

CUBIC CORP /DE/
Form 10-Q
May 03, 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 March 31, 2012

001-08931

Commission File Number

CUBIC CORPORATION

Exact Name of Registrant as Specified in its Charter

Delaware
State of Incorporation

95-1678055
IRS Employer Identification No.

9333 Balboa Avenue
San Diego, California 92123
Telephone (858) 277-6780

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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 No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

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

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

Yes No

As of April 17, 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).

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(amounts in thousands, except per share data)

	Six Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
Net sales:				
Products	\$ 314,942	\$ 292,721	\$ 157,630	\$ 157,350
Services	344,799	325,667	183,364	176,618
	659,741	618,388	340,994	333,968
Costs and expenses:				
Products	221,430	196,597	106,679	106,510
Services	278,030	274,264	145,787	152,453
Selling, general and administrative	77,666	74,407	43,029	37,377
Research and development	12,968	11,526	8,072	5,271
Amortization of purchased intangibles	7,707	6,350	3,668	4,312
	597,801	563,144	307,235	305,923
Operating income	61,940	55,244	33,759	28,045
Other income (expense):				
Interest and dividend income	1,726	1,239	964	375
Interest expense	(678)	(781)	(331)	(374)
Other income (expense) - net	1,703	(243)	12	(16)
Income before income taxes	64,691	55,459	34,404	28,030
Income taxes	18,900	15,400	10,100	8,000
Net income	45,791	40,059	24,304	20,030
Less noncontrolling interest in income of VIE	96	205	51	84
Net income attributable to Cubic	\$ 45,695	\$ 39,854	\$ 24,253	\$ 19,946
Basic and diluted net income per common share	\$ 1.71	\$ 1.49	\$ 0.91	\$ 0.75
Dividends per common share	\$ 0.12	\$ 0.19	\$ 0.12	\$ 0.19
Average number of common shares outstanding	26,736	26,736	26,736	26,736

See accompanying notes.

CUBIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2012 (Unaudited)	September 30, 2011 (See note below)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 230,766	\$ 329,148
Restricted cash	68,584	
Short-term investments	7,895	25,829
Accounts receivable - net	292,704	223,984
Recoverable income taxes	12,392	20,725
Inventories - net	50,664	36,729
Deferred income taxes and other current assets	24,325	34,230
Total current assets	687,330	670,645
Long-term contract receivables	23,590	23,700
Property, plant and equipment - net	55,525	48,467
Goodwill	146,812	146,355
Purchased intangibles - net	46,493	54,139
Other assets	18,920	15,534
	\$ 978,670	\$ 958,840
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 41,126	\$ 38,870
Customer advances	168,670	183,845
Accrued compensation and other current liabilities	83,499	103,339
Income taxes payable	11,922	7,902
Current portion of long-term debt	4,556	4,541
Total current liabilities	309,773	338,497
Long-term debt	7,191	11,377
Other long-term liabilities	57,954	57,168
Shareholders' equity:		
Common stock	12,574	12,574
Retained earnings	641,336	598,849
Accumulated other comprehensive loss	(13,923)	(23,294)
Treasury stock at cost	(36,078)	(36,078)
Shareholders' equity related to Cubic	603,909	552,051
Noncontrolling interest in variable interest entity	(157)	(253)
Total shareholders' equity	603,752	551,798
	\$ 978,670	\$ 958,840

Note: The balance sheet at September 30, 2011 has been derived from the audited financial statements at that date.

See accompanying notes.

CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
Operating Activities:				
Net income	\$ 45,791	\$ 40,059	\$ 24,304	\$ 20,030
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	11,297	10,086	5,465	6,218
Changes in operating assets and liabilities	(97,027)	(5,916)	(31,334)	1,828
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(39,939)	44,229	(1,565)	28,076
Investing Activities:				
Acquisitions, net of cash acquired		(126,825)		(2,394)
Net additions to property, plant and equipment	(10,150)	(3,575)	(4,901)	(2,135)
Proceeds from maturities of short-term investments	17,934	41,793	10,977	10,867
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	7,784	(88,607)	6,076	6,338
Financing Activities:				
Principal payments on long-term borrowings	(4,274)	(4,274)	(138)	(137)
Purchases of treasury stock		(4)		
Dividends paid	(3,208)		(3,208)	
Change in restricted cash	(68,584)		(68,584)	
NET CASH USED IN FINANCING ACTIVITIES	(76,066)	(4,278)	(71,930)	(137)
Effect of exchange rates on cash	9,839	4,198	9,044	2,428
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(98,382)	(44,458)	(58,375)	36,705
Cash and cash equivalents at the beginning of the period	329,148	295,434	289,141	214,271
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 230,766	\$ 250,976	\$ 230,766	\$ 250,976

See accompanying notes.

CUBIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2012

Note 1 Basis for 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 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. As a result of this revision in categorization, for the three and six months ended March 31, 2011, \$10.8 million and \$23.4 million of sales and \$9.6 million and \$19.4 million of cost of sales, respectively, have been reclassified from products to services in the Condensed Consolidated Statements of Income in order to conform to the current year presentation.

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. Operating results for the three- and six- month periods ended March 31, 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, 2011.

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 Balance Sheet Details

The components of accounts receivable are as follows (in thousands):

**March 31,
2012**

**September 30,
2011**

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Trade and other receivables	\$	13,623	\$	20,259
Long-term contracts:				
Billed		87,000		89,056
Unbilled		216,341		138,764
Allowance for doubtful accounts		(670)		(395)
Total accounts receivable		316,294		247,684
Less estimated amounts not currently due		(23,590)		(23,700)
Current accounts receivable	\$	292,704	\$	223,984

Note 2 Balance Sheet Details - Continued

The amount classified as not currently due is an estimate of the amount of long-term contract accounts receivable that will not be collected within one year from March 31, 2012 under transportation systems contracts in the U.S., Australia and the U.K. The non-current balance at September 30, 2011 represented non-current amounts due from customers under transportation systems contracts in the same locations.

Inventories consist of the following (in thousands):

	March 31, 2012	September 30, 2011
Work in process and inventoried costs under long-term contracts	\$ 82,991	\$ 70,225
Customer advances	(33,378)	(34,582)
Raw material and purchased parts	1,051	1,086
Net inventories	\$ 50,664	\$ 36,729

At March 31, 2012, work in process and inventoried costs under long-term contracts includes approximately \$0.5 million in costs incurred outside the scope of work or in advance of a contract award, compared to \$1.2 million as of September 30, 2011. We believe it is probable that we will recover these costs, plus a profit margin, under contract change orders or awards within the next year.

Note 3 Comprehensive Income

Comprehensive income is as follows (in thousands):

	Six Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
Net income	\$ 45,791	\$ 40,059	\$ 24,304	\$ 20,030
Foreign currency translation adjustments	7,243	3,190	6,642	1,762
Net unrealized gain (loss) from cash flow hedges	2,128	(9,073)	3,288	(5,410)
Comprehensive income	\$ 55,162	\$ 34,176	\$ 34,234	\$ 16,382

Note 4 Fair Value of Financial Instruments

We carry financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities at cost, which we believe approximates fair value because of the short-term maturity of these instruments. Receivables consist primarily of amounts due from U.S. and foreign governments for defense products and local government agencies for transportation systems. Due to the nature of our customers, we generally do not require collateral. We have limited exposure to credit risk as we have historically collected substantially all of our receivables from government agencies.

The valuation techniques required for fair value accounting are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. The two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 - Significant inputs to the valuation model are unobservable.

The following table presents assets and liabilities measured and recorded at fair value on our Balance Sheet on a recurring basis (in thousands). The fair value of cash equivalents and short term investments approximates their cost. The fair value of tax exempt bonds are generally determined using standard observable inputs, including reported trades, quoted market prices, broker/dealer quotes, and issuer spreads. The maturities of tax exempt bonds are within the next year. Derivative financial instruments related to foreign currency forward contracts are measured at fair value, the material portions of which are based on active or inactive markets for identical or similar instruments or model-derived valuations whose inputs are observable. Where model-derived valuations are appropriate, the company uses the applicable credit spread as the discount rate. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for counterparties and through periodic settlements of positions.

	Level 1	March 31, 2012		Total
		Level 2		
Assets				
Cash equivalents - money market funds	\$ 205,862	\$	\$	205,862
Short-term investments - tax exempt bonds			7,895	7,895
Current derivative assets			2,197	2,197
Noncurrent derivative assets			3,041	3,041
Total assets	\$ 205,862	\$	13,133	\$ 218,995
Liabilities				
Current derivative liabilities	\$	\$	1,687	\$ 1,687
Noncurrent derivative liabilities			6,497	6,497
Net assets	\$ 205,862	\$	4,949	\$ 210,811

	Level 1	September 30, 2011		Total
		Level 2		
Assets				
Cash equivalents - money market funds	\$ 266,842	\$	\$	266,842
Short-term investments - tax exempt bonds			25,829	25,829
Current derivative assets			7,466	7,466
Total assets	\$ 266,842	\$	33,295	\$ 300,137
Liabilities				
Current derivative liabilities	\$	\$	7,522	\$ 7,522
Noncurrent derivative liabilities			6,164	6,164
Net assets	\$ 266,842	\$	19,609	\$ 286,451

Long-term debt is carried at amortized cost. The fair value of long-term debt is estimated by discounting the value of the note based on market interest rates for similar debt instruments, which is a Level 2 valuation technique. At March 31, 2012, the fair value of our long-term debt was estimated to be approximately \$12.9 million compared to a carrying value of \$11.7 million. At September 30, 2011, the fair value of our long-term debt was estimated to be approximately \$17.5 million compared to a carrying value of \$15.9 million.

Note 5 Financing Arrangements

We have a committed three-year revolving credit agreement with a group of financial institutions in the amount of \$150 million, expiring in December 2012. As of March 31, 2012, there were no borrowings under this agreement; however, there were letters of credit outstanding under the agreement totaling \$26.9 million, which reduce the available line of credit to \$123.1 million.

On January 12, 2012 we entered into an additional secured letter of credit facility agreement with a bank. At March 31, 2012 there were letters of credit outstanding under this agreement of \$62.2 million. In support of the facility, we placed \$68.6 million of our cash on deposit in the U.K. as collateral in a restricted account with the bank providing the facility. We are required to leave the cash in the restricted account so long as the bank continues to maintain associated letters of credit under the facility. The maximum amount of letters of credit currently allowed by the facility is \$66.6 million, and any increase above this amount would require bank approval and additional restricted funds to be placed on deposit. The initial term of the facility is one year; however we may choose at any time to terminate the facility and move the associated letters of credit to another credit facility.

Note 6 Pension Plans

The components of net periodic pension benefits costs are as follows (in thousands):

	Six Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
Service cost	\$ 254	\$ 406	\$ 128	\$ 205
Interest cost	4,788	4,622	2,404	2,291
Expected return on plan assets	(5,116)			