CUBIC CORP /DE/
Form 10-Q
December 14, 2012

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 Quarter Ended June 30, 2012

001-08931

Commission File Number

CUBIC CORPORATION

Exact Name of Registrant as Specified in its Charter

Delaware	**95-1678055**
State of Incorporation	IRS Employer Identification No.

9333 Balboa Avenue

San Diego, California 92123

Telephone (858) 277-6780

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, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No 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 (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Small Reporting Company o

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

As of November 30, 2012, registrant had only one class of common stock of which there were 26,736,307 shares outstanding (after deducting 8,945,300 shares held as treasury stock).

EXPLANATORY NOTE REGARDING RESTATEMENT

This Quarterly Report on Form 10-Q of Cubic Corporation (Company , we , and us) for the three- and nine-months ended June 30, 2012, includes restatement of the following previously filed consolidated financial statements and data (and related disclosures): (1) our Condensed Consolidated Balance Sheet as of September 30, 2011 and the Condensed Consolidated Statements of Income and Cash Flows for the three- and nine-months ended June 30, 2011; and (2) our management s discussion and analysis of financial condition and results of operations as of and for the three- and nine-month periods ended June 30, 2011, located in Part I Item 2 of this Form 10-Q. The restatement results from our review of revenue recognition practices. See Note 2, Restatement of Consolidated Financial Statements of the Notes to Condensed Consolidated Financial Statements in Part I Item 1 for a detailed discussion of the review and effect of the restatement.

Financial information included in the reports on Form 10-K, Form 10-Q and Form 8-K filed by us prior to July 31, 2012, and all earnings press releases and similar communications issued by us prior to July 31, 2012, should not be relied upon. The restatements are more fully described in our 2012 Annual Report on Form 10-K filed concurrently herewith.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(amounts in thousands, except per share data)

	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011 (As Restated)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011 (As Restated)
Net sales:				
Products	$ 498,829	$ 428,854	$ 189,743	$ 142,055
Services	522,979	523,706	175,654	180,732
	1,021,808	952,560	365,397	322,787
Costs and expenses:				
Products	338,564	296,090	118,431	101,486
Services	430,602	419,605	153,552	144,992
Selling, general and administrative	121,010	114,631	42,751	37,981
Research and development	21,395	17,807	8,427	6,281
Amortization of purchased intangibles	11,357	10,607	3,650	4,257
	922,928	858,740	326,811	294,997
Operating income	98,880	93,820	38,586	27,790
Other income (expense):				
Interest and dividend income	2,423	1,729	697	490
Interest expense	(899)	(1,155)	(221)	(374)
Other income (expense) - net	95	(462)	(950)	1,232
Income before income taxes	100,499	93,932	38,112	29,138
Income taxes	29,538	24,702	11,338	7,032
Net income	70,961	69,230	26,774	22,106
Less noncontrolling interest in income of VIE	149	261	53	56
Net income attributable to Cubic	$ 70,812	$ 68,969	$ 26,721	$ 22,050
Basic and diluted net income per common share	$ 2.65	$ 2.58	$ 1.00	$ 0.82
Dividends per common share	$ 0.12	$ 0.19	$	$
Average number of common shares outstanding	26,736	26,736	26,736	26,735

See accompanying notes.

CUBIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	June 30, 2012	September 30, 2011 (As Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 231,129	$ 329,148
Restricted cash	68,681	
Short-term investments		25,829
Accounts receivable - net	323,118	227,290
Recoverable income taxes	15,150	24,917
Inventories - net	49,622	38,359
Deferred income taxes and other current assets	16,708	30,563
Total current assets	704,408	676,106
Long-term contract receivables	22,850	23,700
Long-term capitalized contract costs	13,695	
Property, plant and equipment - net	56,166	48,467
Goodwill	146,597	146,355
Purchased intangibles - net	42,836	54,139
Other assets	20,135	17,757
	$ 1,006,687	$ 966,524
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 40,341	$ 43,984
Customer advances	127,190	134,316
Accrued compensation and other current liabilities	84,238	106,519
Income taxes payable	24,778	18,716
Current portion of long-term debt	4,545	4,541
Total current liabilities	281,092	308,076
Long-term debt	6,995	11,377
Other long-term liabilities	67,384	67,761
Shareholders equity:		
Common stock	12,574	12,574
Retained earnings	697,164	629,560
Accumulated other comprehensive loss	(22,340)	(26,493)
Treasury stock at cost	(36,078)	(36,078)
Shareholders equity attributable to Cubic	651,320	579,563
Noncontrolling interest in variable interest entity	(104)	(253)
Total shareholders equity	651,216	579,310
	$ 1,006,687	$ 966,524

See accompanying notes.

3

CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011 (As Restated)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011 (As Restated)
Operating Activities:				
Net income	$ 70,961	$ 69,230	$ 26,774	$ 22,106
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	17,140	16,246	5,843	6,160
Changes in operating assets and liabilities	(126,916)	9,176	(31,524)	23,758
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(38,815)	94,652	1,093	52,024
Investing Activities:				
Acquisitions, net of cash acquired		(126,825)		
Purchases of property, plant and equipment	(13,244)	(5,601)	(3,094)	(2,026)
Proceeds from sales or maturities of short-term investments	25,829	57,973	7,895	16,180
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	12,585	(74,453)	4,801	14,154
Financing Activities:				
Principal payments on long-term borrowings	(4,411)	(4,416)	(137)	(142)
Purchases of treasury stock		(4)		
Dividends paid	(3,208)	(5,080)		(5,080)
Change in restricted cash	(68,584)			
NET CASH USED IN FINANCING ACTIVITIES	(76,203)	(9,500)	(137)	(5,222)
Effect of exchange rates on cash	4,414	6,724	(5,394)	925
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(98,019)	17,423	363	61,881
Cash and cash equivalents at the beginning of the period	329,148	295,434	230,766	250,976
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 231,129	$ 312,857	$ 231,129	$ 312,857

See accompanying notes.

CUBIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

June 30, 2012

Note 1 Basis of Presentation

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

In our opinion, all adjustments necessary for a fair presentation of these financial statements have been included, and are of a normal and recurring nature as well as all adjustments discussed in Note 2, Restatement of Condensed Consolidated Financial Statements, considered necessary to fairly state the financial position of Cubic Corporation at June 30, 2012 and September 30, 2011; the results of its operations for the three- and nine-month periods ended June 30, 2012 and 2011; and its cash flows for the three- and nine-month periods ended June 30, 2012 and 2011. Operating results for the three- and nine- month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended September 30, 2012 filed concurrently herewith.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 Restatement of Condensed Consolidated Financial statements

We have restated our Condensed Consolidated Balance Sheet at September 30, 2011 and our Condensed Consolidated Statements of Income and Cash Flows for the three and nine-month periods ended June 30, 2011.

The cumulative adjustments to correct the errors in the consolidated financial statements for all periods prior to October 1, 2010 are recorded as adjustments to retained earnings and accumulated other comprehensive income (loss) at September 30, 2010, as shown in the table below. The cumulative effect of those adjustments increased previously reported retained earnings by $31.9 million and reduced previously reported accumulated other comprehensive income by $6.6 million at September 30, 2010.

The following tables present the summary impacts of the restatement adjustments on the Company s previously reported consolidated retained earnings at September 30, 2010 and consolidated net income for the three and nine months ended June 30, 2011 (in thousands):

Retained earnings at September 30, 2010 - As previously reported	$	521,567
Revenue Recognition Adjustments, net of taxes on revenue recognition adjustments		35,518
Other Adjustments		(3,633)
Retained earnings at September 30, 2010 - As restated	$	553,452

	For the Nine Months Ended June 30, 2011	For the Three Months Ended June 30, 2011
Net Income - As previously reported	$ 60,668	$ 20,814
Revenue Recognition Adjustments	10,166	1,246
Other Adjustments	(1,865)	(10)
Net Income - As restated	$ 68,969	$ 22,050

In the table above, we have separately identified the impact of errors related to revenue recognition, and related to other individually immaterial errors on net income. Descriptions of the restatement adjustments related to revenue recognition matters follow:

Revenue Recognition Adjustments

Historically, we recognized sales and profits for development contracts using the cost-to-cost percentage-of-completion method of accounting, modified by a formulary adjustment. Under the cost-to-cost percentage-of-completion method of accounting, sales and profits are based on the ratio of costs incurred to estimated total costs at completion. We have consistently applied a formulary adjustment to the percentage completion calculation for development contracts that had the effect of deferring a portion of the indicated revenue and profits on such contracts until later in the contract performance period. The cost-to-cost percentage-of-completion method as described in ASC 605-35 (formerly SOP 81-1) does not support the practice of using a formulary calculation to defer a portion of the indicated revenue and profits on such contracts. Instead, sales and profits should have been recognized based on the ratio of costs incurred to estimated total costs at completion, without using a formulary adjustment. As such, revenue has been restated for development contracts using the cost-to-cost percentage-of completion-method of accounting to eliminate the formulary adjustment.

We also evaluated the Company s long-standing practice of using the cost-to-cost percentage-of-completion method to recognize revenues for many of its service contracts. Under the accounting literature the cost-to-cost percentage of completion method is acceptable for U.S. government service contracts but not for service contracts with commercial customers or other governmental customers, whether domestic or foreign. As such, revenue has been restated for service contracts with non-U.S. government customers to record revenue generally on a straight-line basis. In addition, in some cases our contracts with non-U.S. government customers may also include multiple deliverables, including service deliverables. During the course of our revenue review we noted situations in which we did not historically identify the units of accounting in accordance with the appropriate authoritative guidance. For example, for certain contracts that we entered with a customer prior to the adoption of Accounting Standards Update 2010-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2010-13), to design and build a system for the customer and to operate and maintain the system for the customer after its delivery, we inappropriately separately accounted for the unit of accounting related to the designing and building of the system and the unit of accounting related to providing services for operating and maintaining the system without having vendor specific objective evidence, which was a requirement for separating units of accounting prior to the adoption of ASU 2010-13. In these cases, in connection with our restatement, we considered the multiple-element revenue recognition guidance in existence at the time that the transaction was entered into or materially modified and revenue was restated to recognize revenue based upon either the individual elements of the arrangement or the combined unit of accounting when the elements were not separable.

The company s historical policy has been to allocate and capitalize general and administrative (G&A) costs on its U.S. government units-of-delivery type contracts, as permitted by SOP 81-1 and the AICPA Audit and Accounting Guide for Federal Government Contractors. During our review of revenue recognition for the issues identified above it was determined that from fiscal 2007 through March of 2012, this policy was inconsistently applied so that G&A costs were not inventoried on certain U.S. government contracts in accordance with the policy. As such, inventory and cost of sales have been restated for these types of contracts with the U.S. government to include G&A costs in inventory until sales are recognized.

6

Historically the Company has allocated G&A costs to all of its contracts with the U.S. government and with other domestic or foreign governmental agencies. These costs were included in the calculation of percentage completion as well as the measurement of losses on contracts. SOP 81-1 generally does not permit G&A costs to be included as contract costs which are used to measure progress towards completion on percentage-of-completion contracts and to estimate losses, though it does include an exception for government contractors. The Company has historically considered itself to be a government contractor and followed this exception for virtually all of its contracts accounted for on a cost-to-cost percentage-of-completion basis. However, we now recognize that this exception was intended to apply only to contracts with the U.S. federal government and not to contracts with other governmental entities, such as governmental transit agencies and foreign governments. Consequently, for contracts with customers other than the U.S. federal government, revenue is being restated to reflect the impact of excluding general and administrative costs from the calculation of the percentage-of-completion and projected losses on long-term development projects.

We determined the amounts of the revenue recognition adjustments on a contract-by-contract basis and did not calculate or accumulate the errors by type of revenue error because certain errors are interrelated and the adjustments to many contracts were impacted by more than one of the types of revenue recognition error described above. The aggregate impact of these revenue adjustments and the related adjustments made to income tax expense as a result of the revenue recognition adjustments described above are included in the Revenue Recognition Adjustments columns in the following tables for the Consolidated Statements of Income.

Other Adjustments

In addition to the errors related to revenue recognition described above, we also made adjustments related to other individually immaterial errors including certain corrections that had been previously identified but not recorded because they were not material, individually or in the aggregate, to the Company s consolidated financial statements. These corrections included certain accrued liabilities, reserves and miscellaneous reclassification entries; entries to correct errors in the treatment of return-to-provision income tax reconciliation items; adjustments to various income tax accrual accounts; and adjustments related to the impact of exchange rates on our U.S. dollar denominated investments held by our wholly-owned subsidiary in the U.K., that has the British pound as its functional currency.

Reclassifications

In the first quarter of fiscal year 2012, we revised our method of categorizing sales and the related cost of sales between products and services. We reconsidered whether certain projects related predominantly to product or service sales. The Reclassifications column in the following tables includes the reclassifications of sales and cost of sales for products and services in the Condensed Consolidated Statements of Income in order to conform to the current year presentation, and to correct certain errors in classification of cost of sales between products and services. For both the nine and three month periods ended June 30, 2011 $8.9 million of costs were erroneously classified as product costs. As such, these costs were reclassified to service costs in the following tables.

Goodwill Impairment Assessment Date Disclosure Error

In our consolidated financial statements for the year ended September 30, 2011 and previous years we had disclosed that we evaluated goodwill for potential impairment annually as of June 30, or when circumstances indicate that the carrying value may not be recoverable. However, our annual goodwill impairment evaluation date is July 1 of each year rather than June 30. This was an error in disclosure only and had no impact on our assessment of goodwill impairment, our financial condition, results of operations or cash flows.

The following tables present the impact of the restatement on our previously issued unaudited Condensed Consolidated Balance Sheet as of September 30, 2011, and our Condensed Consolidated Statements of Income and Cash Flows for the three- and nine-month periods ended June 30, 2011:

	Condensed Consolidated Balance Sheet September 30, 2011		
	Previously Reported	Adjustments (in thousands)	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 329,148	$	$ 329,148
Short-term investments	25,829		25,829
Accounts receivable - net	223,984	3,306	227,290
Recoverable income taxes	20,725	4,192	24,917
Inventories	36,729	1,630	38,359
Deferred income taxes and other current assets	34,230	(3,667)	30,563
Total current assets	670,645	5,461	676,106
Long-term contract receivables	23,700		23,700
Property, plant and equipment - net	48,467		48,467
Goodwill	146,355		146,355
Purchased intangibles	54,139		54,139
Other assets	15,534	2,223	17,757
Total assets	$ 958,840	$ 7,684	$ 966,524
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Trade accounts payable	$ 38,870	$ 5,114	$ 43,984
Customer advances	183,845	(49,529)	134,316
Accrued compensation and other current liabilities	103,339	3,180	106,519
Income taxes payable	7,902	10,814	18,716
Current portion of long-term debt	4,541		4,541
Total current liabilities	338,497	(30,421)	308,076
Long-term debt	11,377		11,377
Other long-term liabilities	57,168	10,593	67,761
Shareholders equity:			
Common stock	12,574		12,574
Retained earnings	598,849	30,711	629,560
Accumulated other comprehensive loss	(23,294)	(3,199)	(26,493)
Treasury stock at cost	(36,078)		(36,078)
Shareholders equity attributable to Cubic	552,051	27,512	579,563
Noncontrolling interest in variable interest entity	(253)		(253)
Total shareholders equity	551,798	27,512	579,310
	$ 958,840	$ 7,684	$ 966,524

	Condensed Consolidated Statement of Income Nine Months Ended June 30, 2011 (amounts in thousands, except per share data)					Condensed Consolidated Statement of Income Three Months Ended June 30, 2011 (amounts in thousands, except per share data)				
	Previously Reported	Revenue Recognition Adjustments	Other Adjustments	Reclassifications	As Restated	Previously Reported	Revenue Recognition Adjustments	Other Adjustments	Reclassifications	As Restated
Net sales:										
Products	$ 441,162	$ (6,262)	$ (2,376)	$ (3,670)	$ 428,854	$ 148,441	$ (3,037)	$ 321	$ (3,670)	$ 142,055
Services	497,131	22,905		3,670	523,706	171,464	5,598		3,670	180,732
	938,293	16,643	(2,376)		952,560	319,905	2,561	321		322,787
Costs and expenses:										
Products	310,922	2,116	(1,931)	(15,017)	296,090	114,325	487	722	(14,048)	101,486
Services	405,688	690		13,227	419,605	131,424	341		13,227	144,992
Selling, general and administrative	111,238		1,603	1,790	114,631	36,831		329	821	37,981
Research and development	17,807				17,807	6,281				6,281
Amortization of purchased intangibles	10,607				10,607	4,257				4,257
	856,262	2,806	(328)		858,740	293,118	828	1,051		294,997
Operating income	82,031	13,837	(2,048)		93,820	26,787	1,733	(730)		27,790
Other income (expense):										
Interest and dividend income	1,729				1,729	490				490
Interest expense	(1,155)				(1,155)	(374)				(374)
Other income (expense) - net	524	(123)	(863)		(462)	767	(44)	509		1,232
Income before income taxes	83,129	13,714	(2,911)		93,932	27,670	1,689	(221)		29,138
Income taxes	22,200	3,548	(1,046)		24,702	6,800	443	(211)		7,032
Net income	60,929	10,166	(1,865)		69,230	20,870	1,246	(10)		22,106
Less noncontrolling interest in income of VIE	261				261	56				56
Net income attributable to Cubic	$ 60,668	$ 10,166	$ (1,865)	$	$ 68,969	$ 20,814	$ 1,246	$ (10)	$	$ 22,050
Basic and diluted net income per common share	$ 2.27	$ 0.38	$ (0.07)	$	$ 2.58	$ 0.78	$ 0.05	$	$	$ 0.82
Average number of common shares outstanding	26,736				26,736	26,736				26,736

	Condensed Consolidated Statement of Cash Flows Nine Months Ended June 30, 2011			Condensed Consolidated Statement of Cash Flows Three Months Ended June 30, 2011		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
Operating Activities:						
Net income	$ 60,929	$ 8,301	$ 69,230	$ 20,870	$ 1,236	$ 22,106
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	16,246		16,246	6,160		6,160
Changes in operating assets and liabilities	18,999	(9,823)	9,176	24,915	(1,157)	23,758
NET CASH PROVIDED BY OPERATING ACTIVITIES	96,174	(1,522)	94,652	51,945	79	52,024
Investing Activities:						