

CUBIC CORP /DE/
Form 10-Q/A
August 14, 2002

Table of Contents

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

FORM 10-Q/A

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended June 30, 2002

1-8931
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 No

As of July 19, 2002, Registrant had only one class of common stock of which there were 26,719,845 shares outstanding (after deducting 8,944,884 shares held as treasury stock).

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)

CONSOLIDATED CONDENSED BALANCE SHEETS

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

PART II OTHER INFORMATION

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

EXHIBIT 15

EXHIBIT 99.1

Table of Contents**PART I FINANCIAL INFORMATION**

ITEM 1 FINANCIAL STATEMENTS

CUBIC CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(amounts in thousands, except per share data)

| | Nine Months Ended June 30, | | Three Months Ended June 30, | |
|---|-------------------------------|------------------|--------------------------------|-----------------|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | |
| Sales: | \$410,578 | \$370,449 | \$148,208 | \$127,289 |
| Other income | 3,925 | 6,085 | 1,333 | 1,190 |
| | <u>414,503</u> | <u>376,534</u> | <u>149,541</u> | <u>128,479</u> |
| Costs and expenses: | | | | |
| Cost of sales | 314,883 | 287,194 | 114,439 | 99,160 |
| Selling, general and administrative expenses | 61,509 | 57,275 | 21,683 | 17,724 |
| Research and development | 6,687 | 6,722 | 1,797 | 2,542 |
| Interest | 2,664 | 2,685 | 894 | 929 |
| | <u>385,743</u> | <u>353,876</u> | <u>138,813</u> | <u>120,355</u> |
| Income before income taxes | 28,760 | 22,658 | 10,728 | 8,124 |
| Income taxes | 9,500 | 7,700 | 3,600 | 2,800 |
| Net income | <u>\$ 19,260</u> | <u>\$ 14,958</u> | <u>\$ 7,128</u> | <u>\$ 5,324</u> |
| Basic and diluted net income per common share | <u>\$ 0.72</u> | <u>\$ 0.56</u> | <u>\$ 0.27</u> | <u>\$ 0.20</u> |
| Dividends per common share | <u>\$ 0.063</u> | <u>\$ 0.063</u> | <u>\$</u> | <u>\$</u> |
| Average shares of common stock outstanding | <u>26,720</u> | <u>26,720</u> | <u>26,720</u> | <u>26,720</u> |

See accompanying notes.

Table of Contents

CUBIC CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands)

| | June 30, 2002 | September 30, 2001 |
|--|------------------|-----------------------|
| | (Unaudited) | (See note below) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 67,644 | \$ 76,837 |
| Marketable securities, available-for-sale | 512 | 584 |
| Accounts receivable | 161,029 | 141,516 |
| Inventories Note 3 | 37,727 | 30,386 |
| Deferred income taxes and other current assets | 24,240 | 26,783 |
| | | |
| Total current assets | 291,152 | 276,106 |
| | | |
| Property, plant and equipment net | 39,465 | 33,376 |
| Goodwill, less amortization | 19,500 | 18,927 |
| Other assets | 13,387 | 12,938 |
| | | |
| | \$363,504 | \$341,347 |
| | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 12,899 | \$ 11,889 |
| Customer advances | 26,198 | 30,479 |
| Other current liabilities | 46,364 | 42,205 |
| Income taxes payable | 8,581 | 10,321 |
| Current portion of long-term debt | 1,429 | |
| | | |
| Total current liabilities | 95,471 | 94,894 |
| | | |
| Long-term debt | 48,571 | 50,000 |
| Deferred compensation | 6,260 | 5,558 |
| Shareholders equity: | | |
| Common stock | 234 | 234 |
| Additional paid-in capital | 12,123 | 12,123 |
| Retained earnings | 238,662 | 221,095 |
| Accumulated other comprehensive loss | (1,751) | (6,494) |
| Treasury stock at cost | (36,066) | (36,063) |
| | | |
| | 213,202 | 190,895 |
| | | |
| | \$363,504 | \$341,347 |
| | | |

Note: The balance sheet at September 30, 2001 has been derived from the audited financial statements at that date. See accompanying notes

Table of Contents

CUBIC CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

| | Nine Months Ended June 30, | |
|---|-------------------------------|-----------|
| | 2002 | 2001 |
| Operating Activities: | | |
| Net income | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | \$ 19,260 | \$ 14,958 |
| Changes in operating assets and liabilities | 4,807 | 8,931 |
| | (23,543) | (18,577) |
| | 524 | 5,312 |
| Investing Activities: | | |
| Net additions to property, plant and equipment | (10,173) | (2,981) |
| Proceeds from sale of marketable securities | | 2,703 |
| | (10,173) | (278) |
| Financing Activities | | |
| Purchases of treasury stock: | (3) | |
| Dividends paid | (1,693) | (1,692) |
| | (1,696) | (1,692) |
| Effect of exchange rates on cash | 2,152 | (871) |
| | (9,193) | 2,471 |
| Cash and cash equivalents at the beginning of the period | 76,837 | 69,753 |
| | \$ 67,644 | \$ 72,224 |

See accompanying notes

Table of Contents

CUBIC CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2002

Note 1 Basis for Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared 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 opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter are not necessarily indicative of the results that may be expected for the year ending September 30, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended September 30, 2001.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments 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. Eventual results may differ from these estimates.

Note 2 Per Share Amounts and Stock Split

Per share amounts are based upon the weighted average number of shares of common stock outstanding, after retroactive adjustments to reflect a 3-for-1 stock split which occurred in April 2002.

Note 3 Inventories

Inventories consist of the following (in thousands):

| | June 30, 2002 | September 30, 2001 |
|----------------------------------|------------------|-----------------------|
| Finished products | \$ 1,108 | \$ 1,528 |
| Work in process | 25,418 | 19,020 |
| Raw material and purchased parts | 11,201 | 9,838 |
| | <u>\$ 37,727</u> | <u>\$ 30,386</u> |

Table of Contents

CUBIC CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) continued

June 30, 2002

Note 4 Change in Accounting

In June 2001, the Financial Accounting Standards board issued Statements of Financial Accounting Standards No. 141, *Business Combinations* and No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements.

As allowed by early adoption provisions, the Company began applying the new rules on accounting for goodwill and other intangible assets effective October 1, 2001. The following table presents a reconciliation of net income and per share data to what would have been reported had the new rules been in effect during the three and nine month periods ended June 30, 2001 (in thousands, except per share data):

| | Nine Months Ended June 30, | | Three Months Ended June 30, | |
|--|-------------------------------|-----------|--------------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| Reported net income | \$ 19,260 | \$ 14,958 | \$ 7,128 | \$ 5,324 |
| Add back goodwill amortization, net of tax | | 1,285 | | 425 |
| Adjusted net income | \$ 19,200 | \$ 16,243 | \$ 7,128 | \$ 5,749 |
| Basic and diluted net income per common share: | | | | |
| Reported net income | \$ 0.72 | \$ 0.56 | \$ 0.27 | \$ 0.20 |
| Goodwill amortization, net of tax | | \$ 0.05 | | \$ 0.02 |
| Adjusted net income | \$ 0.72 | \$ 0.61 | \$ 0.27 | \$ 0.22 |

Note 5 New Accounting Pronouncement

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (FAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*. FAS 144 establishes a single model to account for impairment of assets to be held or disposed, incorporating guidelines for accounting and disclosure of discontinued operations. FAS 144 is effective for fiscal years beginning after December 15, 2001 and, generally, its provisions are to be applied prospectively. Management believes the impact on the financial statements of the Company will be immaterial.

Table of Contents

CUBIC CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED) continued

June 30, 2002

Note 6 Comprehensive Income

Comprehensive income is as follows (in thousands):

| | Nine Months Ended June 30, | | Three Months Ended June 30, | |
|---|-------------------------------|------------------|--------------------------------|-----------------|
| | 2002 | 2001 | 2002 | 2001 |
| Net income | \$ 19,260 | \$ 14,958 | \$ 7,128 | \$ 5,324 |
| Foreign currency translation adjustments | 4,789 | (1,704) | 4,686 | 51 |
| Unrealized gains on marketable securities: | | | | |
| Unrealized holding gain (loss) during the period | (46) | 506 | (27) | 42 |
| Reclassification adjustment for gain included in net income | | (789) | | 120 |
| | <u>\$ 24,003</u> | <u>\$ 12,971</u> | <u>\$ 11,787</u> | <u>\$ 5,537</u> |

7

Table of Contents

CUBIC CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) continued

June 30, 2002

Note 8 Business Segment Information

Business segment financial data is as follows (in millions). Certain prior year costs related to the development of smart card technology have been reclassified from other profit to the transportation systems segment to conform to current year classification. The effect of this change was to decrease transportation systems operating profit and increase other profit by approximately \$1,100,000 and \$400,000 for the nine months and three months ended June 30, 2001, respectively.

| | Nine Months Ended June 30, | | Three Months Ended June 30, | |
|-------------------------------|-------------------------------|----------------|--------------------------------|-----------------|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | |
| Transportation systems | \$ 166.5 | \$ 150.0 | \$ 68.5 | \$ 48.7 |
| Defense | 233.2 | 209.2 | 76.1 | 74.9 |
| | <u>399.7</u> | <u>359.2</u> | <u>144.6</u> | <u>123.6</u> |
| Total for reportable segments | 399.7 | 359.2 | 144.6 | 123.6 |
| Other revenues | 14.8 | 17.3 | 4.9 | 4.9 |
| | <u>\$414.5</u> | <u>\$376.5</u> | <u>\$ 149.5</u> | <u>\$ 128.5</u> |
| Operating profit: | | | | |
| Transportation systems | \$ 15.7 | \$ 15.1 | \$ 6.1 | \$ 5.4 |
| Defense | 12.7 | 5.1 | 4.7 | 2.5 |
| | <u>28.4</u> | <u>20.2</u> | <u>10.8</u> | <u>7.9</u> |
| Total for reportable segments | 28.4 | 20.2 | 10.8 | 7.9 |
| Other profit | 3.1 | 5.2 | 0.9 | 1.1 |
| Interest expense | (2.7) | (2.7) | (0.9) | (0.9) |
| | <u>\$ 28.8</u> | <u>\$ 22.7</u> | <u>\$ 10.8</u> | <u>\$ 8.1</u> |
| Income before income taxes | \$ 28.8 | \$ 22.7 | \$ 10.8 | \$ 8.1 |

Table of Contents

CUBIC CORPORATION

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

June 30, 2002

Forward-Looking Statements

In addition to historical matters, this report contains forward-looking statements. They can be identified by words such as *may, likely, anticipate, hope, estimate, plan, potential, promising, feel, expect, should, and confident*. These forward-looking statements are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Investors are cautioned that forward-looking statements involve risks and uncertainties which may affect the Company's business and prospects. These include the effects of politics on negotiations and business dealings with government entities, reductions in defense budgets, economic conditions in the various countries in which the Company does or hopes to do business, competition and technology changes in the defense and transportation industries, and other competitive and technological factors.

Results of Operations

Sales for the first nine months of fiscal 2002 were approximately 11% higher than for the same period in fiscal 2001, as the result of higher sales in both the defense and transportation systems segments. Transportation systems sales for the third quarter were up significantly from the prior year, while sales in the defense segment increased only slightly in the quarter.

Transportation segment sales increased in the current year due to an increase in work on contracts in North America which had been awarded to the Company in previous quarters and due to an increase in activity on the Prestige project in London. These sales increases in the quarter and for the first nine months of the fiscal year more than offset lower sales from contracts in the Far East.

As discussed the last two quarters, the Company acquired a new facility south of London in order to gain greater efficiency by bringing operations in the region together into one facility. This new building is currently being outfitted and is expected to be occupied by the end of the calendar year. In connection with this consolidation of operations, the Company recorded a provision of \$900,000 in the first quarter for severance costs related to the planned closing of a facility in western England. Of this amount, approximately \$300,000 was expended during the quarter ended June 30, 2002, bringing the total spent to date to \$450,000. Management believes the balance of \$450,000 will be adequate to cover the remaining costs of this facility closure.

Operating profits in the transportation segment were higher for both the third quarter and the first nine months of the year. Higher sales volume contributed to increased profits in the third quarter, although the increase was somewhat offset by legal costs incurred in connection with the Company's dispute of a contract tender in Australia. For the first nine months of the year, higher operating profits resulted from the higher sales volume, but were partially offset by the legal costs and the severance costs mentioned above.

Table of Contents

CUBIC CORPORATION
ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS continued

June 30, 2002

The increase in defense segment sales for the third quarter and first nine months of the year resulted primarily from continued growth of the Company's defense service businesses, both computerized battlefield simulation and operations and maintenance. In addition, new multiple integrated laser engagement system (WLES) contracts won in the past year added to the growth of the segment. Increased operating profits in the segment resulted from the above sales increases, in addition to higher profit margins from communications and MILES products.

Selling, general and administrative costs were higher for both the third quarter and for the first nine months of the year, primarily due to an increase in selling costs and the legal costs mentioned above. Selling costs increased in both segments as the Company pursued new transportation systems opportunities, especially in Europe, and increased its efforts to obtain new defense business as well.

Other profits in the first nine months were higher last year than in the current year, primarily as a result of the sale of certain marketable securities at a profit last year. Lower interest rates on the Company's cash investments also contributed to the reduction of other profits this year.

Total backlog, including un-funded customer orders, increased to \$1,180,000,000 at June 30, 2002, compared to \$1,095,000,000 at September 30, 2001 and \$1,092,000,000 at June 30, 2001. Included in the above amounts was funded backlog of \$822,000,000 at June 30, 2002, \$738,000,000 at September 30, 2001 and \$745,000,000 at June 30, 2001.

Critical Accounting Policies, Estimates and Judgments

The Company's financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments 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. Management continually evaluates its estimates and judgments, the most critical of which are those related to revenue recognition, costs to complete contracts, valuation of goodwill and income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Eventual results may differ from these estimates.

Table of Contents

CUBIC CORPORATION
ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS continued

June 30, 2002

Liquidity and Capital Resources

Operating activities for the first nine months of the year resulted in positive cash flows, however, growth in long-term contract accounts receivable and inventories during the period had the effect of limiting operating cash flows. These increases in receivables and inventories represent normal fluctuations due to the timing of customer payments and the transfer of inventoried costs to contracts and also reflect the growth in revenues during the year. Although cash flows from operations are not expected to pick up significantly for the remainder of the fiscal year, the Company expects that cash flows from operations will increase in the next fiscal year.

The building acquisition mentioned above was the primary use of cash from investing activities during the first nine months of the fiscal year. The only significant financing activity was the payment of a semi-annual cash dividend to shareholders in the second quarter.

The Company's financial condition remains strong with working capital of \$196 million and a current ratio of 3.1 at June 30, 2002. The Company expects that cash on hand and its unused debt capacity will be adequate to meet its working capital requirements for the foreseeable future.

Table of Contents

**CUBIC CORPORATION
PART II OTHER INFORMATION**

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibit is included herein:

15 Independent Accountants Review Report

99.1 Certification of Chief Executive and Chief Financial Officers

(b) No reports on Form 8-K were filed during the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CUBIC CORPORATION

Date July 29, 2002

signed by W.W. Boyle

W. W. Boyle
Vice President and CFO

Date July 29 2002

signed by T. A. Baz

T. A. Baz
Vice President and Controller