Woodward, Inc.
Form 10-Q
April 20, 2017
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

or

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

For the transition period from _____ to _____

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

Delaware	36-1984010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1081 Woodward Way, Fort Collins, Colorado	80524
(Address of principal executive offices)	(Zip Code)

(970) 482-5811

(Registrant’s telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

As of April 17, 2017, 61,272,506 shares of the registrant's common stock with a par value of $0.001455 per share were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1.Financial Statements

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Net sales	$ 500,381	$ 479,382	$ 943,275	$ 924,492
Costs and expenses:				
Cost of goods sold	365,156	346,139	692,350	679,516
Selling, general and administrative expenses	43,172	36,823	76,968	77,605
Research and development costs	30,385	31,762	56,925	63,359
Amortization of intangible assets	6,431	6,926	12,889	13,872
Interest expense	6,790	6,234	13,630	13,142
Interest income	(474)	(441)	(879)	(888)
Other (income) expense, net (Note 16)	(1,315)	(2,427)	(5,903)	(4,436)
Total costs and expenses	450,145	425,016	845,980	842,170
Earnings before income taxes	50,236	54,366	97,295	82,322
Income tax expense	12,131	13,542	12,642	15,678
Net earnings	$ 38,105	$ 40,824	$ 84,653	$ 66,644
Earnings per share (Note 3):				
Basic earnings per share	$ 0.62	$ 0.66	$ 1.38	$ 1.07
Diluted earnings per share	$ 0.60	$ 0.65	$ 1.33	$ 1.05
Weighted Average Common Shares Outstanding (Note 3):				
Basic	61,310	61,639	61,436	62,351
Diluted	63,499	63,064	63,593	63,768

Cash dividends per share paid to Woodward common stockholders	$ 0.125	$ 0.110	$ 0.235	$ 0.210

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)

(Unaudited)

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Net earnings	$ 38,105	$ 40,824	$ 84,653	$ 66,644
Other comprehensive earnings:				

Foreign currency translation adjustments	7,741	10,125	(10,894)	(129)
Gain (loss) on foreign currency transactions designated as hedges of net investments in foreign subsidiaries (Note 6)	(945)	(345)	2,885	517
Taxes on changes in foreign currency translation adjustments	(180)	(601)	(486)	(295)
Foreign currency translation and transactions adjustments, net of tax	6,616	9,179	(8,495)	93
Reclassification of net realized (gains) losses on derivatives to earnings (Note 6)	(18)	28	(36)	57
Taxes on changes in derivative transactions	7	(10)	14	(21)
Derivative adjustments, net of tax	(11)	18	(22)	36
Minimum retirement benefit liability adjustments (Note 18)				
Amortization of:				
Net prior service cost	57	57	113	113
Net loss	640	425	1,281	852
Foreign currency exchange rate changes on minimum retirement benefit liabilities	(312)	287	943	571
Taxes on changes in minimum retirement liability adjustments, net of foreign currency exchange rate changes	(152)	(290)	(845)	(576)
Pension and other postretirement benefit plan adjustments, net of tax	233	479	1,492	960
Total comprehensive earnings	$ 44,943	$ 50,500	$ 77,628	$ 67,733

See accompanying Notes to Condensed Consolidated Financial Statements

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WOODWARD, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	March 31, 2017	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,953	$ 81,090
Accounts receivable, less allowance for uncollectible amounts of $2,494 and $2,540, respectively	279,897	343,768
Inventories	506,275	461,683
Income taxes receivable	15,942	20,358
Other current assets	29,456	37,525
Total current assets	910,523	944,424
Property, plant and equipment, net	888,235	876,350
Goodwill	553,974	555,684
Intangible assets, net	184,577	197,650
Deferred income tax assets	19,421	20,194
Other assets	50,430	48,060
Total assets	$ 2,607,160	$ 2,642,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 134,300	$ 150,000
Accounts payable	177,730	169,439
Income taxes payable	3,046	4,547
Accrued liabilities	105,978	156,627
Total current liabilities	421,054	480,613
Long-term debt, less current portion	562,045	577,153
Deferred income tax liabilities	9,403	3,777
Other liabilities	359,866	368,224
Total liabilities	1,352,368	1,429,767
Commitments and contingencies (Note 20)		
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	160,559	141,570
Accumulated other comprehensive losses	(72,730)	(65,705)
Deferred compensation	7,060	5,089
Retained earnings	1,719,744	1,649,506
	1,814,739	1,730,566
Treasury stock at cost, 11,688 shares and 11,374 shares, respectively	(552,887)	(512,882)
Treasury stock held for deferred compensation, at cost, 186 shares and 157 shares, respectively	(7,060)	(5,089)
Total stockholders' equity	1,254,792	1,212,595
Total liabilities and stockholders' equity	$ 2,607,160	$ 2,642,362

See accompanying Notes to Condensed Consolidated Financial Statements.

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six-Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net earnings	$ 84,653	$ 66,644
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	39,007	32,621
Net gain on sales of assets	(3,662)	(1,601)
Stock-based compensation	13,763	11,422
Deferred income taxes	4,589	(81,496)
(Gain) loss on derivatives reclassified from accumulated comprehensive earnings into earnings	(36)	57
Proceeds from formation of joint venture (Note 4)	-	250,000
Changes in operating assets and liabilities:		
Accounts receivable	61,324	53,666
Inventories	(48,022)	(45,918)
Accounts payable and accrued liabilities	(23,834)	(10,734)
Current income taxes	3,339	91,800
Retirement benefit obligations	(1,715)	(1,969)
Other	588	(2,810)
Net cash provided by operating activities	129,994	361,682
Cash flows from investing activities:		
Payments for purchase of property, plant, and equipment	(43,053)	(99,316)
Net proceeds from sale of assets	3,682	2,112
Proceeds from sales of short-term investments	4,994	-
Net cash used in investing activities	(34,377)	(97,204)
Cash flows from financing activities:		
Cash dividends paid	(14,415)	(13,086)
Proceeds from sales of treasury stock	11,223	5,288

Payments for repurchases of common stock	(61,782)	(117,820)
Borrowings on revolving lines of credit and short-term borrowings	684,200	300,000
Payments on revolving lines of credit and short-term borrowings	(706,600)	(385,596)
Payments of long-term debt and capital lease obligations	(204)	(50,075)
Net cash used in financing activities	(87,578)	(261,289)
Effect of exchange rate changes on cash and cash equivalents	(10,176)	(646)
Net change in cash and cash equivalents	(2,137)	2,543
Cash and cash equivalents at beginning of year	81,090	82,202
Cash and cash equivalents at end of period	$ 78,953	$ 84,745

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY

(In thousands)

(Unaudited)

	Number of shares				Stockholders' equity					
							Accumulated other comprehensive (lo earnings			
	Preferred stock	Common stock	Treasury stock	Treasury stock held for deferred compensation	Common stock	Additional paid-in capital	Foreign currency translation adjustments	Unrealized derivative gains (losses)	Minimum retirement benefit liability adjustments	Tota accu othe com (los
Balances as of October 1, 2015	-	72,960	(9,763)	(173)	$ 106	$ 131,231	$ (21,610)	$ 166	$ (30,014)	$ (5
Net earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	93	36	960	1,
Cash dividends paid ($0.210 per share)	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(2,543)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	254	-	-	(2,366)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	317	-	-	5,319	-	-	-	-
Stock-based compensation	-	-	-	-	-	11,422	-	-	-	-
Purchases of stock by deferred compensation plan	-	-	-	(24)	-	-	-	-	-	-
Distribution of stock from deferred	-	-	-	23	-	-	-	-	-	-

compensation plan										
Balances as of March 31, 2016	-	72,960	(11,735)	(174)	$ 106	$ 145,606	$ (21,517)	$ 202	$ (29,054)	$ (5
Balances as of October 1, 2016	-	72,960	(11,374)	(157)	$ 106	$ 141,570	$ (25,971)	$ 179	$ (39,913)	$ (6
Net earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	(8,495)	(22)	1,492	(7
Cash dividends paid ($0.235 per share)	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	-	-	(915)	-	-	-	-	-	-	-
Sales of treasury stock	-	-	376	-	-	(2,015)	-	-	-	-
Common shares issued from treasury stock for benefit plans	-	-	199	-	-	6,501	-	-	-	-
Common shares issued from treasury stock to settle employee liabilities	-	-	26	(26)	-	740	-	-	-	-
Stock-based compensation	-	-	-	-	-	13,763	-	-	-	-
Purchases and transfers of stock by/to deferred compensation plan	-	-	-	(3)	-	-	-	-	-	-
Distribution of stock from deferred compensation plan	-	-	-	-	-	-	-	-	-	-
Balances as of March 31, 2017	-	72,960	(11,688)	(186)	$ 106	$ 160,559	$ (34,466)	$ 157	$ (38,421)	$ (7

See accompanying Notes to Condensed Consolidated Financial Statements

WOODWARD, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Note 1. Basis of presentation

The Condensed Consolidated Financial Statements of Woodward, Inc. (“Woodward” or the “Company”) as of March 31, 2017 and for the three and six-months ended March 31, 2017 and March 31, 2016, included herein, have not been audited by an independent registered public accounting firm. These Condensed Consolidated Financial Statements reflect all normal recurring adjustments that, in the opinion of management, are necessary to present fairly Woodward’s financial position as of March 31, 2017, and the statements of earnings, comprehensive earnings, cash flows, and changes in stockholders’ equity for the periods presented herein. The results of operations for the three and six-months ended March 31, 2017 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year. Dollar and share amounts contained in these Condensed Consolidated Financial Statements are in thousands, except per share amounts.

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

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

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

Note 2. New accounting standards

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

In March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires that the service cost component of net periodic benefit costs from defined benefit and other postretirement benefit plans be included in the same Statement of Earnings captions as other compensation costs arising from services rendered by the covered employees during the period. The other components of net benefit cost will be presented in the Statement of Earnings separately from service costs. ASU 2017-07 is effective for fiscal years beginning after December 31, 2017 (fiscal year 2019 for Woodward). Following adoption, only service costs will be eligible for capitalization into manufactured inventories, which should reduce diversity in practice. Early adoption is permitted as of the beginning of Woodward's fiscal year 2018. Woodward has not determined whether it will adopt the new guidance in fiscal year 2018 or fiscal year 2019, and expects changes to earnings before income taxes to be insignificant in the year of adoption.

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment," to simplify financial reporting by eliminating the need to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, up to the amount of goodwill allocated to that reporting unit. The new guidance effectively eliminates "Step 2" from the previous goodwill impairment test. ASU 2017-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 (fiscal year 2021 for Woodward). Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. Woodward has not determined in which period it will adopt the new guidance but does not expect the adoption of ASU 2017-04 to have a significant impact on the results of its goodwill impairment testing.

In October 2016, the FASB issued ASU 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory." ASU 2016-16 eliminates the current U.S. GAAP exception deferring the tax effects of intercompany asset transfers (other than inventory) until the transferred asset is sold to a third party or otherwise recovered through use. After adoption of ASU 2016-16, Woodward will recognize the tax consequences of intercompany asset transfers in the buyer's and seller's tax jurisdictions when the transfer occurs, even though the pre-tax effects of these transactions are eliminated in consolidation. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019 for Woodward), including interim periods within the year of adoption. Early adoption is allowed only in the first quarter of fiscal year 2017 or the first quarter of fiscal year 2018. Modified retrospective adoption is required with any cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. Woodward currently anticipates the adoption of ASU 2016-16 will result in balance sheet reclassifications, but based on Woodward's current transactional activity such adjustments are not expected to be significant.

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

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" and has subsequently issued several supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 prescribes a single common revenue standard that replaces most existing U.S. GAAP revenue recognition guidance. ASC 606 outlines a five-step model, under which Woodward will recognize revenue as performance obligations within a customer contract are satisfied.

ASC 606 is intended to provide more consistent interpretation and application of the principles outlined in the standard across filers in multiple industries and within the same industries compared to current practices, which should improve comparability. Adoption of ASC 606 is required for annual reporting periods beginning after December 15, 2017 (fiscal year 2019 for Woodward), including interim periods within the reporting period. While Woodward may elect to adopt ASC 606 in fiscal year 2018, it does not expect to do so. Upon adoption, Woodward must elect to adopt either retrospectively to each prior reporting period presented or using the cumulative effect transition method with the cumulative effect of initial adoption recognized at the date of initial application. Woodward has not determined what transition method it will use.

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

In addition, ASC 606 will require more comprehensive disclosures about revenue streams and contracts with customers, including significant judgments required. Woodward is currently evaluating potential changes to its processes for preparing required disclosures and to information systems that support the financial reporting process. In addition, Woodward is evaluating implications to the Company’s system of internal controls, relative to revenue recognition and the related revenue disclosures, which are based on the criteria outlined in the Committee of Sponsoring Organizations of the Treadway Commission’s 2013 Internal Control – Integrated Framework.

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:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Numerator:				
Net earnings	$ 38,105	$ 40,824	$ 84,653	$ 66,644
Denominator:				
Basic shares outstanding	61,310	61,639	61,436	62,351
Dilutive effect of stock options and restricted stock	2,189	1,425	2,157	1,417
Diluted shares outstanding	63,499	63,064	63,593	63,768
Income per common share:				
Basic earnings per share	$ 0.62	$ 0.66	$ 1.38	$ 1.07
Diluted earnings per share	$ 0.60	$ 0.65	$ 1.33	$ 1.05

The following stock option grants were outstanding during the three and six-months ended March 31, 2017 or 2016, but were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Options	67	731	2	734
Weighted-average option price	$ 62.98	$ 46.55	$ 70.39	$ 46.55

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:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Weighted-average treasury stock shares held for deferred compensation obligations	185	185	175	181

Note 4. Joint venture

On January 4, 2016, Woodward and General Electric Company (“GE”), acting through its GE Aviation business unit, consummated the formation of a strategic joint venture between Woodward and GE (the “JV”) to design, develop and source fuel systems for specified existing and all future GE commercial aircraft engines that produce thrust in excess of fifty thousand pounds.

As part of the JV formation, Woodward contributed to the JV certain contractual rights and intellectual property applicable to the existing GE commercial aircraft engine programs within the scope of the JV. Woodward had no initial cost basis in the JV because Woodward had no cost basis in the contractual rights and intellectual property contributed to the JV. GE purchased from Woodward a 50% ownership interest in the JV for a $250,000 cash payment to Woodward. In addition, GE will pay contingent consideration to Woodward consisting of fifteen annual payments of $4,894 per year which began on January 4, 2017 subject to certain claw-back conditions. Woodward received its first annual payment of $4,894, which was recorded as deferred income and is included in Net cash provided by operating activities under the caption “Other” on the Condensed Consolidated Statement of Cash Flows, during the three-months ended March 31, 2017. Neither Woodward nor GE contributed any tangible assets to the JV.

Woodward determined that the JV formation was not the culmination of an earnings event because Woodward has significant performance obligations to support the future operations of the JV. Therefore, Woodward recorded the $250,000 consideration received from GE, in January of 2016, for its purchase of a 50% equity interest in the JV as deferred income. The $250,000 deferred income will be recognized as an increase to net sales in proportion to revenue realized on sales of applicable fuel systems within the scope of the JV in a particular period as a percentage of total revenue expected to be realized by Woodward over the estimated remaining lives of the underlying commercial aircraft engine programs assigned to the JV. Unamortized deferred income recorded in connection with the JV formation included accrued liabilities of $6,352 as of March 31, 2017 and $6,552 as of September 30, 2016, and other liabilities of $240,153 as of March 31, 2017 and $238,187 as of September 30, 2016. Amortization of the deferred income recognized as an increase to sales was $1,632 for the three months and $3,128 for the six-months ended March 31, 2017, and $1,962 for the three and six-months ended March 31, 2016.

Woodward and GE jointly manage the JV and any significant decisions and/or actions of the JV require the mutual consent of both parties. Neither Woodward nor GE has a controlling financial interest in the JV, but both Woodward and GE do have the ability to significantly influence the operating and financial decisions of the JV. Therefore, Woodward is accounting for its 50% ownership interest in the JV using the equity method of accounting. The JV is a related party to Woodward. Other income includes $382 for the three months and $1,066 for the six-months ended March 31, 2017 and $2,158 for the three and six-months ended March 31, 2016 related to Woodward’s equity interest in the earnings of the JV. During the three and six-months ended March 31, 2017 Woodward received a $2,500 cash distribution from the JV which is included in Net cash provided by operating activities under the caption “Other” on the Condensed Consolidated Statement of Cash Flows. Woodward received no cash distributions from the JV in the three and six-months ended March 31, 2016. Woodward’s net investment in the JV, which is included in other assets, was $4,770 as of March 31, 2017 and $6,204 as of September 30, 2016.

Woodward’s net sales include $18,415 for the three months and $33,717 for the six-months ended March 31, 2017 of sales to the JV, compared to $15,015 for the three and six-months ended March 31, 2016. Woodward recorded a reduction to sales of $5,674 for the three months and $11,077 for the six-months ended March 31, 2017 related to royalties paid to the JV by Woodward on sales by Woodward directly to third party aftermarket customers, compared to $7,016 for the three and six-months ended March 31, 2016. The Condensed Consolidated Balance Sheets, include “Accounts receivable” of $8,816 at March 31, 2017 and $5,326 at September 30, 2016 related to amounts the JV owed Woodward, and include “Accounts payable” of $7,019 at March 31, 2017, and $3,926 at September 30, 2016 related to amounts Woodward owed the JV.

Note 5. Financial instruments and fair value measurements

Financial assets and liabilities recorded at fair value in the Condensed 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 that 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.

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 March 31, 2017 or September 30, 2016.

	At March 31, 2017				At September 30, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash	$ 71,314	$ -	$ -	$ 71,314	$ 80,959	$ -	$ -	$ 80,959
Investments in money market funds	-	-	-	-	48	-	-	48
Investments in reverse repurchase agreements	167	-	-	167	83	-	-	83
Investments in term deposits with foreign banks	7,472	-	-	7,472	7,136	-	-	7,136
Equity securities	15,340	-	-	15,340	12,491	-	-	12,491
Total financial assets	$ 94,293	$ -	$ -	$ 94,293	$ 100,717	$ -	$ -	$ 100,717

Investments in money market funds: Woodward sometimes invests excess cash in money market funds not insured by the Federal Depository Insurance Corporation ("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 in "Cash and cash equivalents" at fair value, with realized gains from interest income recognized in earnings. The fair values of Woodward's investments in money market funds are based on the quoted market prices for the net asset value of the various money market funds.

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 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 recognized 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.

Investments in term deposits with foreign banks: Woodward's foreign subsidiaries sometimes invest excess cash in various highly liquid financial instruments that Woodward believes are with creditworthy financial institutions. Such investments are reported in "Cash and cash equivalents" at fair value, with realized gains from interest income recognized in earnings. The carrying value of Woodward's investments in term deposits with foreign banks are considered equal to the fair value given the highly liquid nature of the investments.

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, the current portion of long-term debt, and short-term borrowings 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 Condensed Consolidated Balance Sheets were as follows:

	Fair Value Hierarchy Level	At March 31, 2017 Estimated Fair Value	At March 31, 2017 Carrying Cost	At September 30, 2016 Estimated Fair Value	At September 30, 2016 Carrying Cost
Assets:					
Notes receivable from municipalities	2	$ 16,211	$ 15,361	$ 17,501	$ 15,849
Investments in short-term time deposits	2	-	-	4,882	4,918
Liabilities:					
Short-term borrowings	2	(134,300)	(134,300)	(150,000)	(150,000)
Long-term debt, excluding current portion	2	$ (586,706)	$ (563,941)	$ (617,857)	$ (579,244)

In fiscal years 2014 and 2013, Woodward received long-term notes from municipalities within the states of Illinois and Colorado 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 and Woodward's development of a new campus at its corporate headquarters in Fort Collins, Colorado. 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 2.9% at March 31, 2017 and 2.2% at September 30, 2016.

From time to time, certain of Woodward's foreign subsidiaries will invest excess cash in short-term time deposits with a fixed maturity date of longer than three months but less than one year from the date of the deposit. Woodward believes that the investments are with creditworthy financial institutions. The fair value of the investments in short-term time deposits was estimated based on a model that discounted future principal and interest payments to be received at an interest rate available to the foreign subsidiary entering into the investment for similar short-term time deposits of similar maturity. This was determined to be a level 2 input as defined by the U.S. GAAP fair value hierarchy. The interest rate used to estimate the fair value of the short-term time deposits was 6.9% at September 30, 2016. There were no investments in short-term time deposits at March 31, 2017.

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 2.4% at March 31, 2017 and 1.9% at September 30, 2016.

Note 6. Derivative instruments and hedging activities

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

By using derivative and/or hedging instruments to manage its risk exposure, Woodward is subject, from time to time, to credit risk and market risk on those derivative instruments. Credit risk arises from the potential failure of the counterparty to perform under the terms of the derivative and/or hedging instrument. When the fair value of a derivative contract is positive, the counterparty owes Woodward, which creates credit risk for Woodward. Woodward mitigates this credit risk by entering into transactions with only counterparties that are believed to be creditworthy. 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.

Woodward did not enter into any derivatives or hedging transactions during any of the three or six-months ended March 31, 2017 or March 31, 2016.

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) earnings ("accumulated OCI"), were net gains of $254 as of March 31, 2017 and $290 as of September 30, 2016.

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

	Three-Months Ended March 31,				Six-Months Ended March 31,			
	2017		2016		2017		2016	
Amount of (income) expense recognized in earnings on derivative	$	(18)	$	28	$	(36)	$	57
Amount of (gain) loss recognized in accumulated OCI on derivative		-		-		-		-
Amount of (gain) loss reclassified from accumulated OCI into earnings		(18)		28		(36)		57

Based on the carrying value of the realized but unrecognized gains on terminated derivative instruments designated as cash flow hedges as of March 31, 2017, Woodward expects to reclassify $72 of net unrecognized gains on terminated derivative instruments from accumulated other comprehensive (losses) earnings to earnings during the next twelve months.

On September 23, 2016, Woodward and Woodward International Holding B.V., a wholly owned subsidiary of Woodward organized under the laws of The Netherlands (the "BV Subsidiary"), each entered into a note purchase agreement (the "2016 Note Purchase Agreement") relating to the sale by Woodward and the BV Subsidiary of an aggregate principal amount of €160,000 of senior unsecured notes in a series of private placement transactions. Woodward issued €40,000 aggregate principal amount of Woodward's Series M Senior Notes due September 23, 2026. Woodward designated the €40,000 Series M Notes as a hedge of a foreign currency exposure of Woodward's net investment in its Euro denominated functional currency subsidiaries. A foreign exchange loss on the Series M Notes of $664 for the three months and a foreign exchange gain of $2,150 for the six months ended March 31, 2017 is included in foreign currency translation adjustments within total comprehensive (losses) earnings.

In June 2015, Woodward designated an intercompany loan of 160,000 Renminbi ("RMB") between two wholly owned subsidiaries as a hedge of a foreign currency exposure of the net investment of the borrower in the lender. Net unrealized foreign exchange losses on the loan of $345 for the three months and net unrealized foreign exchange gains on the loan of $517 for the six-months ended March 31, 2016 is included in foreign currency translation adjustments within total comprehensive earnings. In June 2016, the intercompany loan was repaid.

In July 2016, Woodward designated a new 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. Net unrealized foreign exchange losses on the loan of $281 for the three months and net unrealized foreign exchange gains on the loan of $735 for the six-months ended March 31, 2017 are included in foreign currency translation adjustments within total comprehensive (losses) earnings.

Note 7. Supplemental statement of cash flows information

	Six-Months Ended March 31,	
	2017	2016
Interest paid, net of amounts capitalized	$ 13,999	$ 18,127
Income taxes paid	9,160	7,470
Income tax refunds received	90	1,361
Non-cash activities:		
Purchases of property, plant and equipment on account	7,621	12,028
Property, plant and equipment acquired by capital lease	-	1,239
Common shares issued from treasury to settle employee liabilities	1,767	-
Common shares issued from treasury to settle benefit obligations (Note 18)	14,014	13,999
Purchases of treasury stock on account	-	1,745
Cashless exercise of stock options	1,473	555

Note 8. Accounts receivable

Almost all of Woodward's sales are made on credit and result in accounts receivable that are recorded at the amount invoiced. In the normal course of business, not all accounts receivable are collected. Therefore, an allowance for losses of accounts receivable is provided equal to the amount that Woodward believes ultimately will not be collected. In establishing the amount of the allowance, Woodward considers customer-specific information 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 Chinese banks that are believed to be creditworthy. 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 bankers' 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 banks that are believed to be creditworthy as to which the credit risk associated with the bankers' acceptance notes is believed to be minimal.

The composition of Woodward's accounts receivable at March 31, 2017 and September 30, 2016 follows:

	March 31, 2017	September 30, 2016
Accounts receivable from:		
Customers	$ 263,773	$ 341,215
Other (Chinese financial institutions)	18,618	5,093
Allowance for uncollectible customer amounts	(2,494)	(2,540)
	$ 279,897	$ 343,768

Note 9. Inventories

	March 31, 2017	September 30, 2016
Raw materials	$ 56,500	$ 54,246
Work in progress	119,952	109,756
Component parts (1)	273,341	249,307
Finished goods	56,482	48,374
	$ 506,275	$ 461,683

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

Note 10. Property, plant, and equipment

	March 31, 2017	September 30, 2016
Land and land improvements	$ 87,514	$ 87,696
Buildings and building improvements	526,597	527,704
Leasehold improvements	14,990	15,213
Machinery and production equipment	488,851	484,315
Computer equipment and software	122,570	117,984
Office furniture and equipment	26,841	29,344
Other	19,165	18,969
Construction in progress	108,020	88,909
	1,394,548	1,370,134
Less accumulated depreciation	(506,313)	(493,784)
Property, plant, and equipment, net	$ 888,235	$ 876,350

Included in “Office furniture and equipment” and “Other” is $1,653 at March 31, 2017 and September 30, 2016, of gross assets acquired on capital leases, and accumulated depreciation included $530 at March 31, 2017 and $322 at September 30, 2016 of amortization associated with the capital lease assets.

In fiscal year 2015, Woodward completed and placed into service a manufacturing and office building on a second campus in the greater-Rockford, Illinois area and has occupied the new facility in anticipation of beginning serial production of new narrow-body product lines beginning in fiscal year 2017 for its Aerospace segment. This campus is intended to support Woodward's expected growth in its Aerospace segment over the next ten years and beyond, required as a result of Woodward being awarded a substantial number of new system platforms, particularly on narrow-body aircraft. Included in "Construction in progress" are costs of $41,941 at March 31, 2017 and $26,741 at September 30, 2016 associated with new equipment purchases for the second campus.

For the three and six-months ended March 31, 2017 and 2016, Woodward had depreciation expense as follows:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Depreciation expense	$ 13,663	$ 8,633	$ 26,118	$ 18,749

For the three and six-months ended March 31, 2017 and 2016, Woodward capitalized interest that would have otherwise been included in interest expense of the following:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Capitalized interest	$ 481	$ 2,267	$ 953	$ 4,140

Note 11. Goodwill

	September 30, 2016	Effects of Foreign Currency Translation	March 31, 2017
Aerospace	$ 455,423	$ -	$ 455,423
Industrial	100,261	(1,710)	98,551
Consolidated	$ 555,684	$ (1,710)	$ 553,974

Woodward tests goodwill for impairment during the fourth quarter of each fiscal year, or at any time there is an indication goodwill is more-likely-than-not impaired, commonly referred to as triggering events. There have been no such triggering events during any of the periods presented and Woodward's fourth quarter of fiscal year 2016 impairment test resulted in no impairment.

Note 12. Intangible assets, net

	March 31, 2017			September 30, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Customer relationships and contracts:						
Aerospace	$ 282,225	$ (142,657)	$ 139,568	$ 282,225	$ (134,158)	$ 148,067
Industrial	40,860	(33,896)	6,964	40,969	(33,509)	7,460
Total	$ 323,085	$ (176,553)	$ 146,532	$ 323,194	$ (167,667)	$ 155,527
Intellectual property:						
Aerospace	$ -	$ -	$ -	$ -	$ -	$ -
Industrial	19,190	(17,844)	1,346	19,435	(17,876)	1,559
Total	$ 19,190	$ (17,844)	$ 1,346	$ 19,435	$ (17,876)	$ 1,559
Process technology:						
Aerospace	$ 76,605	$ (46,177)	$ 30,428	$ 76,605	$ (43,229)	$ 33,376
Industrial	22,721	(16,812)	5,909	22,965	(16,200)	6,765
Total	$ 99,326	$ (62,989)	$ 36,337	$ 99,570	$ (59,429)	$ 40,141

Other intangibles:						
Aerospace	$ -	$ -	$ -	$ -	$ -	$ -
Industrial	1,186	(824)	362	1,246	(823)	423
Total	$ 1,186	$ (824)	$ 362	$ 1,246	$ (823)	$ 423
Total intangibles:						
Aerospace	$ 358,830	$ (188,834)	$ 169,996	$ 358,830	$ (177,387)	$ 181,443
Industrial	83,957	(69,376)	14,581	84,615	(68,408)	16,207
Consolidated Total	$ 442,787	$ (258,210)	$ 184,577	$ 443,445	$ (245,795)	$ 197,650

For the three and six-months ended March 31, 2017 and 2016, Woodward recorded amortization expense associated with intangibles of the following:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Amortization expense	$ 6,431	$ 6,926	$ 12,889	$ 13,872

Future amortization expense associated with intangibles is expected to be:

Year Ending September 30:	
2017 (remaining)	$ 12,865
2018	24,931
2019	23,095
2020	20,340
2021	18,394
Thereafter	84,952
	$ 184,577

Note 13. Credit facilities, short-term borrowings and long-term debt

Revolving credit facility

Woodward maintains a $1,000,000 revolving credit facility established under a revolving credit agreement among Woodward, a syndicate of lenders and Wells Fargo Bank, National Association, as administrative agent (the "Revolving Credit Agreement"). The Revolving Credit Agreement provides for the option to increase available borrowings to up to $1,200,000, subject to lenders' participation. Borrowings under the Revolving Credit Agreement generally bear interest at LIBOR plus 0.85% to 1.65%. The Revolving Credit Agreement matures in April 2020. Under the Revolving Credit Agreement, there were $134,300 in principal amount of borrowings outstanding as of March 31, 2017, at an effective interest rate of 2.03% and $156,700 in principal amount of borrowings outstanding as of September 30, 2016, at an effective interest rate of 1.77%. As of March 31, 2017, all of the borrowings under the Revolving Credit Agreement were classified as short-term based on Woodward's intent and ability to pay this amount in the next twelve months.

Short-term borrowings

During the three-months ended March 31, 2017, a Chinese subsidiary of Woodward amended its local uncommitted credit facility with the Hong Kong and Shanghai Banking Company ("HSBC") under which it had the ability to borrow up to either $22,700, or the local currency equivalent of $22,700, up to the amount of a parent guarantee from Woodward. Under the amended agreement, the Chinese subsidiary has the ability to borrow up to either $4,550, or the local currency equivalent of $4,550, up to the amount of a parent guarantee from Woodward. The Chinese subsidiary may utilize the local facility for cash borrowings to support its operating cash needs. Local currency borrowings on the Chinese credit facility are charged interest at the prevailing interest rate offered by the People's Bank of China on the date of borrowing, plus a margin equal to 15% of that prevailing rate. U.S. dollar borrowings on the credit facility are charged interest at the lender's cost of borrowing rate at the date of borrowing, plus 3%. The Chinese subsidiary had no outstanding cash borrowings against the local credit facility at March 31, 2017 and September 30, 2016.

On January 5, 2017, the Brazilian subsidiary of Woodward amended its local uncommitted credit facility with the Banco J.P. Morgan S.A., under which it had the ability to borrow up to 52,000 Brazilian Real, to extend the maturity date until July 14, 2017 and decrease the maximum borrowing capacity to 1,000 Brazilian Real. Any cash borrowings under the local Brazilian credit facility are secured by a parent guarantee from Woodward. The Brazilian subsidiary may utilize the local facility to support its operating cash needs. Local currency borrowings on the Brazilian credit facility are charged interest at the lender's cost of borrowing rate at the date of borrowing, plus 1.75%. The Brazilian subsidiary had no outstanding cash borrowings against the local credit facility at March 31, 2017 and September 30, 2016.

Woodward also has other foreign lines of credit and foreign overdraft facilities at various financial institutions, which are generally reviewed annually for renewal and are subject to the usual terms and conditions applied by the financial institutions. Pursuant to the terms of the related facility agreements, Woodward's foreign performance guarantee facilities are limited in use to providing performance guarantees to third parties. There were no borrowings outstanding as of March 31, 2017 and September 30, 2016 on Woodward's other foreign lines of credit and foreign overdraft facilities.

Long-term debt

	March 31, 2017	September 30, 2016
Revolving credit facility - Floating rate (LIBOR plus 0.85% - 1.65%), due April 2020, unsecured	$ 134,300	$ 156,700
Series D notes – 6.39%, due October 2018; unsecured	100,000	100,000
Series F notes – 8.24%, due April 2019; unsecured	43,000	43,000
Series G notes – 3.42%, due November 2020; unsecured	50,000	50,000
Series H notes – 4.03%, due November 2023; unsecured	25,000	25,000
Series I notes – 4.18%, due November 2025; unsecured	25,000	25,000
Series J notes – Floating rate (LIBOR plus 1.25%), due November 2020; unsecured	50,000	50,000
Series K notes – 4.03%, due November 2023; unsecured	50,000	50,000
Series L notes – 4.18%, due November 2025; unsecured	50,000	50,000
Series M notes – 1.12% due September 2026; unsecured	42,735	44,886
Series N notes – 1.31% due September 2028; unsecured	82,265	86,406
Series O notes – 1.57% due September 2031; unsecured	45,941	48,252
Total debt	698,241	729,244
Less: Current portion of long-term debt	(134,300)	(150,000)
Unamortized debt issuance costs	(1,896)	(2,091)
Long-term debt, less current portion	$ 562,045	$ 577,153

The Notes

In October 2008, Woodward entered into a note purchase agreement relating to the Series D Notes (the "2008 Notes"). In April 2009, Woodward entered into a note purchase agreement relating to the Series F Notes (the "2009 Notes").

On October 1, 2013, Woodward entered into a note purchase agreement relating to the sale by Woodward of an aggregate principal amount of $250,000 of its senior unsecured notes in a series of private placement transactions. Woodward issued the Series G, H and I Notes (the "First Closing Notes") on October 1, 2013. Woodward issued the Series J, K and L Notes (the "Second Closing Notes", and together with the 2008 Notes, 2009 Notes and the First Closing Notes, the "USD Notes") on November 15, 2013.

On September 23, 2016, Woodward and the BV Subsidiary each entered into note purchase agreements relating to the sale by Woodward and the BV Subsidiary of an aggregate principal amount of €160,000 of senior unsecured notes in a series of private placement transactions. Woodward issued €40,000 aggregate principal amount of Woodward's Series M Senior Notes (the "Series M Notes"). The BV Subsidiary issued (a) €77,000 aggregate principal amount of the BV Subsidiary's Series N Senior Notes (the "Series N Notes") and (b) €43,000 aggregate principal amount of the BV Subsidiary's Series O Senior Notes (the "Series O Notes" and together with the Series M Notes and the Series N Notes, the "2016 Notes", and together with the USD Notes, collectively, the "Notes").

Interest on the 2008 Notes, the First Closing Notes, and the Series K and L Notes is payable semi-annually on April 1 and October 1 of each year until all principal is paid. Interest on the 2009 Notes is payable semi-annually on April 15 and October 15 of each year until all principal is paid. Interest on the 2016 Notes will be payable semi-annually on March 23 and September 23 of each year, commencing on March 23, 2017, until all principal is paid. Interest on the Series J Notes is payable quarterly on January 1, April 1, July 1 and October 1 of each year until all principal is paid. As of March 31, 2017, the Series J Notes bore interest at an effective rate of 2.3%.

Debt Issuance Costs

Unamortized debt issuance costs associated with the Notes of $1,896 as of March 31, 2017 and $2,091 as of September 30, 2016 were recorded as a reduction in “Long-term debt, less current portion” in the Condensed Consolidated Balance Sheets. Unamortized debt issuance costs of $2,697 associated with the Revolving Credit Agreement as of March 31, 2017 and $3,134 as of September 30, 2016 were recorded as “Other assets” in the Condensed Consolidated Balance Sheets. Amortization of debt issuance costs is included in operating activities in the Condensed Consolidated Statements of Cash Flows.

Note 14. Accrued liabilities

	March 31, 2017	September 30, 2016
Salaries and other member benefits	$ 37,947	$ 87,197
Warranties	15,041	15,993
Interest payable	9,091	9,071
Current portion of acquired performance obligations and unfavorable contracts (1)	2,393	2,910
Accrued retirement benefits	2,503	2,505
Current portion of loss reserve on contractual lease commitments	1,840	1,840
Current portion of deferred income from JV formation (Note 4)	6,352	6,552
Deferred revenues	5,385	5,779
Taxes, other than income	13,890	14,580
Other	11,536	10,200
	$ 105,978	$ 156,627

(1) In connection with Woodward's acquisition of GE Aviation Systems LLC's (the "Seller") thrust reverser actuation systems business located in Duarte, California (the "Duarte Acquisition") in fiscal year 2013, Woodward assumed current and long-term performance obligations for contractual commitments that are expected to result in future economic losses. In addition, Woodward assumed current and long-term performance obligations for services to be provided to the Seller and others, partially offset by current and long-term assets related to contractual payments due from the Seller. The current portion of both obligations is included in Accrued liabilities.

Warranties

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

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Warranties, beginning of period	$ 15,528	$ 13,370	$ 15,993	$ 13,741
Expense, net of recoveries	2,139	3,175	4,062	6,411
Reductions for settling warranties	(2,750)	(1,274)	(4,782)	(4,743)

Foreign currency exchange rate changes	124	282	(232)	144
Warranties, end of period	$ 15,041	$ 15,553	$ 15,041	$ 15,553

Loss reserve on contractual lease commitments

In connection with the construction of a new production facility in Niles, Illinois, Woodward vacated a leased facility in Skokie, Illinois. During the first quarter of fiscal year 2016 Woodward fully vacated the Skokie facility and therefore recorded a charge of $8,165 to recognize a loss reserve against the estimated remaining contractual lease commitments, less anticipated sublease income.

The summary for the activity in the loss reserve during the three and six-months ended March 31, 2017 and March 31, 2016 is as follows:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Loss reserve on contractual lease commitments, beginning of period	$ 8,840	$ 10,629	$ 9,242	$ 2,464
Additions	-	-	-	8,165
Payments	(445)	(857)	(847)	(857)
Loss reserve on contractual lease commitments, end of period	$ 8,395	$ 9,772	$ 8,395	$ 9,772

Other liabilities included $6,555 of accrued loss reserve on contractual lease commitments that are not expected to be settled or paid within twelve months as of March 31, 2017.

Note 15. Other liabilities

	March 31, 2017		September 30, 2016	
Net accrued retirement benefits, less amounts recognized within accrued liabilities	$	69,858	$	70,479
Noncurrent portion of deferred income from JV formation (1)		240,153		238,187
Total unrecognized tax benefits, net of offsetting adjustments		12,840		17,239
Acquired unfavorable contracts (2)		3,081		3,148
Deferred economic incentives (3)		15,306		16,196
Loss reserve on contractual lease commitments (4)		6,555		7,402
Other		12,073		15,573

$	359,866	$	368,224

(1) See Note 4, Joint venture for more information on the deferred income from JV formation.
(2) In connection with the Duarte Acquisition in fiscal year 2013, Woodward assumed current and long-term performance obligations for contractual commitments that are expected to result in future economic losses. The long-term portion of the acquired unfavorable contracts is included in Other liabilities.
(3) Woodward receives certain economic incentives from various state and local authorities related to capital expansion projects. Such amounts are initially recorded as deferred credits and are being recognized as a reduction to pre-tax expense over the economic lives of the related capital expansion projects.
(4) See Note 14, Accrued liabilities for more information on the loss reserve on contractual lease commitments.

Note 16. Other (income) expense, net

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Equity interest in the earnings of the JV (Note 4)	$ (382)	$ (2,158)	$ (1,066)	$ (2,158)
Net (gain) loss on sales of assets	37	1	(3,662)	(1,601)
Rent income	(70)	(83)	(143)	(184)
Net (gain) loss on investments in deferred compensation program	(705)	(130)	(729)	(434)
Other	(195)	(57)	(303)	(59)
	$ (1,315)	$ (2,427)	$ (5,903)	$ (4,436)

Note 17. Income taxes

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

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

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

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

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

On December 7, 2016, the U.S. Treasury Department issued regulations under Internal Revenue Code Section 987 ("Section 987 Regulations") which clarify how companies calculate foreign currency translation gains and losses for income tax purposes for branches whose accounting records are kept in a currency other than the currency of the company. The issuance of these Section 987 Regulations had no significant impact on Woodward's Condensed Consolidated Financial Statements for the six months ended March 31, 2017.

The following table sets forth the tax expense and the effective tax rate for Woodward's earnings before income taxes:

	Three-Months Ended March 31,		Six-Months Ended March 31,	
	2017	2016	2017	2016
Earnings before income taxes	$ 50,236	$ 54,366	$ 97,295	$ 82,322
Income tax expense	12,131	13,542	12,642	15,678
Effective tax rate	24.1%	24.9%	13.0%	19.0%

The decrease in the year-over-year effective tax rate for the second quarter of fiscal year 2017 is primarily attributable to a larger favorable adjustment for the net excess income tax benefits from stock-based compensation and favorable changes to state apportionment in the current quarter. These decreases in the year-over-year effective tax rate were partially offset by smaller net favorable resolutions of tax matters in the current quarter compared to the prior year quarter and the release of foreign valuation allowances in the second quarter of fiscal year 2016 that did not repeat in the current quarter.

The decrease in the year-over-year effective tax rate for the six-months ended March 31, 2017 is primarily attributable to the impact of the repatriation to the U.S. of certain net foreign profits and losses in the first quarter of fiscal year 2017 and a larger favorable adjustment for the net excess income tax benefit from stock-based compensation in the current fiscal year. This combined decrease was partially offset by the retroactive benefit of the U.S. research and experimentation credit pursuant to the December 18, 2015 enactment of the Protecting Americans from Tax Hikes Act of 2015, which was included in the effective tax rate for the first quarter of fiscal year 2016 but did not repeat in the first quarter of fiscal year 2017.

Gross unrecognized tax benefits were $18,747 as of March 31, 2017, and $23,526 as of September 30, 2016. Included in the balance of unrecognized tax benefits were $11,618 as of March 31, 2017 and $11,426 as of September 30, 2016 of tax benefits that, if recognized, would affect the effective tax rate. At this time, Woodward estimates that it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as $3,702 in the next twelve months due to the completion of reviews by tax authorities, lapses of statutes, and the settlement of tax positions. Woodward accrues for potential interest and penalties related to unrecognized tax benefits and all other interest and penalties related to tax payments in tax expense. Woodward had accrued gross interest and penalties of $1,679 as of March 31, 2017 and $1,273 as of September 30, 2016.

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. Fiscal years remaining open to examination in significant foreign jurisdictions include 2008 and thereafter. Woodward's fiscal years remaining open to examination in the United States include fiscal years 2013 and thereafter. Woodward is currently under examination by the Internal Revenue Service for fiscal year 2014. 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 the periods thereafter.

Note 18. Retirement benefits

Woodward provides various retirement benefits to eligible members of the Company, including contributions to various defined contribution plans, pension benefits associated with defined benefit plans, postretirement medical benefits and postretirement life insurance benefits. Eligibility requirements and benefit levels vary depending on employee location.

Defined contribution plans

Most of the Company's U.S. employees are eligible to participate in the U.S. defined contribution plan. The U.S. defined contribution plan allows employees to defer part of their annual income for income tax purposes into their personal 401(k) accounts. The Company makes matching contributions to eligible employee accounts, which are also deferred for employee personal income tax purposes. Certain foreign employees are also eligible to participate in foreign plans.

Most of Woodward's U.S. employees with at least two years of service receive an annual contribution of Woodward stock, equal to 5% of their eligible prior year wages, to their personal Woodward Retirement Savings Plan accounts. In the second quarter of fiscal years 2017 and 2016, Woodward fulfilled its annual Woodward stock contribution obligation using shares held in treasury stock by issuing a total of 199 shares of common stock for a value of $14,014 in fiscal year 2017, and 317 total shares of common stock for a value of $13,999 in fiscal year 2016.

The amount of expense associated with defined contribution plans was as follows: