,754 to repurchase 1,233 shares of our common stock in fiscal year 2013.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

As of September 30, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources, that are material to investors.

Contractual Obligations

A summary of our consolidated contractual obligations and commitments as of September 30, 2015 is as follows:

	Year Ending September 30,					
	2016	2017	2018	2019	2020	Thereafter
	(in thousands)					
Long-term debt principal	$ 107,000	$ -	$ -	$ 143,000	$ -	$ 250,000
Interest on debt obligations (1)	20,855	18,592	18,592	10,460	8,659	25,891
Operating leases	5,793	4,450	3,058	2,620	2,247	1,378
Purchase obligations (2)	270	9	-	-	-	-
Construction contractual obligation (3)	26,660	-	-	-	-	-
Other (4)	-	-	-	-	-	21,469
Total	$ 160,578	$ 23,051	$ 21,650	$ 156,080	$ 10,906	$ 298,738

(1) Interest obligations on floating rate debt instruments are calculated for future periods using interest rates in effect as of September 30, 2015. See Note 12, Credit facilities, short-term borrowings and long-term debt, to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data" for further details on our long-term debt.

(2) Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, delivery, and termination liability.

(3) Construction contractual commitments represent estimated amounts to be paid under contracts to a new campus at our corporate headquarters in Fort Collins, Colorado.

(4) The $21,469 included in other obligations in the "Thereafter" column represents our best reasonable estimate for uncertain tax positions at this time and may change in future periods, as the timing of the payments and whether such payments will actually be required cannot be reasonably estimated.

The above table does not reflect the following items:

· Contributions to our retirement pension benefit plans, which we estimate will total approximately $819 in fiscal year 2016. As of September 30, 2015 our pension plans were underfunded by $11,848 based on projected benefit obligations. Statutory pension contributions in future fiscal years will vary as a result of a number of factors, including actual plan asset returns and interest rates.
· Contributions to our other postretirement benefit plans, which we estimate will total $4,103 in fiscal year 2016. Other postretirement contributions are made on a "pay-as-you-go" basis as payments are made to healthcare providers, and such contributions will vary as a result of changes in the future cost of postretirement healthcare benefits provided for covered retirees. As of September 30, 2015, our other postretirement benefit plans were underfunded by $34,927 based on projected benefit obligations.
· Business commitments made to certain customers to perform under long-term product development projects, some of which may result in near-term financial losses. Such losses, if any, are recognized when they become likely to occur.

In connection with the sale of the F&P product line during fiscal year 2009, 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 obligations under the contracts. The purchaser and its affiliates have agreed to indemnify Woodward for any liability incurred with respect to the guarantee.

Guarantees and letters of credit totaling approximately $8,620 were outstanding as of September 30, 2015, some of which were secured by parent guarantees from Woodward or by Woodward line of credit facilities.

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

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 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 our Note 2, New accounting standards, to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue recognition

Woodward recognizes revenue when the following criteria are met:

1) persuasive evidence of an arrangement exists,

2) delivery of the product has occurred or services have been rendered,

3) price is fixed or determinable, and

4) collectability is reasonably assured.

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

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

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

Purchase accounting

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

Acquired intangible assets, excluding goodwill, are valued using a discounted cash flow methodology based on future cash flows specific to the type of intangible asset purchased. This methodology incorporates various estimates and assumptions, the most significant being projected revenue growth rates, earnings margins, and forecasted cash flows based on the discount rate and terminal growth rate. Management projects revenue growth rates, earnings margins and cash flows based on the historical operating results of the acquired entity adjusted for synergies anticipated to be achieved through integration, expected future performance, operational strategies, and the general macroeconomic environment. We review finite-lived intangible assets for triggering events such as significant changes in operations, customers or future revenue that might indicate the need to impair the assets acquired or change the useful lives of the assets acquired. There was no impairment or change in useful lives recognized on other intangible assets acquired in fiscal years 2015, 2014 or 2013.

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

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

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

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

Valuation of gain and loss contingencies, if not resolved during the purchase measurement period, requires exercise of management judgment. We measure pre-acquisition contingencies at their acquisition date fair value if their fair value can be determined during the measurement period. If we cannot determine the fair value of the pre-acquisition contingency during the measurement period, we recognize an acquired asset or assumed liability if it is probable that an asset existed or that a liability had been incurred at the acquisition date and the amount of the asset or liability can be reasonably estimated.

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

Inventory

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

Inventory net realizable values are determined by giving substantial consideration to the expected product selling price. We estimate expected selling prices based on our historical recovery rates, general economic and market conditions, the expected channel of disposition, and current customer contracts and preferences. Actual results may differ from our estimates due to changes in resale or market value and the mix of these factors. Management monitors inventory for events or circumstances, such as negative margins, recent sales history suggesting lower sales value, or changes in customer preferences, which would indicate the net realizable value of inventory is less than the carrying value of inventory, and management records adjustments as necessary. When inventory is written down below cost, such reduced amount is considered the cost for subsequent accounting purposes. Our recording of inventory at the lower of cost or net realizable value has not historically required material adjustments once initially established.

The carrying value of inventory was $447,664 at September 30, 2015 and $451,944 at September 30, 2014. If economic conditions, customer product requirements, or other factors significantly reduce future customer demand for our products from forecast levels, then future adjustments to the carrying value of inventory may become necessary. We attempt to maintain inventory quantities at levels considered necessary to fill expected orders in a reasonable time frame, which we believe mitigates our exposure to future inventory carrying cost adjustments.

Depreciation and amortization

The carrying value of property, plant and equipment was $756,100 at September 30, 2015 and $513,279 at September 30, 2014. Depreciation expense was $45,944 in fiscal year 2015, $43,773 in fiscal year 2014 and $37,254 in fiscal year 2013. Depreciation of property, plant and equipment is generally computed using the straight-line method, which requires estimates of asset useful lives and ultimate salvage value.

Depreciation expense for certain equipment specifically acquired to support new product offerings expected to have very uneven production and sales patterns over a number of years is computed using the unit-of-production method. In addition to assumptions for useful lives and salvage value, unit-of-production depreciation is also based on estimates of the number of total units to be produced over the life of the equipment.

The carrying value of intangible assets was $225,138 at September 30, 2015 and $254,772 at September 30, 2014. Amortization expense was $29,241 in fiscal year 2015, $33,580 in fiscal year 2014 and $36,979 in fiscal year 2013. Amortization of intangible assets is generally computed using patterns that reflect the periods over which the economic benefits of the assets are expected to be realized. Impairment losses are recognized if the carrying amount of an intangible is both not estimated to be recoverable and exceeds it fair value.

Reviews for impairment of goodwill

At September 30, 2015, we had $556,977 of goodwill, representing 22% of our total assets. At September 30, 2014, we had $559,724 of goodwill, representing 23% of our total assets. Goodwill is tested for impairment at the reporting unit level on an annual basis and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Based on the relevant U.S. GAAP authoritative guidance, we aggregate components of a single operating segment into a reporting unit, if appropriate. For purposes of performing the impairment tests, we identify reporting units in accordance with U.S. GAAP. The identification of reporting units and consideration of aggregation criteria requires management judgment. The impairment tests consist of comparing the fair value of reporting units, determined using discounted cash flows, with their carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, we compare the implied fair value of goodwill with its carrying amount. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss would be recognized to reduce the carrying amount to its implied fair value. There was no impairment charge recorded in fiscal years 2015, 2014, or 2013.

Woodward completed its annual goodwill impairment test as of July 31, 2015 for the fiscal year ended September 30, 2015 during the fourth quarter. At that date, Woodward determined it was appropriate to aggregate certain components of the same operating segment into a single reporting unit. The fair value of each of Woodward's reporting units was determined using an income approach based on a discounted cash flow method. This method represents a Level 3 input and incorporates various estimates and assumptions, the most significant being projected revenue growth rates, earnings margins, future tax rates and the present value, based on an estimated weighted-average cost of capital (or the discount rate) and terminal growth rate, of forecasted cash flows. Management projects revenue growth rates, earnings margins and cash flows based on each reporting unit's current operational results, expected performance and operational strategies over a ten-year period. These projections are adjusted to reflect current economic conditions and demand for certain products, and require considerable management judgment.

Forecasted cash flows used in the July 31, 2015 impairment test were discounted using weighted-average cost of capital assumptions ranging from 9.49% to 12.83%. The terminal values of the forecasted cash flows were calculated using the Gordon Growth Model and assumed an annual compound growth rate after ten years of 4.03%. These inputs, which are unobservable in the market, represent management's best estimate of what market participants would use in determining the present value of the Company's forecasted cash flows. Changes in these estimates and assumptions can have a significant impact on the fair value of forecasted cash flows. Woodward evaluated the reasonableness of the reporting units resulting fair values utilizing a market multiple method.

The results of Woodward's annual goodwill impairment test performed as of July 31, 2015, indicated the estimated fair value of each reporting unit was significantly in excess of its carrying value, and accordingly, no impairment existed. Increasing the discount rate by 20%, decreasing the growth rate by 20%, or decreasing forecasted cash flow by 20%, would also not have resulted in an impairment charge at July 31, 2015.

As part of the Company's ongoing monitoring efforts to assess goodwill for possible indications of impairment, we will continue to consider a wide variety of factors, including but not limited to the global economic environment and its potential impact on Woodward's business. There can be no assurance that our estimates and assumptions regarding forecasted cash flows of certain reporting units, the current economic environment, or the other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

Postretirement benefits

The Company provides various benefits to certain employees through defined benefit pension plans and other postretirement benefit plans. A September 30 measurement date is used to value plan assets and obligations for all Woodward defined benefit pension and other postretirement benefit plans. For financial reporting purposes, net periodic benefits expense and related obligations are calculated using a number of significant actuarial assumptions, including anticipated discount rates, rates of compensation increases, long-term return on defined benefit plan investments, and anticipated healthcare cost increases. Based on these actuarial assumptions, at September 30, 2015, our recorded assets and liabilities included a net liability of $11,848 for our defined benefit pension plans and a liability of $34,927 for other postretirement benefit plans. Changes in net periodic expense or the amounts of recorded assets and liabilities may occur in the future due to changes in these assumptions.

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

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

During fiscal year 2015, the SEC staff expressed its acceptance for companies applying an alternative accounting approach for using discount rates to measure the components of net periodic benefit cost for postretirement benefit plan obligations. Specifically, the SEC staff stated that it would not object to companies' use of an alternative approach that focuses on measuring the service cost and interest cost components of net periodic benefit cost by using individual spot rates derived from a high-quality corporate bond yield curve and matched with separate cash flows for each future year instead of a single weighted-average discount rate approach. Further, the SEC staff stated it would not object to companies treating the change in approach as a change in estimate. We elected to change our estimate in the determination of discount rate assumptions to determine periodic benefit costs effective for fiscal year 2016 for both our defined benefit pension and other postretirement plans. This change in estimate had no impact on the service cost and interest cost components of net periodic benefit cost in fiscal years 2015, 2014 or 2013.

Mortality assumptions are based on published mortality studies developed primarily based on past experience of the broad population and modified for projected longevity trends. The projected benefit obligations in the United States as of September 30, 2015 was based on the Society of Actuaries (“SOA”) RP-2014 Mortality Tables Report projected back to 2007 using the SOA’s Mortality Improvement Scale MP-2014 (“MP-2014”) and projected forward using a custom projection scale based on MP-2014 with a 10-year convergence period and a long-term rate of 0.75%. As of September 30, 2014, mortality assumptions in the United States were based on the Pension Protection Act (“PPA”) Static 2014 tables. As of September 30, 2015 and September 30, 2014, mortality assumptions in Japan were based on the Standard rates 2014 and Standard rates 2009, respectively. These changes in estimate had no impact on the net periodic benefit cost in fiscal years 2015, 2014 or 2013 in the United States and Japan. As of September 30, 2015 and September 30, 2014, mortality assumptions for the United Kingdom pension scheme were based on the Self-administered pension scheme (“SAPS”) S2 “all” tables with a projected 1.5% annual improvement rate.

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

· The discount rate assumption is intended to reflect the rate at which the retirement benefits could be effectively settled based upon the assumed timing of the benefit payments.

In the United States, prior to fiscal year 2015, the Company used a bond portfolio matching analysis based on recently traded, non-callable bonds rated AA or better that have at least $50 million outstanding to determine the benefit obligations at year end. The discount rate used to determine periodic benefit costs for the years ended September 30, 2015 and prior were consistent with the discount rate used to determine the benefit obligation as of the prior fiscal year end.

As of September 30, 2015, the discount rate used to determine the benefit obligation at year end was based on a high-quality corporate bond yield curve matched with projected separate cash flows to settle the entire benefit obligations. The discount rate used to determine periodic service cost and interest costs of the overall benefit costs for the year ending September 30, 2016 will be based on spot rates derived from the same high-quality corporate bond yield curve used to determine the September 30, 2015 benefit obligation matched with separate cash flows for each future year.

In the United Kingdom and Japan, Woodward continues to use a high-quality corporate bond yield curve matched with separate cash flows to develop a single rate to determine the single rate equivalent to settle the entire benefit obligations in each jurisdiction. The discount rate used to determine periodic service cost and interest costs of the overall benefit costs for the year ending September 30, 2016 will be based on spot rates derived from the same high-quality corporate bond yield curves used to determine the September 30, 2015 benefit obligation matched with separate cash flows for each future year.

In Switzerland, Woodward used high quality swap rates plus a credit spread of 0.20% in fiscal year 2013 as high quality swaps are available in Switzerland at various durations and trade at higher volumes than bonds. Woodward’s assumed rate in Switzerland did not differ significantly from this benchmark. As of September 30, 2014 Woodward no longer sponsors a defined benefit plan is Switzerland.

These rates are sensitive to changes in interest rates.

	Change In Discount Rate	
	1% increase	1% decrease
Defined benefit pension benefits:		
2016 Net Periodic Benefit Cost	$ (676)	$ 1,626

2016 Projected Service and Interest Costs	434	(652)
Accumulated Post Retirement Benefit Obligation as of Sept. 30, 2015	(26,994)	33,126

- Compensation increase assumptions, where applicable, are based upon historical experience and anticipated future management actions. An increase in the rate would increase our obligation and expense.

- Mortality trends assumptions are based on published actuarial data and are sometimes modified to reflect projected longevity trends. Increases in life expectancy of participants greater than assumed would increase our obligation and expense.

- In determining the long-term rate of return on plan assets, we consider the asset investment mix for each plan. For example, fixed-income securities generally have a lower rate of return than equity securities. We assume that the historical long-term compound growth rates of similar equity and fixed-income securities will predict the future returns of investments in the various plan portfolios. We consider the potential impacts of changes in general market conditions, but because our assumptions are based on long-term rates of return, short-term market conditions generally have an insignificant effect on our assumptions. Changes in asset allocations are managed on a plan-by-plan basis, taking into consideration factors such as the average age of the plan participants and the projected timing of future benefit payments.

	Change In Rate of Return on Plan Assets	
	0.5% increase	0.5% decrease
Defined benefit pension benefits:		
2016 Net Periodic Benefit Cost	$ (965)	$ 965

· If, as of the beginning of the year, the net plan gain or loss recognized in accumulated other comprehensive income exceeds 10% of the greater of the plan projected benefit obligation or the market-related value of plan assets, the amortization out of accumulated other comprehensive income into current period expense is that excess divided by the average remaining service period of employees expected to receive benefits under the plan.

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

· The discount rate assumption is intended to reflect the rate at which the postretirement benefits could be effectively settled based upon the assumed timing of the benefit payments.

In the United States, prior to fiscal year 2015, the Company used a bond portfolio matching analysis based on recently traded, non-callable bonds rated AA or better that have at least $50 million outstanding to determine the benefit obligations at year end. The discount rate used to determine periodic benefit costs for the years ended September 30, 2015 and prior were consistent with the discount rate used to determine the benefit obligation as of the prior fiscal year end.

As of September 30, 2015, the discount rate used to determine the benefit obligation at year end was based on a high-quality corporate bond yield curve matched with projected separate cash flows to settle the entire benefit obligations. The discount rate used to determine periodic service cost and interest costs of the overall benefit costs for the year ending September 30, 2016 will be based on spot rates derived from the same high-quality corporate bond yield curve used to determine the September 30, 2015 benefit obligation matched with separate cash flows for each future year.

In the United Kingdom, Woodward continues to use a high-quality corporate bond yield curve matched with cash flows to develop a single rate to determine the single rate equivalent to settle the entire benefit obligations. However, starting this year, separate plan specific cashflows are used for the postretirement medical plan. Previously, a single discount rate was used for the United Kingdom plan. The discount rate used to determine periodic service cost and interest costs of the overall benefit costs for the year ending September 30, 2016 will be based on spot rates derived from the same high-quality corporate bond yield curve used to determine the September 30, 2015 benefit obligation matched with separate cash flows for each future year.

These rates are sensitive to changes in interest rates.

Change In Discount Rate

	1% increase	1% decrease
Other postretirement benefits:		
2016 Net Periodic Benefit Cost	$ 162	$ (66)
2016 Projected Service and Interest Costs	196	(236)
Accumulated Post Retirement Benefit Obligation as of Sept. 30, 2015	(2,925)	3,411

· Mortality trends assumptions are based on published actuarial data and are sometimes modified to reflect projected longevity trends. Increases in life expectancy of participants greater than assumed would increase our obligation and expense.

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

	Change In Health Care Cost Trend Rate	
	1% increase	1% decrease
Effect on projected fiscal year 2016 service and interest cost	$ 130	$ (111)
Effect on accumulated postretirement benefit obligation at September 30, 2015	3,372	(2,949)

· If, as of the beginning of the year, the net plan gain or loss recognized in accumulated other comprehensive income exceeds 10% of the plan accumulated postretirement benefit obligation, the amortization out of accumulated other comprehensive income into current period expense is that excess divided by the average remaining service period of employees expected to receive benefits under the plan.

Variances from our fiscal year end estimates for these variables could materially affect our recognized postretirement benefit obligation liabilities. On a near-term basis, such changes are unlikely to have a material impact on reported earnings, since such adjustments are recorded to other comprehensive earnings and recognized into expense over a number of years. Significant changes in estimates could, however, materially affect the carrying amounts of benefit obligation liabilities, including accumulated benefit obligations, which could affect compliance with the provisions of our debt arrangements and future borrowing capacity.

Income taxes

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

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. The reserves are established when we believe that certain positions are likely to be challenged and may not be fully sustained on review by tax authorities. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or refinement of an estimate. Although we believe our reserves are reasonable, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our historical income tax provisions and accruals. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact the current provision for income taxes. The provision for income taxes includes the impact of reserve positions and changes to reserves that are considered appropriate. As of September 30, 2015 and September 30, 2014, unrecognized gross tax benefits for which recognition has been deferred were $21,469 and $22,687, respectively.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. The determination of the amount of valuation allowance to be provided on recorded deferred tax assets involves estimates regarding the timing and amount of the reversal of taxable temporary differences, expected future taxable income, and the impact of tax planning strategies. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the need for a valuation allowance, we consider all available evidence including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. Changes in the relevant facts can significantly impact the judgment or need for valuation allowances. In the event we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made. Our valuation allowance was $6,804 as of September 30, 2015 and $9,486 as of September 30, 2014.

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

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

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

Item 7A.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.

Interest Rate Risk

We use derivative instruments as risk management tools that involve little complexity, and are not used for trading or speculative purposes. In June 2013, in connection with Woodward's expected refinancing of current maturities on its existing long-term debt, Woodward entered into a treasury lock agreement with a notional amount of $25,000 that qualified as a cash flow hedge under ASC Topic 815, "Derivatives and Hedging." The objective of this derivative instrument was to hedge the risk of variability in cash flows attributable to changes in the designated benchmark interest rate over a seven-year period related to the future interest payments on a portion of anticipated future debt issuances. To manage interest rate risk related to the $400,000 of long-term debt issued in October 2008, we used a treasury lock, which locked in interest rates on the then future debt. The treasury lock agreement was designated as a cash flow hedge against interest rate risk on a portion of the debt issued in October 2008. Similarly, we used a LIBOR lock agreement with a notional amount of $50,000, which hedged the risk of variability in cash flows over a seven-year period related to future interest payments of a portion of the long-term debt issued in April of 2009 in connection with an acquisition.

A portion of our long and short-term debt is sensitive to changes in interest rates. As of September 30, 2015 our Series J Notes of $50,000 and advances on our revolving credit facility are at interest rates that fluctuate with market rates. A hypothetical 1% increase in the assumed effective interest rates that apply to the variable rate loan outstanding as of September 30, 2015 and the average borrowings on our revolving credit facility in fiscal year 2015 would cause our annual interest expense to increase approximately $4,147. A hypothetical 0.2% decrease in interest rates that apply to the variable rate loan outstanding as of September 30, 2015 and the average borrowings on our revolving credit facility, which would effectively reduce the variable component of the applicable interest rates to 0%, and would decrease our annual interest expense by approximately $913.

The discount rate and future return on plan asset assumptions used to calculate the funding status of our retirement benefit plans are also sensitive to changes in interest rates. The weighted average discount rate assumption used to value the defined benefit pension plans as of September 30, 2015 was 4.39% in the United States, 3.75% in the United Kingdom, and 0.97% in Japan. The weighted average discount rate assumption used to value the other postretirement benefit plans was 4.01%.

Utilizing the spot rate approach, the following discount rates will be used to calculate the service cost and interest cost components for determining benefit costs for the year ending September 30, 2016. The weighted average discount rate assumption used to value the service costs for the defined benefit pension plans will be 4.63% in the United States, 3.86% in the United Kingdom, and 1.27% in Japan. The weighted average discount rate assumption used to value the interest costs for the defined benefit pension plans will be 3.67% in the United States, 3.63% in the United Kingdom, and 0.59% in Japan. The weighted average discount rate assumption used to value the service costs for the other postretirement benefit plans will be 4.39%. The weighted average discount rate assumption used to value the interest costs for the other postretirement benefit plans will be 3.14%.

The following information illustrates the sensitivity of the net periodic benefit cost and the projected accumulated benefit obligation to a change in the discount rate assumed. Amounts relating to foreign plans are translated at the spot rate on September 30, 2015. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in assumptions are not necessarily linear due to factors such as the 10% corridor applied to the larger of the postretirement benefit obligation or the fair market value of plan assets when determining amortization of actuarial net gains or losses.

		Increase/(Decrease) In		
Assumption	Change	2016 Net Periodic Benefit Cost	2016 Projected Service and Interest Costs	Accumulated Post Retirement Benefit Obligation as of Sept. 30, 2015
Defined benefit pension benefits:				
Change in discount rate	1% increase	$ (676)	$ 434	$ (26,994)

	1% decrease	1,626	(652)	33,126
Other postretirement benefits:				
Change in discount rate	1% increase	162	196	(2,925)
	1% decrease	(66)	(236)	3,411

Foreign Currency Exchange Rate Risk

We are impacted by changes in foreign currency exchange rates when we sell product in currencies different from the currency in which product and manufacturing costs were incurred. The functional currencies and our purchasing and sales activities primarily include USD, EUR, RMB, JPY, GBP and BRL. We may also be impacted by changes in the relative buying power of our customers, which may impact sales volumes either positively or negatively. As these currencies fluctuate against each other, and other currencies, we are exposed to foreign currency exchange rate risk on sales, purchasing transactions, and labor. Foreign currency exchange rate risk is reduced through the maintenance of local production facilities in the markets we serve, which we believe creates a natural hedge to our foreign currency exchange rate exposure. For the year ended September 30, 2015, the percentages of our net sales denominated in a currency other than the USD were as follows:

	Percentage of Net Sales For the Year Ended September 30, 2015
Functional currency:	
EUR	12.2%
RMB	4.1%
JPY	3.0%
GBP	1.9%
BRL	1.6%
All other foreign currencies	1.2%
	24.0%

Currency exchange rates vary daily and often one currency strengthens against the USD while another currency weakens. Because of the complex interrelationship of our worldwide supply chains and distribution channels, it is difficult to quantify the impact of a particular change in exchange rates.

From time to time, we will enter into a foreign currency exchange rate contract to hedge against changes in foreign currency exchange rates on liabilities expected to be settled at a future date. Market risk arises from the potential adverse effects on the value of derivative instruments that result from a change in foreign currency exchange rates. We minimize this market risk by establishing and monitoring parameters that limit the types of, and degree to which we enter into, derivative instruments. We enter into derivative instruments for risk management purposes only. We do not enter into or issue derivatives for trading or speculative purposes. As of September 30, 2015 and 2014, we had no open foreign currency exchange rate contracts and all previous derivative instruments were settled or terminated.

In June 2015, Woodward designated an intercompany loan of 160,000 RMB between two wholly owned subsidiaries as a hedge of a foreign currency exposure of the net investment of the borrower in the lender. A foreign exchange gain on the loan of $572 is included in foreign currency translation adjustments within total comprehensive earnings for the fiscal year ended September 30, 2015.

For more information on derivative instruments, see Note 6, Derivative instruments and hedging activities, to the Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data."

Our reported financial results of operations, including the reported value of our assets and liabilities, are also impacted by changes in foreign currency exchange rates. The assets and liabilities of substantially all of our subsidiaries outside the United States are translated at period end rates of exchange for each reporting period. Earnings and cash flow statements are translated at weighted-average rates of exchange. Although these translation changes have no immediate cash impact, the translation changes may impact future borrowing capacity, debt covenants, and the overall value of our net assets. In addition, we also have assets and liabilities, specifically accounts receivable, accounts payable and current inter-company receivables and payables, whose carrying amounts approximate their fair value, which are denominated in currencies other than their relevant functional currencies. Foreign currency exchange rate risk is reduced through several means, including the invoicing of customers in the same currency as the source of the products, the prompt settlement of inter-company balances utilizing a global netting system, and limited use of foreign currency denominated debt. We recognized net foreign currency losses of $1,721 in fiscal year 2015, $1,089 in fiscal year 2014 and $2,738 in fiscal year 2013 in "Selling, general, and administrative expenses" of our Consolidated Statements of Earnings related to these assets and liabilities.

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Item 8.Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Woodward, Inc.

Fort Collins, Colorado

We have audited the accompanying consolidated balance sheets of Woodward, Inc. and subsidiaries (the "Company") as of September 30, 2015 and 2014, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Woodward, Inc. and subsidiaries as of September 30, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2015, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 10, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado

November 10, 2015

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WOODWARD, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

	Year Ended September 30,		
	2015	2014	2013
Net sales	$ 2,038,303	$ 2,001,240	$ 1,935,976
Costs and expenses:			
Cost of goods sold	1,453,718	1,425,839	1,376,271
Selling, general and administrative expenses	156,995	155,339	168,097
Research and development costs	134,485	138,005	130,250
Amortization of intangible assets	29,241	33,580	36,979
Interest expense	24,864	22,804	26,703
Interest income	(787)	(271)	(273)
Other (income) expense, net (Note 15)	(1,162)	(1,300)	(1,622)
Total costs and expenses	1,797,354	1,773,996	1,736,405
Earnings before income taxes	240,949	227,244	199,571
Income tax expense	59,497	61,400	53,629
Net earnings	$ 181,452	$ 165,844	$ 145,942
Earnings per share (Note 3):			
Basic earnings per share	$ 2.81	$ 2.50	$ 2.13
Diluted earnings per share	$ 2.75	$ 2.45	$ 2.10
Weighted Average Common Shares Outstanding (Note 3):			
Basic	64,684	66,432	68,392
Diluted	66,056	67,776	69,602
Cash dividends per share paid to Woodward common stockholders	$ 0.38	$ 0.32	$ 0.32

See accompanying Notes to Consolidated Financial Statements

WOODWARD, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

	Year Ended September 30,		
	2015	2014	2013
Net earnings	$ 181,452	$ 165,844	$ 145,942
Other comprehensive earnings:			
Foreign currency translation adjustments	(34,989)	(16,003)	7,337
Gain on foreign currency transaction designated as a hedge of a net investment in a foreign subsidiary	572	-	-
Taxes on changes on foreign currency translation adjustments	1,988	1,080	958
	(32,429)	(14,923)	8,295
Reclassification of realized losses on derivatives to earnings	99	99	171
Realized gain on cash flow hedge	-	-	507
Taxes on changes on derivative transactions	(38)	(37)	(259)
	61	62	419
Minimum retirement benefit liability adjustments (Note 17):			

Net gain (loss) arising during the period	(26,866)	3,746	26,756
Prior service cost arising during the period	-	(3,355)	-
Loss (gain) due to settlement or curtailment arising during the period	-	(7,539)	36
Amortization of:			
Prior service benefit	225	(66)	(90)
Net loss	513	785	1,770
Foreign currency exchange rate changes on minimum retirement benefit liabilities	867	104	673
Taxes on changes on minimum retirement benefit liability adjustments	9,704	2,538	(11,021)
	(15,557)	(3,787)	18,124
Total comprehensive earnings	$ 133,527	$ 147,196	$ 172,780

See accompanying Notes to Consolidated Financial Statements

WOODWARD, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	September 30, 2015	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 82,202	$ 115,287
Accounts receivable, less allowance for uncollectible amounts of $3,841 and $7,078, respectively	322,215	346,858
Inventories	447,664	451,944
Income taxes receivable	21,838	6,574
Deferred income tax assets	29,766	40,774
Other current assets	43,791	47,207
Total current assets	947,476	1,008,644
Property, plant and equipment, net	756,100	513,279
Goodwill	556,977	559,724
Intangible assets, net	225,138	254,772
Deferred income tax assets	9,388	6,292
Other assets	44,886	54,491
Total assets	$ 2,539,965	$ 2,397,202
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 2,430	$ -
Accounts payable	173,287	160,683
Income taxes payable	6,555	6,130
Deferred income tax liabilities	14	472
Accrued liabilities	155,936	172,731
Total current liabilities	338,222	340,016
Long-term debt, less current portion	850,000	710,000
Deferred income tax liabilities	82,449	85,031
Other liabilities	116,190	101,211
Total liabilities	1,386,861	1,236,258
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, par value $0.003 per share, 10,000 shares authorized, no shares issued	-	-
Common stock, par value $0.001455 per share, 150,000 shares authorized, 72,960 shares issued	106	106
Additional paid-in capital	131,231	112,491
Accumulated other comprehensive losses	(51,458)	(3,533)
Deferred compensation	4,322	3,915

Retained earnings	1,495,274	1,338,468
	1,579,475	1,451,447
Treasury stock at cost, 9,763 shares and 7,397 shares, respectively	(422,049)	(286,588)
Treasury stock held for deferred compensation, at cost, 173 shares and 198 shares, respectively	(4,322)	(3,915)
Total stockholders' equity	1,153,104	1,160,944
Total liabilities and stockholders' equity	$ 2,539,965	$ 2,397,202

See accompanying Notes to Consolidated Financial Statements.

WOODWARD, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30,		
	2015	2014	2013
Cash flows from operating activities:			
Net earnings	$ 181,452	$ 165,844	$ 145,942
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	75,235	77,353	74,233
Loss (gain) due to settlements or curtailments of postretirement plan (Note 17)	-	(7,539)	37
Impairment of long-lived asset held for sale (Note 9)	-	3,138	-
Net (gain) loss on sales of assets	(626)	166	(100)
Stock-based compensation	14,255	11,241	9,414
Excess tax benefits from stock-based compensation	(6,959)	(3,751)	(5,154)
Deferred income taxes	15,504	(6,704)	8,348
Loss on derivatives reclassified from accumulated comprehensive earnings into earnings	99	99	171
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	14,845	30,880	(9,774)
Inventories	(8,824)	(27,788)	(1,485)
Accounts payable and accrued liabilities	1,427	24,068	16,062
Current income taxes	(7,487)	9,378	(9,020)
Retirement benefit obligations	(4,537)	(2,788)	(15,974)
Other	13,045	(5,514)	9,892
Net cash provided by operating activities	287,429	268,083	222,592
Cash flows from investing activities:			
Payments for purchase of property, plant, and equipment	(286,612)	(207,106)	(141,600)
Proceeds from sale of assets	2,529	1,277	418
Business acquisitions, net of cash acquired	-	-	(198,860)
Net cash used in investing activities	(284,083)	(205,829)	(340,042)
Cash flows from financing activities:			
Cash dividends paid	(24,646)	(21,263)	(21,866)
Proceeds from sales of treasury stock	8,400	9,772	8,370
Payments for repurchases of common stock	(157,160)	(141,488)	(45,754)
Excess tax benefits from stock-based compensation	6,959	3,751	5,154
Borrowings on revolving lines of credit and short-term borrowings	999,971	431,071	179,072
Payments on revolving lines of credit and short-term borrowings	(856,610)	(221,069)	(179,484)
Proceeds from issuance of long-term debt	-	250,000	200,000
Payments of long-term debt	-	(300,000)	(41,875)
Proceeds from cash flow hedge	-	-	507
Payments of debt financing costs	(2,359)	(1,297)	(1,651)

Net cash provided by (used in) financing activities	(25,445)	9,477	102,473
Effect of exchange rate changes on cash and cash equivalents	(10,986)	(5,000)	1,704
Net change in cash and cash equivalents	(33,085)	66,731	(13,273)
Cash and cash equivalents at beginning of period	115,287	48,556	61,829
Cash and cash equivalents at end of period	$ 82,202	$ 115,287	$ 48,556

See accompanying Notes to Consolidated Financial Statements.

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WOODWARD, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

mber of shares			Stockholders' equity			Accumulated other comprehensive (loss) earnings						
eferred 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 (loss) earnings	Deferred compensation	Retained earnings	Treasury stock at
	72,960	(4,536)	(276)	$ 106	$ 97,826	$ 17,447	$ (376)	$ (28,794)	$ (11,723)	$ 4,344	$ 1,069,811	$ (147,9
	-	-	-	-	-	-	-	-	-	-	145,942	-
	-	-	-	-	-	8,295	419	18,124	26,838	-	-	-
	-	-	-	-	-	-	-	-	-	-	(21,866)	-
	-	(1,395)	-	-	-	-	-	-	-	-	-	(51,84
	-	796	-	-	(13,194)	-	-	-	-	-	-	24,110
	-	250	-	-	1,923	-	-	-	-	-	-	7,857
	-	-	-	-	5,154	-	-	-	-	-	-	-
	-	-	-	-	9,414	-	-	-	-	-	-	-
	-	2	(2)	-	24	-	-	-	-	97	-	74

-	-	(2)	-	-	-	-	-	-	79	-	-
-	-	48	-	-	-	-	-	-	(513)	-	-
72,960	(4,883)	(232)	$ 106	$ 101,147	$ 25,742	$ 43	$ (10,670)	$ 15,115	$ 4,007	$ 1,193,887	$ (167,7
-	-	-	-	-	-	-	-	-	-	165,844	-
-	-	-	-	-	(14,923)	62	(3,787)	(18,648)	-	-	-
-	-	-	-	-	-	-	-	-	-	(21,263)	-
-	(3,336)	-	-	-	-	-	-	-	-	-	(144,5
-	562	-	-	(6,217)	-	-	-	-	-	-	17,276
-	260	-	-	2,837	-	-	-	-	-	-	8,356
-	-	-	-	3,483	-	-	-	-	-	-	-
-	-	-	-	11,241	-	-	-	-	-	-	-
-	-	(8)	-	-	-	-	-	-	370	-	-
-	-	42	-	-	-	-	-	-	(462)	-	-
72,960	(7,397)	(198)	$ 106	$ 112,491	$ 10,819	$ 105	$ (14,457)	$ (3,533)	$ 3,915	$ 1,338,468	$ (286,5
-	-	-	-	-	-	-	-	-	-	181,452	-

-	-	-	-	-	(32,429)	61	(15,557)	(47,925)	-	-	-
-	-	-	-	-	-	-	-	-	-	(24,646)	-
-	(3,193)	-	-	-	-	-	-	-	-	-	(160,2
-	568	-	-	(6,817)	-	-	-	-	-	-	16,749
-	259	-	-	4,490	-	-	-	-	-	-	8,084
-	-	-	-	6,812	-	-	-	-	-	-	-
-	-	-	-	14,255	-	-	-	-	-	-	-
-	-	(18)	-	-	-	-	-	-	893	-	-
-	-	43	-	-	-	-	-	-	(486)	-	-
72,960	(9,763)	(173)	$ 106	$ 131,231	$ (21,610)	$ 166	$ (30,014)	$ (51,458)	$ 4,322	$ 1,495,274	$ (422,0

See accompanying Notes to Consolidated Financial Statements

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WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

Note 1. Operations and summary of significant accounting policies

Basis of presentation

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of Woodward, Inc. and its subsidiaries (collectively "Woodward" or "the Company"). Dollar amounts contained in these Consolidated Financial Statements are in thousands, except per share amounts.

Nature of operations

Woodward enhances the global quality of life, creating innovative energy control solutions that optimize the performance, efficiency and emissions of our customers' products. Woodward is an independent designer, manufacturer, and service provider of energy control and optimization solutions. Woodward designs, produces and services reliable, efficient, low-emission, and high-performance energy control products for diverse applications in challenging environments. Woodward has significant production and assembly facilities in the United States, Europe and Asia, and promotes its products and services through its worldwide locations.

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

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

Summary of significant accounting policies

Principles of consolidation: These Consolidated Financial Statements are prepared in accordance with U.S. GAAP and include the accounts of Woodward and its wholly and majority-owned subsidiaries. Transactions within and between these companies are eliminated.

Use of estimates: The preparation of the Consolidated Financial Statements requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, at the date of the financial statements and the reported revenues and expenses recognized during the reporting period, and certain financial statement disclosures. Significant estimates include allowances for uncollectible amounts, net realizable value of inventories, customer rebates earned, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, identifiable intangible assets and goodwill, the provision for income tax and related 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.

Foreign currency exchange rates: The assets and liabilities of substantially all subsidiaries outside the United States are translated at fiscal year-end rates of exchange, and earnings and cash flow statements are translated at weighted-average rates of exchange. Translation adjustments are accumulated with other comprehensive (loss) earnings as a separate component of stockholders' equity and are presented net of tax effects in the Consolidated Statements of Stockholders' Equity. The effects of changes in foreign currency exchange rates on loans between consolidated subsidiaries, that are considered permanent in nature, are also accumulated with other comprehensive earnings, net of tax.

The Company is exposed to market risks related to fluctuations in foreign currency exchange rates because some sales transactions, and certain of the assets and liabilities of its domestic and foreign subsidiaries, are denominated in foreign currencies. Selling, general, and administrative expenses include net foreign currency losses of $1,721 in fiscal year 2015, $1,089 in fiscal year 2014, and $2,738 in fiscal year 2013.

WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

Revenue recognition: Woodward recognizes revenue upon shipment or delivery of products or services and when collectability is reasonably assured. Delivery is upon completion of manufacturing, customer acceptance, and the transfer of the risks and rewards of ownership. In countries whose laws provide for retention of some form of title by sellers, enabling recovery of goods in the event of customer default on payment, product delivery is considered to have occurred when the customer has assumed the risks and rewards of ownership of the products.

Occasionally, Woodward transfers title of product to customers, but retains substantive performance obligations such as completion of product testing, customer acceptance or in some instances regulatory acceptance. In addition, occasionally customers pay Woodward for products or services prior to Woodward satisfying its performance obligation. Under these circumstances, revenue is deferred until the performance obligations are satisfied. In addition, service revenue is also recognized upon completion of applicable performance obligations.

Certain Woodward products include incidental software or firmware essential to the performance of the product as designed, which are treated as units of accounting associated with the related tangible product with which the software is included. Woodward does not sell software on a standalone basis, although software upgrades, if any, are generally paid for by the customer.

Product freight costs are included in cost of goods sold. Freight costs charged to customers are included in net sales.

Taxes collected from customers and remitted to government authorities are excluded from revenue and are recorded as liabilities until the taxes are remitted to the appropriate U.S. or foreign government authority.

Net sales from service activities were less than 10% of total net sales for fiscal years 2015, 2014 and 2013.

Customer payments: Woodward occasionally agrees to make payments to certain customers in order to participate in anticipated sales activity. Payments made to customers are accounted for as a reduction of revenue unless they are made in exchange for identifiable goods or services with fair values that can be reasonably estimated. Reductions in revenue associated with these customer payments are recognized immediately to the extent that the payments cannot be attributed to anticipated future sales, and are recognized in future periods to the extent that the payments relate to anticipated future sales. Such determinations are based on the facts and circumstances underlying each payment.

Stock-based compensation: Compensation cost relating to stock-based payment awards made to employees and directors is recognized in the financial statements using a fair value method. Non-qualified stock option awards and restricted stock awards are issued under Woodward's stock-based compensation plans. The cost of such awards, measured at the grant date, is based on the estimated fair value of the award.

Forfeitures are estimated at the time of each grant in order to estimate the portion of the award that will ultimately vest. The estimate is based on Woodward's historical rates of forfeitures and is updated periodically. The portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods, which is generally the vesting period of the awards.

Research and development costs: Company funded expenditures related to new product development, and significant product enhancement and/or upgrade activities are expensed as incurred and are separately reported in the Consolidated Statements of Earnings.

Income taxes: Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of Woodward's assets, liabilities, and certain unrecognized gains and losses recorded in accumulated other comprehensive earnings. Woodward provides for taxes that may be payable if undistributed earnings of overseas subsidiaries were to be remitted to the United States, except for those earnings that it considers to be indefinitely invested.

Cash equivalents: Highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Cash and cash equivalents are maintained with multiple financial institutions. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. Woodward holds cash and cash equivalents at financial institutions in excess of amounts covered by the Federal Depository Insurance Corporation (the "FDIC"), sometimes invests excess cash in money market funds not insured by the FDIC, and holds cash and cash equivalents outside the United States that are not insured by the FDIC.

Accounts receivable: Almost all of Woodward's sales are made on credit and result in accounts receivable, which are recorded at the amount invoiced and are generally not collateralized. In the normal course of business, not all accounts receivable are collected and, therefore, an allowance for uncollectible amounts is provided equal to the amount that Woodward believes ultimately will not be collected. In establishing the amount of the allowance, customer-specific

WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

information is considered related to delinquent accounts, past loss experience, bankruptcy filings, deterioration in the customer's operating results or financial position, and current economic conditions. Accounts receivable losses are deducted from the allowance, and the related accounts receivable balances are written off when the receivables are deemed uncollectible. Recoveries of accounts receivable previously written off are recognized when received.

Consistent with business practice common in China, Woodward's Chinese subsidiary accepts from Chinese customers, in settlement of certain customer accounts receivable, bankers' acceptance notes issued by creditworthy Chinese banks. Bankers' acceptance notes are financial instruments issued by Chinese financial institutions as part of financing arrangements between the financial institution and a customer of the financial institution. Bankers' acceptance notes represent a commitment by the issuing financial institution to pay a certain amount of money at a specified future maturity date to the legal owner of the banker's acceptance note as of the maturity date. The maturity date of bankers' acceptance notes varies, but it is Woodward's policy to only accept bankers' acceptance notes with maturity dates no more than 180 days from the date of Woodward's receipt of such draft. The issuing financial institution is the obligor, not Woodward's customers. Upon Woodward's acceptance of a banker's acceptance note from a customer, such customer has no further obligation to pay Woodward for the related accounts receivable balance. Woodward only accepts bankers' acceptance notes issued by creditworthy banks as to which the credit risk associated with the bankers acceptance note is assessed to be minimal.

The composition of Woodward's accounts receivable at September 30, 2015 and September 30, 2014 follows:

	September 30, 2015	September 30, 2014
Accounts receivable from:		
Customers	$ 323,137	$ 291,584
Other (Chinese financial institutions)	2,919	62,352
Allowance for uncollectible customer amounts	(3,841)	(7,078)
	$ 322,215	$ 346,858

Inventories: Inventories are valued at the lower of cost or net realizable value, with cost being determined using methods that approximate a first-in, first-out basis.

Customer deposits are recorded against inventory when the right of offset exists. There were no customer deposits included in inventory as of September 30, 2015 and 2014. All other customer deposits are recorded in accrued liabilities.

Property, plant, and equipment: Property, plant, and equipment are recorded at cost and are depreciated over the estimated useful lives of the assets. Assets are generally depreciated using the straight-line method or units of production method. Assets are tested for recoverability whenever events or circumstances indicate the carrying value may not be recoverable.

Estimated lives over which fixed assets are generally depreciated at September 30, 2015 were as follows:

Land improvements	3	-	40	years
Buildings and improvements	3	-	40	years
Leasehold improvements	1	-	40	years
Machinery and production equipment	3	-	15	years
Computer equipment and software	3	-	10	years
Office furniture and equipment	3	-	13	years
Other	3	-	13	years

Included in computer equipment and software are Woodward's enterprise resource planning ("ERP") systems, which have an estimated useful life of 10 years. All other computer equipment and software is generally depreciated over three to five years.

Purchase accounting: Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method, assets and liabilities, including intangible assets, are recorded at their fair values as of the acquisition date. Acquisition costs in excess of amounts assigned to assets acquired and liabilities assumed are recorded as goodwill.

WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

Goodwill: 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. Based on the relevant U.S. GAAP authoritative guidance, Woodward sometimes aggregates components of a single operating segment into a reporting unit, if appropriate. The impairment tests consist of comparing the implied fair value of each reporting unit with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its implied fair value, Woodward compares the implied fair value of goodwill with the recorded carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss would be recognized to reduce the carrying amount to its implied fair value. There was no impairment charge recorded in fiscal years 2015, 2014, or 2013.

Other intangibles: Other intangibles are recognized apart from goodwill whenever an acquired intangible asset arises from contractual or other legal rights, or whenever it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged, either individually or in combination with a related contract, asset, or liability. All of Woodward's intangibles have an estimated useful life and are being amortized using patterns that reflect the periods over which the economic benefits of the assets are expected to be realized. Impairment losses are recognized if the carrying amount of an intangible is both not recoverable and exceeds its fair value.

Estimated lives over which intangible assets are amortized at September 30, 2015 were as follows:

Customer relationships	9	-	30	years
Intellectual property	10	-	17	years
Process technology	8	-	30	years
Other	4	-	15	years

Impairment of long-lived assets: Woodward reviews the carrying amount of its long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others.

If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying amount of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying amount of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset groups carrying amount and its estimated fair value. There was an impairment charge of \$3,138 recorded in fiscal year 2014 related to a write down to fair value of assets held for sale. There were no impairment charges recorded in fiscal years 2015 or 2013.

Investment in marketable equity securities: Woodward holds marketable equity securities related to its deferred compensation program. Based on Woodward's intentions regarding these instruments, marketable equity securities are classified as trading securities. The trading securities are reported at fair value, with realized gains and losses recognized in "Other (income) expense, net." The trading securities are included in "Other assets." The associated obligation to provide benefits is included in "Other liabilities."

Investments in unconsolidated subsidiaries: Investments in and operating results of entities in which Woodward does not have a controlling financial interest or the ability to exercise significant influence over the operations are included in the financial statements using the cost method of accounting. Investments and operating results of entities in which Woodward does not have a controlling interest but does have the ability to exercise significant influence over operations are included in the financial statements using the equity method of accounting.

Deferred compensation: The Company maintains a deferred compensation plan, or "rabbi trust," as part of its overall compensation package for certain employees.

Deferred compensation obligations will be settled either by delivery of a fixed number of shares of Woodward's common stock (in accordance with certain eligible members' irrevocable elections) or in cash. Woodward has contributed shares of its common stock into a trust established for the future settlement of deferred compensation obligations that are payable in shares of Woodward's common stock. Common stock held by the trust is reflected in the Consolidated Balance Sheet as "Treasury stock held for deferred compensation" and the related deferred compensation obligation is reflected as a

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separate component of equity in amounts equal to the fair value of the common stock at the dates of contribution. These accounts are not adjusted for subsequent changes in the fair value of the common stock. Deferred compensation obligations that will be settled in cash are accounted for on an accrual basis in accordance with the terms of the underlying contract and are reflected in the Consolidated Balance Sheet as "Other liabilities."

Derivatives: The Company is exposed to various market risks that arise from transactions entered into in the normal course of business. The Company has historically utilized derivative instruments, such as treasury lock agreements to lock in fixed rates on future debt issuances, which qualify as cash flow or fair value hedges to mitigate the risk of variability in cash flows related to future interest payments attributable to changes in the designated benchmark rate. The Company records all such interest rate hedge instruments on the balance sheet at fair value. Cash flows related to the instrument designated as a qualifying hedge are reflected in the accompanying Consolidated Statements of Cash Flows in the same categories as the cash flows from the items being hedged. Accordingly, cash flows relating to the settlement of interest rate derivatives hedging the forecasted future interest payments on debt have been reflected upon settlement as a component of financing cash flows. The resulting gain or loss from such settlement is deferred to other comprehensive income and reclassified to interest expense over the term of the underlying debt. This reclassification of the deferred gains and losses impacts the interest expense recognized on the underlying debt that was hedged and is therefore reflected as a component of operating cash flows in periods subsequent to settlement. The periodic settlement of interest rate derivatives hedging outstanding variable rate debt is recorded as an adjustment to interest expense and is therefore reflected as a component of operating cash flows.

From time to time, Woodward will enter into foreign currency exchange rate contracts to hedge against changes in foreign currency exchange rates on liabilities expected to be settled at a future date. Woodward has historically not designated these transactions as accounting hedges. The fair value of foreign currency exchange rate contracts held at the end of the period are recognized in the balance sheet and the unrealized gains or losses are recorded to "Other (income) expense, net" in the Consolidated Statements of Earnings. Upon settlement of foreign currency exchange rate contracts, any unrealized gains or losses previously recognized are reversed and the realized gain or loss is recorded to "Other (income) expense, net" in the Consolidated Statement of Earnings. Further information on foreign currency exchange rate contracts can be found at Note 6, Derivative instruments and hedging activities.

Financial instruments: The Company's financial instruments include cash and cash equivalents, investments in the deferred compensation program, notes receivable from municipalities, and debt. Because of their short-term maturity, the carrying amount of cash and cash equivalents and short-term debt approximate fair value. The fair value of investments in the deferred compensation program are adjusted to fair value based on the quoted market prices for the investments in the various mutual funds owned. The fair value of the long-term notes from municipalities are estimated based on a model that discounts future principal and interest payments received at interest rates available to the Company at the end of the period for similarly rated municipality notes of similar maturity. The fair value of long-term debt is estimated based on a model that discounts future principal and interest payments at interest rates available to the Company at the end of the period for similar debt with the same maturity. Further information on the fair value of financial instruments can be found at Note 5, Financial instruments and fair value measurements.

Financial assets and liabilities recorded at fair value in the Consolidated Balance Sheets 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.

Postretirement benefits: The Company provides various benefits to certain current and former employees through defined benefit pension and postretirement plans. For financial reporting purposes, net periodic benefits expense and related obligations are calculated using a number of significant actuarial assumptions. Changes in net periodic expense and funding status may occur in the future due to changes in these assumptions. The funded status of defined pension and postretirement plans recognized in the statement of financial position is measured as the difference between the fair market value of the plan assets and the benefit obligation. For a defined benefit pension plan, the benefit obligation is the projected benefit obligation;

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for any other defined benefit postretirement plan, such as a retiree health care plan, the benefit obligation is the accumulated benefit obligation. Any over-funded status is recognized as an asset and any underfunded status is recognized as a liability.

Projected benefit obligation is the actuarial present value as of the measurement date of all benefits attributed by the plan benefit formula to employee service rendered before the measurement date using assumptions as to future compensation levels if the plan benefit formula is based on those future compensation levels. Accumulated benefit obligation is the actuarial present value of benefits (whether vested or unvested) attributed by the plan benefit formula to employee service rendered before the measurement date and based on employee service and compensation, if applicable, prior to that date. Accumulated benefit obligation differs from projected benefit obligation in that it includes no assumption about future compensation levels.

Note 2. New accounting standards

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

During fiscal year 2015, the Securities and Exchange Commission ("SEC") staff expressed its acceptance for companies applying an alternative accounting approach for determining the service cost and interest cost components of net periodic benefit cost for postretirement benefit plan obligations. Specifically, the SEC staff stated that it would not object to companies' use of an alternative approach that focuses on measuring the service cost and interest cost components of net periodic benefit cost by using individual spot rates derived from a high-quality corporate bond yield curve and matched with separate cash flows for each future year instead of a single weighted-average discount rate approach. Further the SEC staff stated it would not object to companies treating the change in approach as a change in estimate. Woodward elected to change its estimate of service cost and interest cost to determine periodic benefit costs effective for fiscal year 2016. In coordination with adoption of the SEC supported alternative approach, Woodward's method of determining the discount rate for its United States benefit and other postretirement benefit plans was changed from a bond matching approach to a yield curve approach, which produces a reasonable approximation of the discount rate developed using the bond matching approach. This change in estimate had no impact on the service cost and interest cost components of net periodic benefit cost in fiscal years 2015, 2014 or 2013.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." ASU 2015-11 applies a simplified method to value inventory at the lower of cost or net realizable value rather than at the lower of cost or market. ASU 2015-11, which Woodward applied effective as of July 1, 2015, had no impact on its Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." Under ASU 2015-03 Woodward will present debt issuance costs in the balance sheet as a reduction from the related debt liability rather than as an asset. Amortization of such costs will continue to be reported as interest expense. ASU 2015-03 is effective for fiscal years – and interim periods within those fiscal years – beginning after December 15, 2015 (fiscal year 2017 for Woodward), but early adoption is allowed. In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements."

ASU 2015-15 supplements the requirements of ASU 2015-03 by allowing an entity to defer and present debt issuance costs related to a line of credit arrangement as an asset and subsequently amortize the deferred costs ratably over the term of the line of credit arrangement. Woodward has not determined in which period it will adopt the new guidance. Retrospective adoption is required. Woodward had unamortized debt issuance costs of $5,521 as of September 30, 2015 and $4,276 as of September 30, 2014. Long-term debt issuance costs will be reclassified from other assets to long-term debt upon adoption.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The purpose of ASU 2014-09 is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The amendments (i) remove inconsistencies and weaknesses in revenue requirements, (ii) provide a more robust framework for addressing revenue issues, (iii) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (iv) provide more useful information to users of financial statements through improved disclosure requirements, and (v) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. In July 2015, the FASB delayed the effective date for the adoption of ASU 2014-09 by one year, and as a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 (fiscal year 2019 for Woodward), including interim periods within the reporting period. Early adoption is not permitted. An entity should adopt the amendments using one of the following methods: retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying

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ASU 2014-09 recognized at the date of initial application. Woodward has not determined what transition method it will use and is currently assessing the impact that this guidance may have on its Consolidated Financial Statements.

Note 3. Earnings per share

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

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

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

	Year Ended September 30,		
	2015	2014	2013
Numerator:			
Net earnings	$ 181,452	$ 165,844	$ 145,942
Denominator:			
Basic shares outstanding	64,684	66,432	68,392
Dilutive effect of stock options and restricted stock	1,372	1,344	1,210
Diluted shares outstanding	66,056	67,776	69,602
Income per common share:			
Basic earnings per share	$ 2.81	$ 2.50	$ 2.13
Diluted earnings per share	$ 2.75	$ 2.45	$ 2.10

On June 2, 2015, Woodward entered into an accelerated share repurchase agreement (the “ASR Agreement”) with Goldman, Sachs & Co. (“Goldman”) under which Woodward repurchased shares of its common stock for an aggregate purchase price of $125,000. Upon execution of the ASR Agreement, Goldman initially delivered to Woodward 2,048 shares of common stock. Goldman completed the ASR Agreement on September 3, 2015 and delivered 458 additional shares to Woodward. The final number of shares delivered to Woodward was based generally on the average daily volume-weighted average price of Woodward stock during the term of the ASR Agreement of $49.89. The 2,506 shares of common stock delivered by Goldman to Woodward related to the ASR Agreement are reflected in the calculation of basic shares outstanding used in the calculation of earnings per share.

The following stock option grants were outstanding during the fiscal years ended September 30, 2015, 2014 and 2013, but were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive:

	Year Ended September 30,		
	2015	2014	2013
Options	697	12	44
Weighted-average option price	$ 46.55	$ 44.04	$ 40.21

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

	Year Ended September 30,		
	2015	2014	2013
Weighted-average treasury stock shares held for deferred compensation obligations	190	216	256

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Note 4. Joint ventures and business acquisitions

Joint venture

On May 20, 2015, Woodward and General Electric Company ("GE"), acting through its GE Aviation business unit, entered into a binding agreement to form a strategic joint venture between Woodward and GE (the "JV"). The JV will design, develop, source, supply and service the fuel system (including components from the fuel inlet up to the fuel nozzle) for specified existing and all future GE commercial aircraft engines that produce thrust in excess of fifty thousand pounds.

Upon formation of the JV, Woodward will assign certain contractual rights to the JV in exchange for a payment from GE of $250,000. In addition, GE will pay Woodward fifteen annual payments of approximately $4,900 each per year. Because the contractual rights have no cost basis in Woodward's financial records, Woodward expects to account for the fair value of the proceeds received as a deferred gain that will be recognized over the economic lives of the assigned contractual rights. During the fourth quarter of fiscal year 2015, all required regulatory approvals were obtained from various global jurisdictions. Closing of the JV transaction and concurrent formation of the JV is expected to occur early in the second quarter of fiscal year 2016.

Woodward will own 50% of the JV, which will be jointly managed by Woodward and GE, and any significant decisions and/or actions of the JV will require mutual consent of both Woodward and GE. Woodward expects to account for the JV using the equity method, as neither Woodward nor GE will exercise operating control over the JV.

Business acquisition

Woodward has recorded the acquisition described below using the acquisition method of accounting and, accordingly, has included the results of operations of the acquired business in its consolidated results as of the date of acquisition. In accordance with authoritative accounting guidance for business combinations, the purchase price for the acquisition is allocated to the tangible assets, liabilities, and intangible assets acquired based on their estimated fair values. The excess purchase price over the respective fair values of assets is recorded as goodwill. Goodwill is not amortized under U.S. GAAP but is tested for impairment at least annually (See Note 10, Goodwill).

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

The purchase price of the Duarte Business is as follows:

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

The allocation of the purchase price to the assets acquired and liabilities assumed was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, “Business Combinations.” Assets acquired and liabilities assumed in the transaction were allocated and recorded at their estimated acquisition date fair values using management’s best estimate based on available data. Transaction costs associated with the acquisition were expensed as incurred. The Company incurred transaction costs of $1,944 during the fiscal year ended September 30, 2013, which are included in “Selling, general and administrative expenses” in the Consolidated Statements of Earnings. No additional transaction costs were incurred in the fiscal years ended September 30, 2015 and September 30, 2014.

During the three-months ended December 31, 2013, Woodward completed its purchase accounting valuation estimates and as a result, retrospectively adjusted the valuations of certain liabilities with a corresponding increase to goodwill and intangible assets as of the acquisition date. The retrospective adjustments amounted to approximately $12,800 and primarily relate to long-term performance obligations and other accrued liabilities. Changes since the acquisition date to the valuations of the assets and liabilities acquired resulted in insignificant changes to Woodward’s previously reported earnings and therefore prior reported earnings were not restated. The allocation of the purchase price to the assets and liabilities assumed was finalized as of December 27, 2013.

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

Accounts receivable	$ 14,245
Inventories	30,149
Other current assets	10,370
Property, plant, and equipment	11,804
Goodwill	98,310
Intangible assets	89,700
Other noncurrent assets	18,097
Total assets acquired	272,675
Other current liabilities	32,509
Other noncurrent liabilities	41,306
Total liabilities assumed	73,815
Net assets acquired	$ 198,860

Goodwill recorded in connection with the acquisition of the Duarte Business, which is deductible for income tax purposes, represents the estimated value of potential expansion with new customers, the opportunity to further develop sales opportunities with new and acquired Duarte Business customers, and other synergies expected to be achieved through the integration of the Duarte Business into Woodward's Aerospace segment.

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

	Estimated Amounts	Weighted-Average Useful Life		Amortization Method
Customer relationships and contracts	$ 77,000	20	years	Straight-line
Process technology	5,000	25	years	Straight-line
Backlog	7,700	3	years	Accelerated
Total	$ 89,700			

Assumed liabilities include $4,758 and $17,939 of current and long-term performance obligations, respectively, for contractual commitments that are expected to result in future economic losses.

The Asset Purchase Agreement included commitments for the Duarte Business to continue to provide services to the Seller unrelated to the core business acquired, for which Woodward will continue to be paid by the Seller. Assumed liabilities include $12,985 and $23,215 of current and long-term performance obligations, respectively, for services to be provided to the Seller, offset by $8,103 and $18,097 of current and long-term assets, respectively, related to contractual payments due from the Seller.

Net sales for the Duarte Business subsequent to the date it was acquired by Woodward were $145,998 for the fiscal year ended September 30, 2014 and $111,261 for the fiscal year ended September 30, 2013. Net sales for the Duarte Business subsequent to the date it was acquired by Woodward for the fiscal year ended September 30, 2015 and earnings of the Duarte Business subsequent to the date it was acquired by Woodward for the fiscal years ended September 30, 2015 and September 30, 2014 cannot be determined on a stand-alone basis due to the integration of the Duarte Business into Woodward's Aerospace segment. Earnings of the Duarte Business subsequent to the date it was acquired by Woodward for the fiscal year ended September 30, 2013 were slightly accretive to the consolidated net earnings of Woodward. Due to the timing of the acquisition, there were no net sales or operating expenses from the Duarte Business included in the Consolidated Statements of Earnings for the three-months ended December 31, 2012. Fiscal years 2015 and 2014 include a full year of Duarte Business operating results.

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

The following unaudited pro forma financial information presents the combined results of operations of Woodward and the Duarte Business as if the acquisition had occurred as of October 1, 2011, the beginning of fiscal year 2012. The pro

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forma information is presented for information purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and the borrowings used to finance it had taken place at the beginning of fiscal year 2012. The pro forma information combines the historical results of Woodward with the historical results of the Duarte Business for that period.

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

The unaudited pro forma results for the fiscal year ended September 30, 2013, compared to the actual results reported in these Consolidated Financial Statements, follow:

	Year Ended September 30, 2013	
	As reported	Pro forma
Net sales	$ 1,935,976	$ 1,966,376
Net earnings	145,942	152,431
Earnings per share:		
Basic earnings per share	$ 2.13	$ 2.23
Diluted earnings per share	2.10	2.19

Note 5. Financial instruments and fair value measurements

Financial assets and liabilities recorded at fair value in the Consolidated Balance Sheets are categorized based upon a fair value hierarchy established by U.S. GAAP.

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 September 30, 2015 or September 30, 2014.

	At September 30, 2015				At September 30, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash	$ 79,517	$ -	$ -	$ 79,517	$ 92,590	$ -	$ -	$ 92,590
Investments in money market funds	20	-	-	20	11,210	-	-	11,210
Investments in reverse repurchase agreements	2,665	-	-	2,665	11,487	-	-	11,487
Equity securities	9,883	-	-	9,883	9,645	-	-	9,645
Total financial assets	$ 92,085	$ -	$ -	$ 92,085	$ 124,932	$ -	$ -	$ 124,932

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

Investments in reverse repurchase agreements: Woodward sometimes invests excess cash in reverse repurchase agreements. Under the terms of Woodward's reverse repurchase agreements, Woodward purchases an interest in a pool of

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

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

Accounts receivable, accounts payable and short-term debt are not remeasured to fair value, as the carrying cost of each approximates its respective fair value. The estimated fair values and carrying costs of other financial instruments that are not required to be remeasured at fair value in the Consolidated Balance Sheets were as follows:

		At September 30, 2015		At September 30, 2014	
	Fair Value Hierarchy Level	Estimated Fair Value	Carrying Cost	Estimated Fair Value	Carrying Cost
Assets:					
Notes receivable from municipalities	2	16,112	15,638	15,988	15,228
Liabilities:					
Short-term borrowings	2	(2,430)	(2,430)	-	-
Long-term debt, including current portion	2	(873,734)	(850,000)	(752,513)	(710,000)

In fiscal years 2014 and 2013, Woodward received long-term notes from a municipality within the state of Illinois in connection with certain economic incentives related to Woodward's development of a second campus in the greater-Rockford, Illinois area for its Aerospace segment. The fair value of the long-term notes was estimated based on a model that discounted future principal and interest payments received at an interest rate available to the Company at the end of the period for similarly rated municipal notes of similar maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The interest rates used to estimate the fair value of the long-term notes were 3.0% at September 30, 2015 and 3.2% at September 30, 2014.

In fiscal year 2013, Woodward received a long-term note from a municipality within the state of Colorado in connection with certain economic incentives related to Woodward's development of a new campus at its corporate headquarters in Fort Collins, Colorado. The fair value of the long-term note was estimated based on a model that discounted future principal and interest payments received at an interest rate available to the Company at the end of the period for similarly rated municipal notes of similar maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The interest rates used to estimate the fair value of the long-term note were 3.0% at September 30, 2015 and 3.2% at September 30, 2014.

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

The fair value of long-term debt was estimated based on a model that discounted future principal and interest payments at interest rates available to the Company at the end of the period for similar debt of the same maturity, which is a level 2 input as defined by the U.S. GAAP fair value hierarchy. The weighted-average interest rates used to estimate the fair value of long-term debt were 2.8% at September 30, 2015 and 2.4% at September 30, 2014.

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

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and/or those utilized as economic hedges. Woodward uses interest rate related derivative instruments to manage its exposure to fluctuations of interest rates. Woodward does not enter into or issue derivatives for trading or speculative purposes.

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

Other than the cash flow hedges discussed below, Woodward did not enter into any derivatives or hedging transactions during the fiscal years ended September 30, 2015, September 30, 2014 and September 30, 2013.

Derivatives in cash flow hedging relationships

In June 2013, in connection with Woodward's expected refinancing of current maturities on its existing long-term debt, Woodward entered into a treasury lock agreement with a notional amount of $25,000 that qualified as a cash flow hedge under ASC Topic 815, "Derivatives and Hedging." The objective of this derivative instrument was to hedge the risk of variability in cash flows attributable to changes in the designated benchmark interest rate over a seven-year period related to the future interest payments on a portion of anticipated future debt issuances. The treasury lock agreement was settled in August 2013 and the resulting gain of $507 is being recognized as a reduction of interest expense over a seven-year period. The unrecognized portion of the gain is recorded in accumulated other comprehensive earnings, net of tax.

In September 2008, the Company entered into treasury lock agreements that qualified as cash flow hedges under authoritative guidance for derivatives and hedging. The objective of this derivative instrument was to hedge the risk of variability in cash flows related to future interest payments of a portion of the anticipated future debt issuances attributable to changes in the designated benchmark interest rate associated with the expected issuance of long-term debt to acquire Techni-Core, Inc. ("Techni-Core") and MPC Products Corporation ("MPC Products" and, together with Techni-Core, "MPC"). The discontinuance of these treasury lock agreements resulted in a gain that is being recognized as a reduction of interest expense over a seven-year period on the hedged Series C and D Notes, which were issued on October 1, 2008, using the effective interest method. The unrecognized portion of the gain is recorded in accumulated other comprehensive earnings, net of tax.

In March 2009, Woodward entered into LIBOR lock agreements that qualified as cash flow hedges under authoritative guidance for derivatives and hedging. The objective of this derivative instrument was to hedge the risk of variability in cash flows over a seven-year period related to future interest payments of a portion of anticipated future debt issuances attributable to changes in the designated benchmark interest rate associated with the then expected issuance of long-term debt to acquire HR Textron Inc. ("HRT"). The discontinuance of the LIBOR lock agreements resulted in a loss that is being recognized as an increase of interest expense over a seven-year period on the hedged Series E and F Notes, which were issued on April 3, 2009, using the effective interest method. The unrecognized portion of the loss is recorded in accumulated other comprehensive earnings, net of tax.

The remaining unrecognized gains and losses in Woodward's Condensed Consolidated Balance Sheets associated with derivative instruments that were previously entered into by Woodward, which are classified in accumulated other comprehensive losses ("accumulated OCI"), were net gains of $269 as of September 30, 2015 and $170 as of September 30, 2014.

The following table discloses the impact of derivative instruments in cash flow hedging relationships on Woodward's Consolidated Statements of Earnings, recognized in interest expense:

	Year Ended September 30,		
	2015	2014	2013
Amount of (income) expense recognized in earnings on derivative	$ 99	$ 99	$ 171
Amount of (gain) loss recognized in accumulated OCI on derivative	-	-	(507)
Amount of (gain) loss reclassified from accumulated OCI into earnings	99	99	171

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Based on the carrying value of the realized but unrecognized gains and losses on terminated derivative instruments designated as cash flow hedges as of September 30, 2015, Woodward expects to reclassify $21 of net unrecognized losses on terminated derivative instruments from accumulated other comprehensive earnings to earnings during the next twelve months.

In June 2015, Woodward designated an intercompany loan of 160,000 RMB between two wholly owned subsidiaries as a hedge of a foreign currency exposure of the net investment of the borrower in the lender. An unrealized foreign exchange gain on the loan of $572 is included in foreign currency translation adjustments within total comprehensive earnings for the fiscal year ended September 30, 2015.

Note 7. Supplemental statement of cash flows information

	Year Ended September 30,		
	2015	2014	2013
Interest paid, net of amounts capitalized	$ 32,608	$ 27,922	$ 26,627
Income taxes paid	51,218	66,477	52,355
Income tax refunds received	689	2,303	6,336
Non-cash activities:			
Purchases of property, plant and equipment on account	23,966	13,437	5,345
Common shares issued from treasury to settle benefit plan obligations (Note 18)	12,574	11,193	9,780
Notes receivable from municipalities for economic development incentives	-	6,596	8,114
Cashless exercise of stock options	1,532	1,286	2,645
Settlement of receivable through cashless acquisition of treasury shares in connection with the cashless exercise of stock options	1,602	1,736	3,447

Note 8. Inventories

	September 30, 2015	September 30, 2014
Raw materials	$ 63,896	$ 60,442
Work in progress	91,501	93,836
Component parts (1)	248,047	247,299
Finished goods	44,220	50,367
	$ 447,664	$ 451,944

(1) Component parts include items that can be sold separately as finished goods or included in the manufacture of other products.

WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

Note 9. Property, plant, and equipment

	September 30, 2015	September 30, 2014
Land and land improvements	$ 79,311	$ 66,303
Buildings and improvements	372,160	197,587
Leasehold improvements	16,907	20,026
Machinery and production equipment	365,040	326,403
Computer equipment and software	118,154	103,852
Office furniture and equipment	20,939	20,992
Other	18,325	18,839
Construction in progress	252,763	223,958
	1,243,599	977,960
Less accumulated depreciation	(487,499)	(464,681)
Property, plant and equipment, net	$ 756,100	$ 513,279

Included in “Land and land improvements” and “Buildings and improvements” are assets held for sale of $681 at September 30, 2015 and $2,465 at September 30, 2014 related to Woodward’s Energy segment. During the quarter ended September 30, 2014, Woodward recorded an impairment charge of $3,138, which is included in cost of goods sold in the Consolidated Statement of Earnings, related to the write down to fair value of certain held for sale assets. During the quarter ended March 31, 2015, Woodward completed the sale of certain of the assets held for sale.

Woodward completed construction of a manufacturing and office building on a second campus in the greater-Rockford, Illinois area and has begun occupying the new facility for its Aerospace segment. This campus is intended to support expected growth over the next ten years and beyond stimulated by Woodward being awarded a substantial number of new system platforms, particularly on narrow-body aircraft. Approximately $120,000 of assets were placed in service during the fiscal year ended September 30, 2015, and were recorded to “Buildings and improvements.” Included in “Construction in progress” are costs of $47,629 at September 30, 2015 and $85,283 at September 30, 2014, associated with the construction of the second campus and new equipment purchases, including capitalized interest of $499 at September 30, 2015 and $2,963 at September 30, 2014.

In addition, in fiscal year 2015, Woodward completed an addition to and renovation of a building in Niles, Illinois that it had acquired in September 2013 for its Aerospace segment. Most of the operations that formerly resided in nearby Skokie, Illinois, were relocated to this new facility in fiscal year 2015. Approximately $77,000 of assets were placed in service during the fiscal year ended September 30, 2015, and were recorded to “Buildings and improvements” and “Office furniture and equipment.” Included in “Construction in progress” are $0 at September 30, 2015 and $55,629 at September 30, 2014, associated with the construction of the building in Niles and new equipment purchases.

Woodward is also developing a new campus at its corporate headquarters in Fort Collins, Colorado to support the continued growth of its Energy segment by supplementing its existing Colorado manufacturing facilities and corporate headquarters. Included in "Construction in progress" are $151,669 at September 30, 2015 and $37,268 at September 30, 2014, associated with the construction of the new campus, including capitalized interest of $5,205 at September 30, 2015 and $2,392 at September 30, 2014.

For the fiscal years ended September 30, 2015, 2014 and 2013, Woodward had depreciation expense of the following:

	Year Ended September 30,		
	2015	2014	2013
Depreciation expense	$ 45,994	$ 43,773	$ 37,254

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WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

For the fiscal years ended September 30, 2015, 2014 and 2013, Woodward capitalized interest that would have otherwise been included in interest expense of the following:

	Year Ended September 30,		
	2015	2014	2013
Capitalized interest	$ 8,995	$ 7,282	$ 1,215

Note 10. Goodwill

	September 30, 2014	Effects of Foreign Currency Translation	September 30, 2015
Aerospace	$ 455,423	$ -	$ 455,423
Energy	104,301	(2,747)	101,554
Consolidated	$ 559,724	$ (2,747)	$ 556,977

	September 30, 2013	Effects of Foreign Currency Translation	September 30, 2014
Aerospace	$ 455,107	$ 316	$ 455,423
Energy	106,351	(2,050)	104,301
Consolidated	$ 561,458	$ (1,734)	$ 559,724

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. Woodward completed its annual goodwill impairment test as of July 31, 2015 during the quarter ended September 30, 2015. At that date, Woodward determined it was appropriate to aggregate certain components of the same operating segment into a single reporting unit. 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, earnings margins, future tax rates, and the present value, based on an estimated weighted-average cost of capital (or the discount rate) and terminal growth rate, of forecasted cash flows. Management projects revenue growth rates, earnings margins and cash flows based on each reporting unit's current operational results, expected performance and operational strategies over a ten-year period. These projections are adjusted to reflect current economic conditions and demand for certain products, and require considerable management judgment.

Forecasted cash flows used in the July 31, 2015 impairment test were discounted using weighted-average cost of capital assumptions ranging from 9.49% to 12.83%. The terminal values of the forecasted cash flows were calculated using the Gordon Growth Model and assumed an annual compound growth rate after ten years of 4.03%. These inputs, which are unobservable in the market, represent management's best estimate of what market participants would use in determining the present value of the Company's forecasted cash flows. Changes in these estimates and assumptions can have a significant impact on the fair value of forecasted cash flows. Woodward evaluated the reasonableness of the reporting units' resulting fair values utilizing a market multiple method.

The results of Woodward's goodwill impairment tests performed as of July 31, 2015 did not indicate impairment of any of Woodward's reporting units.

WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

Note 11. Intangible assets, net

	September 30, 2015			September 30, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Customer relationships and contracts:						
Aerospace	$ 282,225	$ (116,232)	$ 165,993	$ 282,225	$ (97,281)	$ 184,944
Energy	41,409	(32,891)	8,518	41,706	(32,032)	9,674
Total	$ 323,634	$ (149,123)	$ 174,511	$ 323,931	$ (129,313)	$ 194,618
Intellectual property:						
Aerospace	$ -	$ -	$ -	$ -	$ -	$ -
Energy	19,445	(16,921)	2,524	19,954	(15,938)	4,016
Total	$ 19,445	$ (16,921)	$ 2,524	$ 19,954	$ (15,938)	$ 4,016
Process technology:						
Aerospace	$ 76,605	$ (37,411)	$ 39,194	$ 76,605	$ (31,719)	$ 44,886
Energy	22,924	(14,621)	8,303	23,078	(13,141)	9,937
Total	$ 99,529	$ (52,032)	$ 47,497	$ 99,683	$ (44,860)	$ 54,823
Other intangibles:						
Aerospace	$ 1,400	$ (1,300)	$ 100	$ 9,100	$ (8,465)	$ 635
Energy	1,248	(742)	506	1,519	(839)	680
Total	$ 2,648	$ (2,042)	$ 606	$ 10,619	$ (9,304)	$ 1,315
Total intangibles:						
Aerospace	$ 360,230	$ (154,943)	$ 205,287	$ 367,930	$ (137,465)	$ 230,465
Energy	85,026	(65,175)	19,851	86,257	(61,950)	24,307
Consolidated Total	$ 445,256	$ (220,118)	$ 225,138	$ 454,187	$ (199,415)	$ 254,772

For the fiscal years ended September 30, 2015, September 30, 2014, and September 30, 2013 Woodward recorded amortization expense associated with intangibles of the following:

Year Ended September 30,

	2015	2014	2013
Amortization expense	$ 29,241	$ 33,580	$ 36,979

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WOODWARD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

Future amortization expense associated with intangibles is expected to be:

Year Ending September 30:	
2016	$ 27,507
2017	25,801
2018	24,978
2019	23,142
2020	20,359
Thereafter	103,351
	$ 225,138

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

As of September 30, 2015, Woodward's short-term borrowings and availability under its various short-term credit facilities follows: