WOODWARD GOVERNOR CO
Form 10-K
November 20, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the transition period from – – to – –

Commission file number 0-8408

WOODWARD GOVERNOR COMPANY
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code:

(970) 482-5811

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 **þ** No **o**

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 **o** No **þ**

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

Indicate by check mark 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. **o**

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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, 2008 as reported on The NASDAQ Global Select Market on that date: $1,550,848,000. 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 Governor Company Charitable Trust, as of March 31, 2008, 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 17, 2008: 67,789,021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for the 2008 Annual Meeting of Stockholders to be held January 22, 2009, 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 Statement

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, forecasts, intend, contin project, target, can, could, may, should, will, would, variations of such words, and similar expressions identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characteristics of future events or circumstances are forward-looking statements. Forward-looking statements may include, among others, statements relating to:

- *Future sales, earnings, cash flow, uses of cash, and other measures of financial performance;*
- *Description of our plans and expectations for future operations;*
- *The effect of economic downturns or growth in particular regions;*
- *The effect of changes in the level of activity in particular industries or markets;*
- *The availability and cost of materials, components, services, and supplies;*
- *The scope, nature, or impact of acquisition activity and integration into our businesses;*
- *The development, production, and support of advanced technologies and new products and services;*
- *New business opportunities;*
- *Restructuring costs and savings;*
- *The outcome of contingencies;*
- *Future repurchases of common stock;*
- *Future levels of indebtedness and capital spending; and*
- *Pension plan assumptions and future contributions.*

Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including:

- *A decline in business with our significant customers;*

Our ability to forecast future sales and earnings;

The recent instability of the credit markets and other adverse economic and industry conditions;

Fines or sanctions resulting from the outcome of the investigation by the U.S. Department of Justice (the DOJ) regarding certain pricing practices of MPC Products Corporation, one of our wholly-owned subsidiaries prior to 2006;

Our ability to successfully manage competitive factors, including prices, promotional incentives, industry consolidation, and commodity and other input cost increases;

Our ability to reduce our expenses in proportion to any sales shortfalls;

The ability of our suppliers to provide us with materials of sufficient quality or quantity required to meet our production needs at favorable prices or at all;

The success of or expenses associated with our product development activities;

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Our ability to integrate acquisitions and costs related thereto;

Our ability to operate our business and pursue business strategies in the light of certain restrictive covenants in our outstanding debt documents;

Future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets;

Changes in domestic or international tax statutes and future subsidiary results;

Environmental liabilities related to manufacturing activities;

Our continued access to a stable workforce and favorable labor relations with our employees;

Our ability to successfully manage regulatory, tax and legal matters (including product liability, patent and intellectual property matters);and

Risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates.

These factors are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed or forecast in our forward-looking statements. Other factors are discussed under Risk Factors in our SEC filings are incorporated by reference.

Therefore, actual results could differ materially and adversely from those expressed in any forward-looking statements. For additional information regarding factors that may affect our actual financial condition and results of operations, see the information under the caption Item 1A. Risk Factors beginning on page 8 of this Annual Report on Form 10-K for the year ended September 30, 2008. We undertake no obligation to revise or update any forward-looking statements for any reason.

Item 1. *Business*

General

Woodward Governor Company (Woodward, the Company, we, our, or us) designs, manufactures, and services e control systems and components for commercial and military aircraft, turbines, reciprocating engines, and electrical power system equipment. Our innovative fluid energy, combustion control, electrical energy, and motion control systems help customers offer cleaner, more reliable, and more cost-effective equipment. Leading original equipment manufacturers use our products and services in aerospace, power and process industries, and transportation.

Our strategic focus is Energy Control and Optimization Solutions. The control of energy fluid energy, combustion, electrical energy, and motion is a growing requirement in the markets we serve. Our customers look to us to optimize the efficiency, emissions, and operations of power equipment. 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 OEMs and equipment packagers, partnering with them to bring superior component and system solutions to their demanding applications.

Woodward is headquartered in Fort Collins, Colorado, and serves global markets from locations worldwide. The mailing address for our headquarters is 1000 East Drake Road, Fort Collins, Colorado 80525. Our telephone at that location is (970) 482-5811, and our website is www.woodward.com.

Products and Services

Woodward strives to be the undisputed leader in the aerospace, power and process industries, and transportation markets that we serve. We help meet global needs for reliable, efficient, low-emission, and high-performance energy for diverse applications in challenging environments.

We remain focused on Energy Control and Optimization Solutions for aerospace, power and process industries, and transportation markets that we serve. We design systems that manage the energy of fluid movement,

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motion, and electricity. We also convert wind energy into reliable and safe electrical power through inverter systems.

We believe all of our business segments have a significant competitive position within their markets for components and integrated systems. We compete with several other manufacturers, including the in-house operations of certain original equipment manufacturers (OEMs). We believe our prices, technology, quality, and customer service are highly competitive.

Principal Lines of Business

Woodward operates in the following four business segments:

> **Turbine Systems** is focused on developing and manufacturing systems and components that provide energy control and optimization solutions for the aircraft and industrial gas turbine markets.
>
> **Engine Systems** is focused on developing and manufacturing systems and components that provide energy control and optimization solutions for the industrial engine and steam turbine markets, which include power generation, transportation, and process industries.
>
> **Electrical Power Systems** is focused on developing and manufacturing systems and components that provide power sensing and energy control systems that improve the security, quality, reliability, and availability of electrical power networks for industrial markets, which include power generation, power distribution, transportation, and process industries.
>
> **Airframe Systems** was added October 1, 2008 upon Woodward s acquisition of all of the outstanding shares of stock of Techni-Core, Inc. (Techni-Core) and all of the outstanding shares of stock of MPC Products Corporation (MPC Products and, together with Techni-Core, MPC). MPC is the leader in the manufacture of high-performance electromechanical motion control systems primarily for aerospace applications. Their core competencies in sensing, motors, actuation systems, and electronics will also be applied to Woodward s aircraft turbine market, industrial turbine market, as well as other industrial markets.

Information about our operations in 2008 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 segment information and certain geographical information are included in Note 20 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data. Additional information about Airframe Systems and the acquisition is included in Note 22 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data. Other information about our business follows.

Turbine Systems

We provide integrated control systems and control components such as electronics, actuators, valves, fuel systems, and combustion systems through the Turbine Systems segment to OEMs that manufacture gas turbines for use in aerospace and industrial power markets. We also sell components as spares or replacements and provide repair and overhaul services to these and other customers.

We primarily sell Turbine Systems products and services directly to manufacturers, although we also generate some aftermarket sales through distributors, dealers, and independent service facilities.

In fiscal 2008, customers exceeding 10% of net external sales in the Turbine Systems segment were General Electric Company (approximately 35%), United Technologies (approximately 16%), and the U.S. government (approximately

10%).

Engine Systems

We provide integrated control systems and control components, such as electronics, actuators, valves, pumps, injectors, and ignition systems through the Engine Systems segment primarily to OEMs that manufacture diesel engines, gas engines, steam turbines, and distributors for use in power generation, marine, transportation, and

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process applications. We also sell components as spares or replacements and provide repair and overhaul services to OEM customers and equipment operators.

We primarily sell Engine Systems products and services directly to our OEM customers. We also sell through our global channel partners (distributors, dealers, and independent service facilities) to support our OEMs customers and end users.

In fiscal 2008, Caterpillar exceeded 10% of net external sales in the Engine Systems segment, accounting for approximately 26% of Engine Systems net external sales.

Electrical Power Systems

We provide integrated control systems and electronic control and protection modules through the Electrical Power Systems segment primarily to OEMs that manufacture electrical power generation, distribution, conversion (predominantly wind power), and grid related quality equipment using digital controls and inverter technologies. Sales are made primarily to OEMs that manufacture generator sets, wind turbines, and switchgear equipment. We sell components as spares or replacements, and provide other related services to these OEM and other customers. We also provide repair and overhaul services to OEM customers and equipment operators as part of the wind power side of our business.

We generally sell Electrical Power Systems products and services directly to our OEM customers, although we also generate sales to end users through distributors. Our customers demand technological solutions to meet their needs for security, quality, reliability, and availability of electrical power networks.

In fiscal 2008, customers exceeding 10% of net external sales in the Electrical Power Systems segment were REpower Systems AG (approximately 24%), Caterpillar (approximately 12%), and Ecotècnia (approximately 10%).

Airframe Systems

On October 1, 2008, we added a fourth business segment, Airframe Systems, upon the acquisition of MPC. Airframe Systems provides high-performance electromechanical motion control systems, including sensors, primarily for aerospace applications. The primary product lines include high performance electric motors and sensors, analog and digital control electronics, rotary and linear actuation systems, and flight deck and fly-by-wire systems for commercial and military aerospace programs. Sales are made primarily OEMs and to tier-one prime contractors. Additional information about Airframe Systems and the acquisition is included in Note 22 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

Customers

Our customers include Caterpillar, Ecotècnia, General Electric, REpower Systems AG, Rolls Royce, the U.S. government, and United Technologies.

Two customers individually accounted for more than 10% of consolidated net sales in each of the years ended September 30, 2008, 2007, and 2006. Sales to General Electric were made by all of our segments and totaled approximately 17% in fiscal 2008, approximately 20% in fiscal 2007, and approximately 22% in fiscal 2006. Sales to Caterpillar were made by all of our segments and net sales totaled approximately 10% in fiscal 2008, approximately 10% in fiscal 2007, and approximately 11% in fiscal 2006.

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Backlog

Our backlog as of October 31, 2008 and 2007 by segment was as follows (in thousands):

	October 31, 2008	% Expected to be Filled by September 30, 2009	October 31, 2007
Turbine Systems	$ 165,413	82%	$ 150,000
Engine Systems	107,953	92	103,895
Electrical Power Systems	100,856	55	104,063
Airframe Systems	1,789	52	N/A
	$ 376,011	77%	$ 357,958

Turbine System s backlog at October 31, 2007 is estimated. In previous years, our disclosure of Turbine Systems reported backlog included forecasts of certain sales associated with customer agreements in addition to firm sales orders. Our current estimate of the backlog is based on typically assumed relationships between the timing of firm orders and subsequent sales. Backlog orders are not necessarily an indicator of future sales levels because of variations in lead times and customer production demand pull systems.

Seasonality

We do not believe sales are subject to significant seasonal variation.

Government Contracts and Regulation

Our businesses are heavily regulated in many of our fields of endeavor. We deal 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. Similar government authorities exist with respect to our international efforts.

The U.S. government, and other governments, may terminate any of our government contracts (and, in general, subcontracts) 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 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 certification and disclosure of all cost or pricing data in connection with certain contract negotiations;

impose specific and unique cost accounting practices that may differ from accounting principles generally accepted in the U.S. (U.S. GAAP) and therefore require reconciliation;

impose acquisition regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. government contracts; and

restrict the use and dissemination of information classified for national security purposes and the export of certain products and technical data.

Research and Development

We conduct research and development activities under customer-funded contracts and with our own independent research and development funds. Our research and development costs include basic research, applied research, development, systems and other concept formulation studies, and bid and proposal efforts related to government products and services. Costs related to customer-funded contracts are generally allocated among all contracts and programs in progress based on the contractual arrangements. Company-sponsored product development costs not otherwise allocable are charged to expenses when incurred. Under certain arrangements in which a customer shares in product development costs, our portion of the unreimbursed costs is generally expensed as incurred. Across all our segments, total research and development costs, including costs related to bid and proposal efforts, totaled $73.4 million in fiscal 2008, $65.3 million in fiscal 2007, and $60.0 million in fiscal 2006. See Research and development costs in Note 1 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

Manufacturing

For our segments, our products consist of mechanical, electronic, and electromagnetic components. Mechanical components are machined primarily from aluminum, iron, and steel. Generally there are numerous sources for the raw materials and components used in our products, and they are believed to be sufficiently available to meet expected requirements. We carry certain finished goods and component parts inventory to meet rapid delivery requirements of customers, primarily for aftermarket needs.

Employees

As of October 31, 2008, we employed 5,823 full-time employees of which 1,626 were located outside of the U.S. We consider the relationships with our employees to be positive.

Approximately 1,285 joined Woodward in connection with the acquisition of MPC and 75 employees in connection with the acquisition of MotoTron Corporation (MotoTron) in October 2008. Additional information about our acquisitions is included in Note 22 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

In the U.S., as of October 31, 2008, all of our employees are at-will employees, except certain MPC employees who are not executive officers of Woodward and either had pre-existing employment agreements with MPC prior to the MPC acquisition or were members of the MPC Employees Representative Union. Our at-will employees are not subject to any type of employment contract or agreement. Our Chief Executive Officer and President and our Chief Financial Officer and Treasurer each have a Change in Control Transition Agreement.

Outside of the U.S., 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

Products for our segments make use of several patents and trademarks of various durations that we believe are collectively important. However, we do not consider any one patent or trademark material to our business.

Executive Officers of the Registrant

Set forth below is certain information with respect to the current executive officers. There are no family relationships between any of the executive officers listed below.

Thomas A. Gendron, Age 47. Chairman of the Board since January 2008; Chief Executive Officer, President, and Director since July 2005; Chief Operating Officer and President from 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 54. 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

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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 51. Group Vice President, Turbine Systems since September 2007; 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.

Dennis Benning, Age 67. Group Vice President, Airframe Systems since October 2008; Group Vice President, Engine Systems September 2007 through September 2008; Vice President, Center of Excellence Industrial Controls December 2002 through August 2007; General Manager, Center of Excellence Industrial Controls July 2002 through November 2002; Director of Operations, Aircraft Engine Systems January 2002 through June 2002.

Gerhard Lauffer, Age 47. Group Vice President, Electrical Power Systems since September 2007; Vice President and General Manager Electronic Controls March 2002 through August 2007; Managing Director Leonhard-Reglerbau GmbH 1991 through March 2002 when it was acquired by Woodward.

Chad Preiss, Age 43. Group Vice President, Engine Systems since October 2008; 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.

A. Christopher Fawzy, Age 39. Vice President, General Counsel and Corporate Secretary since June 2007. 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.

Information available on Woodward s Website

Through a link on the Investor Information section of our Website, we make available the following filings as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission (SEC): our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Stockholders may obtain, without charge, a single copy of Woodward s 2008 Annual Report on Form 10-K upon written request to the Corporate Secretary, Woodward Governor Company, 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 our significant customers could decrease our consolidated net sales and have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We have fewer customers than many other companies with similar sales volumes. For the year ended September 30, 2008, approximately 43% of our consolidated net sales were made to our five largest customers. Sales to our five largest customers represented approximately 47% of our consolidated net sales for the year ended September 30, 2007. Two of those customers individually accounted for more than 10% of consolidated net sales in each of the years ended September 30, 2008, 2007, and 2006. Turbine Systems, Engine Systems, and Electrical Power Systems made sales to General Electric Company, and those sales totaled approximately 17% in fiscal 2008, approximately 20% in fiscal 2007, and approximately 22% in fiscal 2006 of our consolidated net sales. Turbine Systems, Engine Systems, and Electrical Power Systems also made sales to Caterpillar Inc. and those sales totaled approximately 10% in fiscal 2008, approximately 10% in fiscal 2007, and approximately 11% in fiscal 2006 of our consolidated net sales. If any of our significant customers were to change suppliers, in-source production, experience difficulties in the markets in which they participate, or otherwise reduce purchases from us, our consolidated net sales could decrease significantly, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our future sales and earnings could vary materially from our projections.

Our sales forecast is based on management s best estimate of various factors and information deemed relevant, including, among others, customer and third-party forecasts of sales volumes and purchase requirements in our markets. Each of these factors is subjective and could be overstated. In addition, general business and economic conditions and industry-specific business and economic conditions, including a continuation of the current economic slowdown or further deterioration of economic conditions in the U.S. and internationally, could result in sales that are lower than forecast. Accordingly, our ability to forecast the timing and amount of specific sales is limited, and our future sales and earnings could vary materially from our projections. The difficulty in forecasting demand increases the challenge in anticipating 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.

The recent instability of the financial markets and adverse economic conditions could have a material adverse effect on the ability of our customers to perform their obligations to us and on demand for our products and services.

Recently, there has been widespread concern over the instability of the financial markets and their influence on the global economy. As a result of the credit market crisis and other economic challenges currently affecting the global economy, our current or potential future customers may experience serious cash flow problems and as a result, may modify, delay, or cancel plans to purchase our products. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Any inability of current and/or potential customers to pay us for our products may adversely affect our earnings and cash flows.

In addition, demand for our products and services is significantly affected by the general economic environment. During periods of slowing economic activity, such as the recent tightening of the credit markets, a global slowdown in spending on infrastructure development may occur in the markets in which we operate, and customers may reduce their purchases of our products and services. As a result, any significant economic downturn, including the current economic downturn and the adverse conditions in the credit markets, could have a material adverse effect on customer demand.

There can be no assurance that the current economic slowdown or further deterioration of economic conditions in the U.S. as well as internationally will not have a material adverse effect our business, financial condition, results of operations, and cash flows.

If funding is not available to us when needed, or is available only on unfavorable terms, we may be unable to implement our business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to competitive pressures.

Global financial markets and economic conditions have been, and continue to be, disrupted and volatile. The debt and equity capital markets have been distressed. These issues, along with significant write-offs in the financial services sector, the repricing of credit risk, and the current weak economic conditions have made, and will likely continue to make, it difficult to obtain funding. 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 has generally increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at maturity either at all or on terms similar to our current debt and reduced and, in some cases, ceased to provide funding to borrowers. Due to these factors, we cannot be certain that funding will be available if needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, we may be unable to implement our business plans, complete acquisitions, 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.

Many of our expenses may not be able to be reduced in proportion to a sales shortfall.

Some of our expenses are relatively fixed in relation to changes in sales volumes and are difficult to adjust in the short term. Some of these expenses are related to past capital expenditures or business acquisitions in the form of depreciation and amortization expense. Others are related to expenditures driven by levels of business activity other than the level of sales, including manufacturing overhead. As a result, we might be unable to reduce expenses in a timely manner to compensate for a reduction in sales, which 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. We may experience an increase in costs for parts or materials that we source from our suppliers, or we may experience a shortage of materials for various reasons, such as the loss of a significant supplier, high overall demand creating shortages in parts and supplies we use, or financial distress, work stoppages, natural disasters, or production difficulties that may affect one or more of our suppliers. 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, 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. 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.

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 may 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, and substantially impair our ability to compete for future contracts and orders, and we may not be able 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.

Our product development activities may not be successful or may be more costly than currently anticipated.

Our business involves a significant level of product development activities, generally in connection with our customers own 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 will require continued investment in research and development. During an economic downturn, including the current one, 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. If these activities are not as successful as currently anticipated, or if they are more costly than currently anticipated, future sales 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.

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

We completed two business acquisitions in October 2008, and we may acquire other businesses in the future. The success of these transactions will depend, among other things, on our ability to integrate assets and personnel acquired in these transactions and to apply our internal controls processes 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. Furthermore, we may not realize the degree or timing of benefits we anticipate when we first enter into a transaction. If actual integration costs are higher than amounts assumed or we are unable to integrate the assets and personnel acquired in an acquisition as anticipated, or if we are unable to fully benefit from anticipated synergies, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

Certain restrictive covenants limit our ability to operate our business and to pursue our business strategies, and if we fail to comply with these covenants, it could result in an acceleration of payments for our outstanding indebtedness.

Our existing term loan credit agreement, revolving credit agreement, and note purchase agreements governing our outstanding senior notes contain covenants that limit or restrict our ability to finance future operations or capital needs, to respond to changing business and economic conditions, or to engage in other transactions or business activities that may impact our growth or otherwise be important to us. These agreements limit or restrict, among other things, 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 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.

The agreements also impose financial covenants on us and our subsidiaries that require us to maintain certain leverage ratios and minimum levels of consolidated net worth. In addition, 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. Our ability to comply with these provisions may be affected by events beyond our control.

Any breach of these covenants could cause a default under these agreements and other debt, which could restrict our ability to borrow under the revolving credit agreement. If there were an event of default under certain provisions of our debt instruments that was not cured or waived, the holders of the defaulted debt would 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 noteholders may be entitled to 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.

Changes in the estimates of fair value of reporting units or of long-lived assets 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. We test goodwill for impairment at least annually, and more often if circumstances require. 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 value 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.

Future subsidiary results or changes in domestic or international tax statutes may change the amount of valuation allowances provided for deferred income tax assets.

We establish valuation allowances to reflect the estimated amount of deferred tax assets that might not be realized. The underlying analysis is performed for individual tax jurisdictions, generally at a subsidiary level. Future subsidiary results, actual or forecasted, as well as changes to the relevant tax statutes, could change the outcome of our analysis and change the amount of valuation allowances provided for deferred income tax assets, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

Manufacturing activities may result in future environmental liabilities.

We use hazardous materials and/or regulated materials in our manufacturing operations. We also own 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 U.S., 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 need to undertake future environmental remediation activities that could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

Competition for technical personnel in the industry 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. In addition, labor unrest at a customer facility can cause a reduction in demand or a deferral of orders. Any significant increases in labor costs, deterioration of employee relations, 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 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, operate without infringing upon the proprietary rights of others, and prevent others from infringing on our patents, trademarks, and other intellectual property rights. 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 U.S. If we infringe on the proprietary rights of others or if we are unable to sufficiently protect our proprietary rights, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

If third parties claim we are infringing their intellectual property rights, we could face significant litigation, indemnification, or licensing expenses or be prevented from marketing our products.

Our commercial success depends significantly on our ability to operate without infringing the patents and other proprietary rights of others. However, regardless of our intent, our current or future technologies may 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, which could have an adverse affect on our business, financial condition, results of operations, 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 risk of product liability and other tort claims. Both currently and in the past, we have had a number of 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 which may have a material adverse effect on our business, financial condition, and results of operations. 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. 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. If a product liability or other claim or series of claims, including class action claims, is brought against us for liabilities that are not covered by insurance or for which third-party indemnification is not available, such claim could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Fines or sanctions resulting from the investigation by the DOJ regarding MPC pricing policies could have a material adverse effect on Woodward.

MPC, one of our newly acquired subsidiaries, is subject to an investigation by the DOJ regarding certain of its pricing practices prior to 2006 related to government contracts. MPC and the U.S. Attorney for the Northern District of Illinois have reached a settlement in principle and are in the process of finalizing and obtaining approvals within the DOJ. Final disposition will be subject to acceptance and approval by the U.S. District Court. It is anticipated that any settlement of the matter would involve the payment of monetary fines and other amounts by MPC. MPC is also in the process of working with the U.S. Department of Defense to resolve any administrative matters that may arise out of the investigation. There can be no assurance as to the resolution of these matters. The purchase price for MPC reflects the amount agreed to in principle by MPC with the U.S. Attorney. Any resulting fines or other sanctions beyond this amount could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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 pending or threatened litigation or other legal proceedings regarding employment or other contractual matters arising in the ordinary course of business. We accrue for known individual matters that we believe are likely to 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, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Changes in the legal environment in which we operate may affect future sales and expenses.

We operate in a number of countries and are affected by a variety of laws and regulations, including foreign investment, employment, import, export, business acquisitions, environmental and taxation matters, land use rights, property, and other matters. Our ability to operate in these countries may be materially adversely affected by unexpected changes in such laws and regulations.

Operations and suppliers may be subject to physical and other risks that could disrupt production.

Our operations include principal facilities in China, Germany, Scotland, and Poland as well as the U.S. In addition, we operate sales and service facilities in Brazil, India, Japan, the Netherlands, and the United Kingdom. We also have suppliers for materials and parts inside and outside the U.S. Our operations and sources of supply could be disrupted by a natural disaster, war, political unrest, terrorist activity, public health concerns, or other unforeseen events, which could cause significant delays in the shipment of products and the provision of services and could cause the loss of sales and customers. 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.

We have significant investments in foreign entities and have significant sales and purchases in foreign denominated currencies creating exposure to foreign currency exchange rate fluctuations.

We have significant investments outside the U.S. Further, we have sales and purchases of raw materials and finished goods in foreign denominated currencies. Accordingly, we have exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. 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. Despite these measures, foreign currency rate fluctuations could have a material adverse effect on our international operations or on our business, financial condition, results of operations, and cash flows.

Changes in assumptions may increase the amount of retirement pension and healthcare benefit obligations and related expense.

Accounting for retirement pension and healthcare 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, and a net healthcare cost trend rate, 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. Significant increases in the amount of retirement pension and healthcare benefit obligations and related expense could have a material adverse affect on our business, financial condition, results of operations, and cash flows.

Industry Risks

Competitors may develop breakthrough technologies that are adopted by our customers.

Many of the components and systems we sell are used in harsh environments with stringent emissions standards. The technological expertise we have developed and maintained could become less valuable if a competitor were to develop a breakthrough technology that would allow them 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 product.

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.

Changes in competitor strategies may reduce the demand for our products.

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 adversely affect future sales, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Unforeseen events may occur that significantly reduce commercial airline travel.

Our Turbine Systems segment accounted for 46% of our external sales in 2008, with the majority of sales tied to commercial aviation. Certain events, such as the terrorist actions of 2001, have had a notable negative effect on passenger flight miles in the past and the airlines revenues. Currently, increases in fuel costs, high labor costs, and heightened competition from low cost carriers have adversely affected the financial condition of some commercial airlines. In addition, the current economic downturn has led to a general reduction in air travel, and any further deterioration of economic conditions in the U.S. and internationally could lead to additional reductions in air travel.

Market demand for our components and systems could be materially adversely affected by such reductions in commercial airline travel and commercial airlines financial difficulties, which could have a material adverse affect on our business, financial condition, results of operations, and cash flows.

Increasing emission standards that drive certain product sales may be eased or delayed.

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

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Natural gas prices may increase significantly and disproportionately to other sources of fuels used for power generation.

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 could decrease the use of our components and systems, which could have a material adverse affect on our business, financial condition, results of operations, and cash flows.

The U.S. government may reduce defense funding or the mix of programs to which such funding is allocated.

A portion of our sales of components and systems is to the U.S. government, primarily in the aerospace market. The level of U.S. defense spending is subject to periodic congressional appropriation actions, which 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 was to decrease, or there was a shift from certain aerospace programs to other programs, our sales could decrease, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Changes in foreign currency exchange rates or in interest rates may reduce the demand for our products.

A significant portion of our business is conducted in currencies other than the U.S. dollar which exposes us to movements in foreign currency exchange rates. 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 U.S. where we sell in dollars, and a weakened 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. Continued instability in the worldwide financial markets could impact our ability to effectively manage our foreign currency exchange rate fluctuation risk, which could negatively impact 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 changes over time. Stock markets in general have experienced significant price and volume volatility over the past year. The trading price of our common stock ranged from a low of $24.50 per share to a high of $48.62 per share in fiscal 2008. The market price and volume of trading of our common stock may continue to be subject to significant fluctuations due not only to general stock market conditions, but also to factors such as general conditions in the aerospace industry or a change in sentiment in the market regarding our operations or business prospects. As a result, the market price of our common stock may fluctuate or decline significantly in the future.

The typical 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.

We currently have approximately 68 million shares of common stock outstanding. While the level of trading activity will vary by day, the typical trading level represents only a small percentage of total shares of stock outstanding. As a result, a seller who a significant number of shares of stock in a short period of time could negatively affect our share price.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. *Properties*

Our principal plants are as follows:

United States

Fort Collins, Colorado Turbine Systems, Engine Systems, and Electrical Power Systems manufacturing, engineering, and corporate headquarters
Loveland, Colorado Turbine Systems and Engine Systems manufacturing and partially leased to a third party
Rockford, Illinois Turbine Systems manufacturing and engineering
Rockton, Illinois Turbine Systems manufacturing and repair and overhaul
Zeeland, Michigan Turbine Systems manufacturing and engineering
Greenville, South Carolina (leased) Turbine Systems manufacturing and engineering

Other Countries

Suzhou, Peoples Republic of China (leased) Engine Systems manufacturing
Aken, Germany (leased) Engine Systems manufacturing and engineering
Kempen, Germany Electrical Power Systems manufacturing and engineering
Stuttgart, Germany (leased) Electrical Power Systems manufacturing and engineering
Prestwick, Scotland, United Kingdom (leased) Turbine Systems repair and overhaul
Tianjin, Peoples Republic of China (leased) Engine Systems manufacturing
Krakow, Poland (leased) Electrical Power Systems manufacturing and engineering

In connection with the MPC acquisition, Woodward assumed leases on approximately 450,000 square feet of manufacturing and office space in Skokie and Niles, Illinois. In connection with the acquisition of MotoTron, Woodward assumed office leases in Ann Arbor, Michigan and Columbus, Indiana and established a lease for an office facility in Oshkosh, Wisconsin. Additional information about these acquisitions is included in Note 22 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

In addition to the principal plants listed above, we own or lease other facilities in Brazil, India, Japan, the Netherlands, and the United Kingdom which are used primarily for sales and service activities.

Our 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. However, with continuing advancements in manufacturing technology and operational improvements, we believe we can continue to increase production without significant capital expenditures for expansion, retooling, or acquisition of additional plants.

We anticipate growth in capacity in the following locations during fiscal 2009: Loveland, Colorado, Tianjin, China, and Krakow, Poland.

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Item 3. *Legal Proceedings*

We are currently involved in pending or threatened litigation or other legal proceedings regarding employment, product liability, and contractual matters arising from the normal course of business. We have accrued for individual matters that we believe are likely to result in a loss when ultimately resolved using estimates of the most likely amount of loss. There are also individual matters where management believes the likelihood of a loss when ultimately resolved is less than likely but more than remote, which were not accrued. While it is possible that there could be additional losses that have not been accrued, we currently believe the possible additional loss in the event of an unfavorable resolution of each matter is less than $10,000 in the aggregate.

Specifically, MPC, one of our newly acquired subsidiaries, is subject to an investigation by the DOJ regarding certain of its pricing practices related to government contracts prior to 2006. MPC and the U.S. Attorney for the Northern District of Illinois have reached a settlement in principle and are in the process of finalizing and obtaining approvals within the DOJ. Final disposition will be subject to acceptance and approval by the U.S. District Court. It is anticipated that any settlement of the matter would involve the payment of monetary fines and other amounts by MPC. MPC is also in the process of working with the U.S. Department of Defense to resolve any administrative matters that may arise out of the investigation. There can be no assurance as to the resolution of these matters. The purchase price for MPC reflects the amount agreed to in principle by MPC with the U.S. Attorney. Any resulting fines or other sanctions beyond this amount could have a material negative impact on Woodward.

We currently do not have any administrative or judicial proceedings arising under any Federal, State, or local provisions regulating the discharge of materials into the environment or primarily for the purpose of protecting the environment.

Woodward does not recognize contingencies that might result in a gain until such contingencies are resolved and the related amounts are realized.

In the event of a change in control of the Company, Woodward may be required to pay termination benefits to certain executive officers.

Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2008.

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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 at November 17, 2008, there were approximately 1,380 holders of record. Cash dividends were declared quarterly during 2008 and 2007. The amount of cash dividends per share and the high and low sales price per share for our common stock for each fiscal quarter in 2008 and 2007 are included in the Note 21 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

(a) Recent Sales of Unregistered Securities

Sales of common stock issued from treasury stock to one of the company s directors during the fourth quarter of 2008 consisted of the following (dollars in thousands):

	Total Shares Purchased	Consideration Received
July 1, 2008 through July 31, 2008	209	$ 9
August 1, 2008 through August 31, 2008		
September 1, 2008 through September 30, 2008		

The securities were sold in reliance upon the exemption contained in Section 4(2) of the Securities Act of 1933.

(b) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
			(Dollars in thousands)	
July 1, 2008 through July 31, 2008		$		$ 168,075
August 1, 2008 through August 31, 2008(2)		$		$ 168,075
	554	$ 43.30		$ 168,075

September 1, 2008 through
September 30, 2008(3)(4)

(1) During September 2007, the Board of Directors authorized a stock repurchase program of up to $200 million of our outstanding shares of common stock on the open market or privately negotiated transactions over a three-year period that will end in October 2010. During the first half of fiscal year 2008, $31,925 was spent from this allocated pool for repurchase of stock.

(2) Does not include 21,265 shares acquired as part of the exercise of stock options in August 2008.

(3) Does not include 2,677 shares acquired as part of the exercise of stock options in September 2008.

(4) We purchased 554 shares on the open market related to the reinvestment of dividends for shares of treasury stock held for deferred compensation in September 2008.

The information required by this item relating to securities authorized for issuance under equity plans is included under the caption Executive Compensation Equity Compensation Plan Information in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be held January 22, 2009 and is incorporated herein by reference.

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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 Annual Report.

		Year Ended September 30,			
	2008	2007	2006	2005	2004
	(In thousands except per share amounts)				
Net sales	$ 1,258,204	1,042,337	854,515	827,726	709,805
Net Earnings(1)(2)(4)	$ 121,880	98,157	69,900	55,971	31,382
Earnings per share(3):					
Basic	$ 1.80	1.43	1.02	0.82	0.46
Diluted	$ 1.75	1.39	0.99	0.80	0.45
Cash dividends per share	$ 0.235	0.215	0.200	0.175	0.160
Income taxes	$ 60,030	33,831	14,597	23,137	17,910
Interest expense	$ 3,834	4,527	5,089	5,814	5,332
Interest income	$ 2,120	3,604	2,750	2,159	1,095
Depreciation expense	$ 28,620	25,428	22,064	24,451	25,856
Amortization expense	$ 6,830	7,496	6,953	7,087	6,905
Capital expenditures	$ 41,099	31,984	31,713	26,615	18,698
Weighted-average shares outstanding:					
Basic shares outstanding	67,564	68,489	68,702	68,400	67,716
Diluted shares outstanding	69,560	70,487	70,382	70,254	69,390

		At September 30,			
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Working capital	$ 369,211	275,611	260,243	241,066	197,524
Total assets	$ 927,017	829,767	735,497	705,466	654,294
Long-term debt, less current portion	$ 33,337	45,150	58,379	72,942	88,452
Total debt	$ 48,928	66,586	73,515	95,787	95,241
Total liabilities	$ 297,389	285,336	256,808	272,997	268,433
Stockholders equity	$ 629,628	544,431	478,689	432,469	385,861
Full-time worker members	4,476	4,248	3,731	3,513	3,287
Registered stockholder members	1,358	1,229	1,442	1,448	1,529

Notes:

1. Net earnings for fiscal 2007 included two tax adjustments, a favorable resolution of issues with tax authorities resulting in a reduction of net tax expense of $13.3 million and a reduction in deferred tax assets resulting in a tax expense of $3.0 million due to a decrease in the German statutory income tax rate. These adjustments increased net earnings by $10.3 million, or $0.15 per basic share and $0.15 per diluted share.

2.

Net earnings for fiscal 2006 included a deferred tax asset valuation allowance change that increased net earnings by $13.7 million, or $0.20 per basic share and $0.19 per diluted share.

3. Per share amounts have been updated from amounts reported prior to February 1, 2008 to reflect the effect of a two-for-one stock split and prior to February 1, 2006 to reflect the effect of a three-for-one stock split.

4. Accounting for stock-based compensation changed to the fair value method from the intrinsic value method beginning in the first quarter of fiscal 2006, concurrent with the adoption on October 1, 2005 of Statement of Financial Accounting Standards 123R, Share-Based Payments. The following presents a reconciliation of reported net earnings and per share information to pro forma net earnings and per share information that would

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have been reported if the fair value method had been used to account for stock-based employee compensation in fiscal 2004 and fiscal 2005:

	Year Ended September 30, 2005	2004
	(In thousands except per share amounts)	
Reported net earnings	$ 55,971	$ 31,382
Stock based compensation expense using fair value method, net of tax	1,502	1,400
Pro forma net earnings	$ 54,469	$ 29,982
Reported net earnings per share:		
Basic	$ 0.82	$ 0.46
Diluted	$ 0.80	$ 0.45
Pro forma net earnings per share:		
Basic	$ 0.80	$ 0.44
Diluted	$ 0.78	$ 0.43

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

OVERVIEW

Woodward designs, manufactures, and services energy control systems and components for commercial and military aircraft, turbines, reciprocating engines, and electrical power system equipment. Our innovative fluid energy, combustion control, electrical energy, and motion control systems help customers offer cleaner, more reliable, and more cost-effective equipment. Leading original equipment manufacturers use our products and services in aerospace, power and process industries, and transportation.

Our strategic focus is Energy Control and Optimization Solutions. The control of energy fluid energy, combustion, electrical energy, and motion is a growing requirement in the markets we serve. Our customers look to us to optimize the efficiency, emissions, and operations of power equipment. 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 OEMs and equipment packagers, partnering with them to bring superior component and system solutions to their demanding applications.

We have three business segments Turbine Systems, Engine Systems, and Electrical Power Systems. Turbine Systems is focused on systems and components that provide energy control and optimization solutions for the aircraft and industrial gas turbine markets. Engine Systems is focused on systems and components that provide energy control and optimization solutions for the industrial engine and steam turbine markets, which include power generation, transportation, and process industries. Electrical Power Systems is focused on systems and components that provide power sensing and energy control systems to improve the security, quality, reliability, and availability of electrical power networks for industrial markets, which include power generation, power distribution, transportation, and process industries.

On October 1, 2008, we acquired MPC in a transaction valued at approximately $383 million. MPC is a privately-held company headquartered in Skokie, Illinois. MPC s products include high performance motors and sensors, analog and digital control electronics, rotary and linear actuation systems, and flight deck and fly-by-wire systems. MPC s products are used in both commercial and military aerospace programs. MPC s customer list includes airframers such as Boeing and Airbus, as well as tier-one suppliers, such as Raytheon and Honeywell. MPC will form our fourth business segment, Airframe Systems. This segment allows us to focus on the airframe applications of both MPC s and Woodward s technologies and products. We are also evaluating opportunities to leverage MPC s competencies into our traditional market niches. Additional information about Airframe Systems and the acquisition is included in Note 22 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

We use segment information internally to assess the performance of each segment and to make decisions on the allocation of resources.

Our sales have increased at an annual rate of 15% from fiscal 2004 to fiscal 2008. Our earnings have increased at an annual rate of 40% from fiscal 2004 to fiscal 2008. In 2008, we achieved record sales of $1.26 billion and our net earnings were $121.9 million. Our markets showed continued strength through fiscal 2008 and we were well positioned to capture the opportunities presented in each of our segments.

We took advantage of two continuing trends in our markets the increasing global need for both energy efficiency and emissions reductions, where our products meet customer expectations by providing superior performance. At September 30, 2008, our total assets were approximately $927.0 million, including $109.9 million in cash, and our total debt was approximately $48.9 million. As discussed in Note 22 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data, an aggregate $400.0 million of additional debt was issued on

October 1, 2008 and October 30, 2008, a substantial portion of which was used to finance the MPC acquisition. We are well positioned to fund expanded research and development and to explore other investment opportunities consistent with our focused strategies.

In the sections that follow, we are providing information to help you better understand our critical accounting estimates and market risks, our results of operations and financial condition, and the effects of recent accounting pronouncements.

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CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the U.S. (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 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The accounting positions described below are significantly affected by critical accounting estimates. Such accounting positions require significant judgments, assumptions, and estimates to be used in the preparation of the Consolidated Financial Statements, and actual results could differ materially from the amounts reported based on variability in factors affecting these estimates.

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 to it in this Management s Discussion and Analysis.

Inventory

Inventories are valued at the lower of cost or market, with cost being determined on a first-in, first-out basis. Customer-specific information and contractual terms are considered when evaluating lower of cost or market considerations. The carrying value of inventory as of September 30, 2008 was $208.3 million. If economic conditions 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 to levels considered necessary to fill expected orders in a reasonable time frame, which we believe mitigates our exposure to future inventory carrying cost adjustments.

Post-retirement benefits

The Company provides various benefits to certain employees through defined benefit plans and retirement healthcare 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. Changes in net periodic expense may occur in the future due to changes in these assumptions.

Estimates of the value of post-retirement benefit obligations, and related net periodic benefits expense, are dependent on actuarial assumptions including future interest rates, compensation rates, healthcare cost trends, and returns on defined benefit plan investments. Variances from our year end estimates for these variables could materially affect our recognized post-retirement 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 income and recognized into expense over a number of years. Significant changes in estimates could, however, materially affect the carrying amounts of projected benefit obligation liabilities, which could affect loan covenant compliance and future borrowing capacity. As of September 30, 2008, the projected benefit obligation of all of our post-retirement benefit plans was $101.1 million. In light of recent global economic instability, management considers the likelihood that such assumptions may change significantly in future periods to be greater than in recent years.

Reviews for impairment of goodwill

At September 30, 2008, we had $139.6 million of goodwill, or 15% of total assets. We test goodwill for impairment at least annually, during the second quarter, and whenever events occur or circumstances change that indicate there may be an impairment. These events or circumstances could include a significant adverse change in the business climate, poor indicators of operating performance, or a sale or disposition of a significant reporting unit.

We test goodwill for impairment at the reporting unit level. Our reporting units are our operating segments. Testing goodwill for impairment requires us to determine the amount of goodwill associated with reporting units, estimate fair values of those reporting units, and determine their carrying values. These processes are subjective and require significant estimates. These estimates include judgments about future cash flows that are dependent on internal forecasts, long-term growth rates, allocations of commonly shared assets, and estimates of weighted-average cost of capital used to discount future cash flows. Changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill.

Our impairment analysis is partially dependent upon future cash flow projections for our operating segments, discounted at appropriate interest rates. If future sales are significantly impacted by changes in the overall economy, negatively affecting future cash flows, or if interest rates change significantly from current levels, then the impairment assessment could be effected, which could materially impact our results of operations and financial position. Management believes that changes in future cash flows and/or interest rates of significant magnitude to result in a future impairment charge against goodwill recorded as of September 30, 2008 are unlikely.

Income taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdi