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, 2014

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 April 28, 2014, registrant had only one class of common stock of which there were 26,788,525 shares outstanding (after deducting 8,945,300 shares held as treasury stock).

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CUBIC CORPORATION

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended March 31, 2014

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EXPLANATORY NOTE REGARDING RESTATEMENT

This Quarterly Report on Form 10-Q of Cubic Corporation (Company , we , and us) for the three- and six-month periods ended March 31, 2014, includes our restated Condensed Consolidated Balance Sheet as of September 30, 2013 and our restated Condensed Consolidated Statements of Income, Comprehensive Income, and Cash Flows for the three- and six-month periods ended March 31, 2013. The restatement resulted from our identification of certain errors in our recognition of revenue for one of our wholly owned subsidiaries. See Note 2, Restatement of Condensed Consolidated Financial Statements of the Notes to Condensed Consolidated Financial Statements in Part I Item 1 for a detailed discussion of the errors and effect of the restatement.

The restatement is more fully described in our Annual Report on Form 10-K/A for the year ended September 30, 2013 filed concurrently herewith.

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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, 2014	Six Months Ended March 31, 2013 (As Restated)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013 (As Restated)
Net sales:				
Products	$ 268,770	$ 301,754	$ 146,789	$ 167,036
Services	392,859	381,651	207,703	201,573
	661,629	683,405	354,492	368,609
Costs and expenses:				
Products	196,944	219,032	110,185	119,145
Services	324,180	297,391	162,693	153,320
Selling, general and administrative	85,019	82,263	48,265	41,320
Restructuring costs	203	6,084	203	6,084
Research and development	9,873	12,920	4,959	7,098
Amortization of purchased intangibles	11,403	7,830	6,010	4,266
	627,622	625,520	332,315	331,233
Operating income	34,007	57,885	22,177	37,376
Other income (expense):				
Interest and dividend income	363	749	118	312
Interest expense	(1,613)	(1,522)	(752)	(657)
Other income (expense) - net	40	49	386	(53)
Income before income taxes	32,797	57,161	21,929	36,978
Income taxes	8,248	13,145	5,809	7,276
Net income	24,549	44,016	16,120	29,702
Less noncontrolling interest in income of VIE	69	125	28	52
Net income attributable to Cubic	$ 24,480	$ 43,891	$ 16,092	$ 29,650
Net income per share attributable to Cubic				
Basic	$ 0.91	$ 1.64	$ 0.60	$ 1.11
Diluted	$ 0.91	$ 1.64	$ 0.60	$ 1.11
Dividends per common share	$ 0.12	$ 0.12	$ 0.12	$ 0.12

Weighted average shares used in per share calculations:				
Basic	26,785	26,736	26,786	26,736
Diluted	26,892	26,736	26,901	26,736

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013 (As Restated)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013 (As Restated)
Net income	$ 24,549	$ 44,016	$ 16,120	$ 29,702
Other comprehensive income (loss):				
Foreign currency translation	11,862	(13,989)	3,645	(15,338)
Change in net unrealized gains/losses from cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	(181)	(1,337)	(1,288)	(732)
Adjustment for net gains/losses realized and included in net income, net of tax	(23)	1,334	(55)	(13)
Total change in net unrealized gains/losses from cash flow hedges, net of tax	(204)	(3)	(1,343)	(745)
Total other comprehensive income (loss)	11,658	(13,992)	2,302	(16,083)
Total comprehensive income	$ 36,207	$ 30,024	$ 18,422	$ 13,619

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CUBIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

		March 31, 2014		September 30, 2013 (As Restated)
ASSETS				
Current assets:				
Cash and cash equivalents	$	125,343	$	203,892
Restricted cash		68,984		69,381
Marketable securities				4,055
Accounts receivable - net		439,626		379,002
Recoverable income taxes		14,231		7,885
Inventories - net		64,303		59,746
Deferred income taxes and other current assets		29,743		18,638
Total current assets		742,230		742,599
Long-term contract receivables		17,410		19,021
Long-term capitalized contract costs		79,010		68,963
Property, plant and equipment - net		63,789		56,305
Deferred income taxes		18,181		19,322
Goodwill		186,808		136,094
Purchased intangibles - net		75,389		57,542
Other assets		15,107		9,772
	$	1,197,924	$	1,109,618
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Short-term borrowings	$	30,000	$	
Trade accounts payable		24,616		40,310
Customer advances		88,830		84,307
Accrued compensation and other current liabilities		143,938		109,253
Income taxes payable		9,842		12,731
Current portion of long-term debt		578		557
Total current liabilities		297,804		247,158
Long-term debt		102,166		102,363
Other long-term liabilities		46,390		43,017
Shareholders equity:				
Common stock		17,322		15,825
Retained earnings		761,262		740,002
Accumulated other comprehensive income (loss)		8,855		(2,803)
Treasury stock at cost		(36,078)		(36,078)
Shareholders equity related to Cubic		751,361		716,946
Noncontrolling interest in variable interest entity		203		134
Total shareholders equity		751,564		717,080
	$	1,197,924	$	1,109,618

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013 (As Restated)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013 (As Restated)
Operating Activities:				
Net income	$ 24,549	$ 44,016	$ 16,120	$ 29,702
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	15,229	11,597	7,852	6,879
Share-based compensation expense	2,585	59	1,725	59
Changes in operating assets and liabilities	(71,662)	(111,643)	(15,201)	(66,495)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(29,299)	(55,971)	10,496	(29,855)
Investing Activities:				
Acquisition of businesses, net of cash acquired	(79,683)	(53,272)	(10,708)	(20,177)
Purchases of property, plant and equipment	(10,947)	(3,861)	(6,025)	(2,438)
Proceeds from sales or maturities of marketable securities	4,055		4,055	
NET CASH USED IN INVESTING ACTIVITIES	(86,575)	(57,133)	(12,678)	(22,615)
Financing Activities:				
Proceeds from short-term borrowings	30,000	70,000	10,000	45,000
Principal payments on short-term borrowings		(45,000)		(45,000)
Proceeds from long-term borrowings		50,000		50,000
Principal payments on long-term debt	(284)	(8,273)	(144)	(4,133)
Proceeds from issuance of common stock	113		113	
Dividends paid	(3,215)	(3,208)	(3,215)	(3,208)
Net change in restricted cash	397	(84)	457	(313)
Contingent consideration payments related to acquisitions of businessess	(1,117)		(447)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	25,894	63,435	6,764	42,346
Effect of exchange rates on cash	11,431	(13,993)	(615)	(15,387)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(78,549)	(63,662)	3,967	(25,511)
Cash and cash equivalents at the beginning of the period	203,892	212,267	121,376	174,116
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 125,343	$ 148,605	$ 125,343	$ 148,605
Supplemental disclosure of non-cash investing and financing activities:				

Liability incurred to acquire NEK, net	$	$ 19,552	$	$
Liability incurred to acquire ITMS, net	$ 3,301	$	$	$
Liability incurred to acquire Intific, net	$ 2,233	$	$ 2,233	$
Receivable from the seller of NextBus	$	$ 682	$	$ 682

See accompanying notes.

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CUBIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2014

Note 1 Basis for Presentation

Cubic Corporation (we , us , and Cubic) has prepared the accompanying unaudited condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) 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 March 31, 2014 and September 30, 2013; the results of its operations for the three- and six-month periods ended March 31, 2014 and 2013; and its cash flows for the three- and six-month periods ended March 31, 2014 and 2013. Operating results for the three- and six-month periods ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K/A for the year ended September 30, 2013 filed concurrently herewith.

The preparation of the financial statements in conformity with GAAP 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.

There have been no material changes to our significant accounting policies as compared with the significant accounting policies described in our Annual Report on Form 10-K/A for the year ended September 30, 2013 filed concurrently herewith.

Note 2 Restatement of Condensed Consolidated Financial Statements

We have restated our Condensed Consolidated Balance Sheet at September 30, 2013 and our Condensed Consolidated Statements of Income, Comprehensive Income, and Cash Flows for the three- and six-month periods ended March 31, 2013.

The cumulative adjustments to correct the errors in the consolidated financial statements for all periods prior to October 1, 2012 are recorded as adjustments to retained earnings and accumulated other comprehensive income (loss) at September 30, 2012. The cumulative effect of those adjustments increased previously reported retained earnings by $6.3 million and reduced previously reported accumulated other comprehensive loss by $0.5 million at September 30, 2012.

The following tables present the summary impacts of the restatement adjustments on our previously reported consolidated retained earnings at September 30, 2012 and consolidated net income for the three and six months ended March 31, 2013 (in thousands):

Retained earnings at September 30, 2012 - As previously reported	$	715,043
Adjustments		6,290
Retained earnings at September 30, 2012 - As restated	$	721,333

		Six Months Ended March 31, 2013		Three Months Ended March 31, 2013
Net Income - As previously reported	$	39,604	$	27,158
Adjustments		4,287		2,492
Net Income - As restated	$	43,891	$	29,650

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Description of Adjustments

On February 10, 2014, we announced that we would be restating certain previously issued audited consolidated financial statements and unaudited condensed consolidated financial statements primarily to correct two errors in the recognition of revenue.

In 2012, we restated our financial statements for the years ended September 30, 2011, 2010 and 2009, the quarters ended March 31, 2012 and December 31, 2011 and each of the prior quarters of 2011 and 2010. This previous restatement was the result of our determination that we had made errors in the calculation of revenues for a significant number of our contracts due to incorrect application of GAAP. In the course of our financial statement closing process for the quarter ended December 31, 2013, we identified two errors related to revenue recognition for two contracts with the same customer that date back to the previous restatement period. The first error was related to the computation of revenues for a contract that was entered in 2011. The error resulted from a miscalculation in a revenue recognition model that was created during the previous restatement activity. The second error relates to a contract entered into in 2007 and was the result of a failure to appropriately update the contract value in our revenue accounting system as well as a failure to properly account for a 2008 amendment to this contract. Upon modification of this second contract in 2008, the cost-to-cost percentage of completion method should no longer have been used, and revenue should have been recognized using a service-based model.

In addition to the errors 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 our consolidated financial statements. These corrections included certain accrued liabilities and reserves and miscellaneous reclassification entries; adjustments to various income tax and indirect tax accrual accounts; and adjustments to sales and cost of sales to correct cutoff on immaterial revenue recognition transactions.

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The following tables present the impact of the restatement on the our previously issued Consolidated Balance Sheet as of September 30, 2013, and our Consolidated Statements of Income, Comprehensive Income and Cash Flows for the three and six months ended March 31, 2013:

	Condensed Consolidated Balance Sheet September 30, 2013		
	Previously Reported	Adjustments (in thousands)	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 203,892	$	$ 203,892
Restricted cash	69,381		69,381
Marketable securities	4,055		4,055
Accounts receivable - net	376,143	2,859	379,002
Recoverable income taxes	7,885		7,885
Inventories - net	54,400	5,346	59,746
Deferred income taxes and other current assets	18,638		18,638
Total current assets	734,394	8,205	742,599
Long-term contract receivables	19,249	(228)	19,021
Long-term capitalized costs	75,520	(6,557)	68,963
Property, plant and equipment - net	56,305		56,305
Deferred income taxes	19,322		19,322
Goodwill	136,094		136,094
Purchased intangibles - net	57,542		57,542
Other assets	9,772		9,772
	$ 1,108,198	$ 1,420	$ 1,109,618
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Trade accounts payable	$ 39,016	$ 1,294	$ 40,310
Customer advances	103,187	(18,880)	84,307
Accrued compensation and other current liabilities	107,330	1,923	109,253
Income taxes payable	8,076	4,655	12,731
Current portion of long-term debt	557		557
Total current liabilities	258,166	(11,008)	247,158
Long-term debt	102,363		102,363
Other long-term liabilities	42,742	275	43,017
Shareholders equity:			
Common stock	15,825		15,825
Retained earnings	728,424	11,578	740,002
Accumulated other comprehensive loss	(3,378)	575	(2,803)
Treasury stock at cost	(36,078)		(36,078)
Shareholders equity related to Cubic	704,793	12,153	716,946
Noncontrolling interest in variable interest entity	134		134
Total shareholders equity	704,927	12,153	717,080
	$ 1,108,198	$ 1,420	$ 1,109,618

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	Condensed Consolidated Statement of Income Six Months Ended March 31, 2013 Previously Reported	Adjustments	As Restated	Condensed Consolidated Statement of Income Three Months Ended March 31, 2013 Previously Reported	Adjustments	As Restated
	(amounts in thousands, except per share data)			(amounts in thousands, except per share data)		
Net sales:						
Products	$ 300,669	$ 1,085	$ 301,754	$ 164,968	$ 2,068	$ 167,036
Services	377,007	4,644	381,651	199,337	2,236	201,573
	677,676	5,729	683,405	364,305	4,304	368,609
Costs and expenses:						
Products	218,018	1,014	219,032	117,123	2,022	119,145
Services	297,617	(226)	297,391	153,766	(446)	153,320
Selling, general and administrative	82,317	(54)	82,263	41,320		41,320
Restructuring costs	6,084		6,084	6,084		6,084
Research and development	12,920		12,920	7,098		7,098
Amortization of purchased intangibles	7,830		7,830	4,266		4,266
	624,786	734	625,520	329,657	1,576	331,233
Operating income	52,890	4,995	57,885	34,648	2,728	37,376
Other income (expense):						
Interest and dividend income	749		749	312		312
Interest expense	(1,516)	(6)	(1,522)	(654)	(3)	(657)
Other income (expense) - net	49		49	(53)		(53)
Income before income taxes	52,172	4,989	57,161	34,253	2,725	36,978
Income taxes	12,443	702	13,145	7,043	233	7,276
Net income	39,729	4,287	44,016	27,210	2,492	29,702
Less noncontrolling interest in income of VIE	125		125	52		52
Net income attributable to Cubic	$ 39,604	$ 4,287	$ 43,891	$ 27,158	$ 2,492	$ 29,650
Net income per share attributable to Cubic:						
Basic	$ 1.48	$ 0.16	$ 1.64	$ 1.02	$ 0.09	$ 1.11
Diluted	$ 1.48	$ 0.16	$ 1.64	$ 1.02	$ 0.09	$ 1.11
Weighted average shares used in per share calculations:						
Basic	26,736		26,736	26,736		26,736
Diluted	26,736		26,736	26,736		26,736

	Condensed Consolidated Statement of Comprehensive Income Six Months Ended March 31, 2013 Previously Reported	Adjustments (in thousands)	As Restated	Condensed Consolidated Statement of Comprehensive Income Three Months Ended March 31, 2013 Previously Reported	Adjustments (in thousands)	As Restated
Net income	$ 39,729	$ 4,287	$ 44,016	$ 27,210	$ 2,492	$ 29,702

Other comprehensive income (loss):						
Foreign currency translation	(13,313)	(676)	(13,989)	(14,608)	(730)	(15,338)
Change in net unrealized gains/losses from cash flow hedges:						
Change in fair value of cash flow hedges, net of tax	(1,337)		(1,337)	(732)		(732)
Adjustment for net losses realized and included in net income, net of tax	1,334		1,334	(13)		(13)
Net unrealized gains/losses from cash flow hedges, net of tax	(3)		(3)	(745)		(745)
Total other comprehensive loss	(13,316)	(676)	(13,992)	(15,353)	(730)	(16,083)
Total comprehensive income	26,413	3,611	30,024	11,857	1,762	13,619

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	Condensed Consolidated Statement of Cash Flows Six Months Ended March 31, 2013			Condensed Consolidated Statement of Cash Flows Three Months Ended March 31, 2013		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
Operating Activities:						
Net income	$ 39,729	$ 4,287	$ 44,016	$ 27,210	$ 2,492	$ 29,702
Adjustments to reconcile net income to net cash used in operating activities:						
Depreciation and amortization	11,597		11,597	6,879		6,879
Share-based compensation expense	59		59	59		59
Changes in operating assets and liabilities net of effects from acquisitions:	(107,356)	(4,287)	(111,643)	(64,003)	(2,492)	(66,495)
NET CASH USED IN OPERATING ACTIVITIES	(55,971)		(55,971)	(29,855)		(29,855)
Investing Activities:						
Acquisition of businesses, net of cash acquired	(53,272)		(53,272)	(20,177)		(20,177)
Net additions to property, plant and equipment	(3,861)		(3,861)	(2,438)		(2,438)
NET CASH USED IN INVESTING ACTIVITIES	(57,133)		(57,133)	(22,615)		(22,615)
Financing Activities:						
Proceeds from short-term borrowings	70,000		70,000	45,000		45,000
Principal payments on short-term borrowings	(45,000)		(45,000)	(45,000)		(45,000)
Proceeds from long-term borrowings	50,000		50,000	50,000		50,000
Principal payments on long-term debt	(8,273)		(8,273)	(4,133)		(4,133)
Dividends paid to shareholders	(3,208)		(3,208)	(3,208)		(3,208)
Change in restricted cash	(84)		(84)	(313)		(313)
NET CASH PROVIDED BY FINANCING ACTIVITIES	63,435		63,435	42,346		42,346
Effect of exchange rates on cash	(13,993)		(13,993)	(15,387)		(15,387)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(63,662)		(63,662)	(25,511)		(25,511)
Cash and cash equivalents at the beginning of the period	212,267		212,267	174,116		174,116
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 148,605	$	$ 148,605	$ 148,605	$	$ 148,605

Financial information in the accompanying footnotes to the condensed consolidated financial statements reflects the effects of the preceding discussions and tables.

Note 3 Acquisitions

Each of the following acquisitions has been treated as a business combination for accounting purposes. The results of operations of each acquired business has been included in our consolidated financial statements since the respective date of each acquisition.

Intific

On February 28, 2014 we acquired all of the outstanding capital stock of Intific Inc. (Intific), an Austin, Texas based advanced technology company focused on software and game-based solutions in modeling and simulation, training and education, cyber warfare, and neuroscience. The acquisition of Intific expands the portfolio of services and customer base of our Cubic Defense Systems (CDS) segment.

For the three months ended March 31, 2014, the amount of Intific s sales and net loss after taxes included in our Consolidated Statement of Income were $0.8 million and $2.1 million, respectively. Included in Intific s operating results for the three months ended March 31, 2014 are $0.2 million of transaction and acquisition related costs and $3.1 million of compensation expense which was paid to Intific employees upon the close of the acquisition.

The purchase agreement states that the cost of the acquisition is approximately $12.6 million, adjusted by the difference between the net working capital acquired and the targeted working capital amounts. The acquisition date fair value of the consideration transferred is estimated to be $12.9 million. In February 2014, we paid cash of approximately $10.7 million and have recorded a liability of approximately $2.2 million as an estimate of the cash that will be paid to the seller in connection with the working capital settlement and cash that will be owed to the seller due to the passage of time.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Customer relationships	$	2.0
Technology		0.7
Backlog		0.7
Other intangible assets		0.2
Accounts receivable		1.5
Deferred tax liabilities, net		(0.5)
Accounts payable and accrued expenses		(0.6)
Other net assets acquired		0.6
Net identifiable assets acquired		4.6
Goodwill		8.3
Net assets acquired	$	12.9

The estimated fair values of the assets acquired and liabilities assumed, including the fair value of purchased intangibles and net deferred tax liabilities are preliminary estimates pending the finalization of our valuation analyses. The net deferred tax liabilities were primarily recorded to reflect the tax impact of amortization related to identified intangible assets that is not expected to be deductible for tax purposes, net of acquisition consideration that is a tax deductible expense. The estimated fair value of the accounts receivable and accounts payable and accrued expenses will be finalized as further information is received from the seller regarding these items.

The fair values of purchased intangibles were determined using the valuation methodology deemed to be the most appropriate for each type of asset being valued. The customer relationships and backlog valuation used the excess earnings approach and the technology valuation used the replacement cost approach.

The intangible assets will be amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the assets, over a weighted average useful life of two years from the date of acquisition. .

The goodwill resulting from the acquisition consists primarily of the synergies expected from combining the operations of Intific with our existing CDS business and the acquired assembled workforce. The anticipated synergies include the ability to expand services offerings and cost reductions. The amount recorded as goodwill is allocated to our CDS segment and is not expected to be deductible for tax purposes.

Based upon the preliminary estimate of the fair value of identifiable intangible assets, the estimated amortization expense related to the intangible assets recorded in connection with our acquisition of Intific for fiscal years 2014 through 2018 is as follows (in millions):

Year Ended September 30,		
2014	$	0.6
2015		0.9
2016		0.7
2017		0.6
2018		0.5

ITMS

On November 26, 2013 we acquired all of the outstanding capital stock of Intelligent Transport Management Solutions Limited (ITMS) from Serco Limited. ITMS is a provider of traffic management systems technology, traffic and road enforcement and maintenance of traffic signals, emergency equipment and other critical road and tunnel infrastructure. The acquisition of ITMS expands the portfolio of services and customer base of our Cubic Transportation Systems (CTS) segment.

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For the three months ended March 31, 2014, the amount of ITMS sales and net loss after taxes included in our Consolidated Statement of Income were $12.6 million and $0.2 million, respectively. For the six months ended March 31, 2014, the amount of ITMS sales and net loss after taxes included in our Consolidated Statement of Income were $17.3 million and $0.7 million, respectively. Included in the ITMS operating results are $0.1 million and $0.5 million of transaction costs incurred during the three and six months ended March 31, 2014, respectively.

The purchase agreement states that the cost of the acquisition was approximately $69.0 million, adjusted by the difference between the net working capital acquired and the targeted working capital amounts. The acquisition date fair value of the consideration transferred is estimated to be $72.3 million. In November 2013, we paid cash of approximately $69.0 million and have recorded a liability of approximately $3.3 million as an estimate of the cash that will be paid to the seller in connection with the working capital settlement.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Customer relationships	$	15.7
Intellectual property		1.6
Backlog		5.7
Supplier relationships		0.6
Agreements with Seller		1.3
Accounts receivable - billed		4.4
Accounts receivable - unbilled		6.9
Deferred tax liabilities, net		(0.2)
Deferred revenue		(2.4)
Accounts payable and accrued expenses		(4.6)
Other net assets acquired		2.6
Net identifiable assets acquired		31.6
Goodwill		40.7
Net assets acquired	$	72.3

The estimated fair values of the assets acquired and liabilities assumed, including the fair value of purchased intangibles and net deferred tax liabilities are preliminary estimates pending the finalization of our valuation analyses. The net deferred tax liabilities were primarily recorded to reflect the tax impact of the identified intangible assets that will not generate tax deductible amortization expense. The estimated fair value of the accounts receivable, deferred revenue, and accounts payable and accrued expenses will be finalized as further information is received from the seller regarding these items.

The fair values of purchased intangibles were determined using the valuation methodology deemed to be the most appropriate for each type of asset being valued. The customer relationships and backlog valuation used the excess earnings approach and the non-compete agreement and seller agreements valuations used the with and without approach. The supplier relationship and intellectual property valuations used the replacement cost approach.

The intangible assets will be amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the assets, over a weighted average useful life of two years from the date of acquisition and is not expected to be deductible for tax purposes.

The goodwill resulting from the acquisition consists primarily of the synergies expected from combining the operations of ITMS with our existing CTS business and the acquired assembled workforce. The anticipated synergies include the ability to expand services offerings and cost reductions. The amount recorded as goodwill is allocated to our CTS segment and is not expected to be deductible for tax purposes.

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Based upon the preliminary estimate of the fair value of identifiable intangible assets, the estimated amortization expense related to the intangible assets recorded in connection with our acquisition of ITMS for fiscal years 2014 through 2018 is as follows (in millions):

Year Ended September 30,		
2014	$	7.4
2015		6.8
2016		5.4
2017		3.9
2018		1.9

NEK

On December 14, 2012, we acquired from NEK Advanced Securities Group, Inc. (Seller) the customer contracts and operating assets of NEK Special Programs Group LLC (NEK), which consists of the Seller s Special Operation Forces training business based in Fayetteville, North Carolina and Colorado Springs, Colorado.

For the three months ended March 31, 2014, the amounts of NEK s sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $8.9 million and $0.3 million, respectively. For the three months ended March 31, 2013, the amounts of NEK s sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $9.1 million and $0.3 million, respectively.

For the six months ended March 31, 2014, the amounts of NEK s sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $19.6 million and $0.4 million, respectively. For the six months ended March 31, 2013, the amounts of NEK s sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $9.6 million and $0.3 million, respectively.

Included in the NEK operating results are $0.4 million in transaction related costs incurred during the first quarter of fiscal 2013.

The acquisition agreement states that the cost of the acquisition will total $52.0 million, adjusted by the difference between the net working capital acquired and targeted working capital amounts, less amounts that will not be due if certain future events fail to occur. The acquisition-date fair value of consideration transferred is estimated to be $52.6 million. Through March 31, 2014 we have paid the Seller cash consideration of $49.6 million from our existing cash resources and we have recorded a current liability of approximately $3.0 million at March 31, 2014 as an estimate of additional cash consideration that is due to the Seller. The timing of the payment of $0.6 million of the additional cash consideration will be accelerated if the Seller causes certain events to occur, but will ultimately be paid over the passage of time regardless of whether these events occur. Approximately $2.4 million of the additional cash consideration is contingent upon future events, including the novation of certain of the Seller s contracts to NEK. We have estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. We have estimated that the probability of our payment to the Seller of any amounts less than the maximum possible additional cash consideration of $2.4 million is remote. As such, we have estimated that the fair value of the additional cash consideration at March 31, 2014 approximates the maximum possible contingent payments to the Seller of $2.4 million. There has been no significant change in the estimated fair value of the total estimated contingent payments to be made to the Seller since the date of the acquisition.

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The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Customer relationships	$	13.3
Corporate trade names		4.9
Non-compete agreements		0.2
Accounts receivable -billed		3.1
Accounts receivable -unbilled		7.7
Accounts payable		(3.0)
Other net liabilities assumed		(0.4)
Net identifiable assets acquired		25.8
Goodwill		26.8
Net assets acquired	$	52.6

The fair values of purchased intangibles were determined using the valuation methodology deemed to be the most appropriate for each type of asset being valued. Each of the valuation methodologies used were various methods under the income approach. The trade names valuation used the relief from royalty approach. The customer relationships valuation used the excess earnings approach and the non-compete agreements valuation used the with and without approach. The intangible assets are being amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the assets, over a weighted average useful life of four years from the date of acquisition.

The goodwill resulting from the acquisition consists primarily of the synergies expected from combining the operations of NEK and our Mission Support Services (MSS) business and the acquired assembled workforce. The anticipated synergies include the ability to expand services offerings and cost reductions. The amount recorded as goodwill is allocated to our MSS segment and is expected to be deductible for tax purposes.

Based upon the fair value of identifiable intangible assets, the amortization expense related to the intangible assets recorded in connection with our acquisition of NEK for fiscal years 2014 through 2018 is as follows (in millions):

Year Ended September 30,		
2014	$	3.4
2015		2.9
2016		2.4
2017		1.9
2018		1.4

NextBus

On January 24, 2013, we acquired all of the outstanding capital stock of NextBus, Inc. (NextBus) from Webtech Wireless, Inc. NextBus provides products and services to transit agencies which provide real-time passenger information to transit passengers, expanding the portfolio of services and customer base of our CTS segment. For the three months ended March 31, 2014 the amount of NextBus sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $2.5 million and $0.1 million, respectively. For the six months ended March 31, 2014, the amounts of NextBus sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $4.7

million and $0.5 million, respectively.

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We paid the seller cash of $20.2 million for NextBus from our existing cash resources. The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Customer relationships	$	8.8
Accounts receivable, net		2.2
Backlog		1.7
Acquired technology		1.3
Corporate trade names		1.0
Accounts payable and accrued expenses		(1.1)
Deferred tax liabilities, net		(3.3)
Other net liabilities assumed		(1.2)
Net identifiable assets acquired		9.4
Goodwill		10.8
Net assets acquired	$	20.2

The net deferred tax liabilities were primarily recorded to reflect the tax impact of the identified intangible assets that will not generate tax deductible amortization expense. The fair values of purchased intangibles were determined using the valuation methodology deemed to be the most appropriate for each type of asset being valued. Each of the valuation methodologies used were various methods under the income approach. The customer relationships and backlog valuations used the excess earnings approach. The trade names and technology valuations used the relief from royalty approach.

The goodwill resulting from the acquisition consists primarily of the synergies expected from combining the operations of NextBus and our CTS business and the acquired assembled workforce. The anticipated synergies include the ability to expand services offerings and cost reductions. The amount recorded as goodwill is allocated to our CTS segment and is not expected to be deductible for tax purposes.

The intangible assets are being amortized using a combination of accelerated and straight-line based on the expected cash flows from the assets, over a weighted average useful life of 5 years from the date of acquisition. Based upon the estimate of the fair value of identifiable intangible assets, the estimated amortization expense related to the intangible assets recorded in connection with our acquisition of NextBus for fiscal years 2014 through 2018 is as follows (in millions):

Year Ended September 30,		
2014	$	1.6
2015		1.5
2016		1.4
2017		1.3
2018		1.2

AIS

On July 1, 2013 we acquired certain assets of Advanced Interactive Systems (AIS) and all of the capital stock of its foreign subsidiaries through a bankruptcy auction. AIS is a supplier of live fire specialized range facilities, virtual simulation products, engineering design and project management services for counter-terrorism, law enforcement and military forces worldwide. For the three months ended March 31, 2014 the amount of AIS sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $1.8 million and $0.1 million, respectively. For the six months ended March 31, 2014, the amounts of AIS sales and net loss after taxes included in our Condensed Consolidated Statement of Income were $3.1 million and $0.4 million, respectively.

We paid cash of $2.0 million from our existing cash resources, net of cash acquired, for the assets of AIS. At September 30, 2013, the estimated fair value of liabilities for potential claims from customers were preliminary estimates pending the finalization of our valuation analyses. The finalization of the estimation of these values was completed in the quarter ended December 31, 2013 as further information was received from the customers as to the facts and circumstances that existed as of the July 1, 2013 acquisition date. As a result of this additional information, we have estimated that the fair value of the potential customer claims was $1.3 million. As a result, the carrying amount of the potential customer claims liabilities was retrospectively increased by $1.3 million on July 1, 2013, due to this new information, with a corresponding increase to goodwill.

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The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date (in millions) including the retrospective adjustments described above:

Customer relationships	$	1.4
Technology		0.9
Backlog		0.6
Other net liabilities assumed		(2.8)
Net identifiable assets acquired		0.1
Goodwill		1.9
Net assets acquired	$	2.0

The amount recorded as goodwill is allocated to our CDS segment and is not expected to be deductible for tax purposes.

PSMC

On July 1, 2013 we acquired certain assets of PS Management Consultants Pty Ltd. (PSMC). PSMC is a specialist project management and engineering enterprise, based in Canberra, Australia. For the three months ended March 31, 2014 the amount of PSMC s sales and net income after taxes included in our Condensed Consolidated Statement of Income were $0.5 million and $0.1 million, respectively. For the six months ended March 31, 2014, the amounts of PSMC s sales and net income after taxes included in our Condensed Consolidated Statement of Income were $1.2 million and $0.3 million, respectively.

We paid cash of $1.3 million from our existing cash resources to acquire PSMC. The following table summarizes the estimated fair values of the assets acquired at the acquisition date (in millions):

Customer relationships	$	0.6
Backlog		0.1
Net identifiable assets acquired		0.7
Goodwill		0.6
Net assets acquired	$	1.3

The goodwill resulting from the acquisition consists primarily of the synergies expected from combining the operations of PSMC and our CDS business and the acquired assembled workforce. The anticipated synergies include the ability to expand services offerings and cost reductions. The amount recorded as goodwill is allocated to our CDS segment and is not expected to be deductible for tax purposes.

Changes in goodwill for the six months ended March 31, 2014 were as follows (in millions):

Balances at September 30, 2013	$	18.3	$	94.4	$	23.4	$	136.1
Acquisitions		40.7				8.3		49.0
Foreign currency exchange rate changes		1.4				0.4		1.8
Balances at March 31, 2014	$	60.4	$	94.4	$	32.1	$	186.9

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Pro forma information

The following unaudited pro forma information presents our consolidated results of operations as if Intific, ITMS, NEK, NextBus, AIS and PSMC had been included in our consolidated results since October 1, 2012 (in millions):

	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013 (As Restated)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013 (As Restated)
Net sales	$ 674.3	$ 744.6	$ 356.8	$ 393.0
Net income attributable to Cubic	$ 24.1	$ 48.0	$ 15.6	$ 29.5

The pro forma information includes adjustments to give effect to pro forma events that are directly attributable to the acquisitions and have a continuing impact on operations including the amortization of purchased intangibles and the elimination of interest expense for the repayment of debt. No adjustments were made for transaction expenses, other adjustments that do not reflect ongoing operations or for operating efficiencies or synergies. The pro forma financial information is not necessarily indicative of what the consolidated financial results of our operations would have been had the acquisitions been completed on October 1, 2012, and it does not purport to project our future operating results.

Note 4 Net Income Per Share

Basic net income per share (EPS) is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period, including vested restricted stock units (RSUs).

Diluted EPS is computed by dividing the net income for the period by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of dilutive restricted stock units. Dilutive restricted stock units are calculated based on the average share price for each fiscal period using the treasury stock method. For RSUs with performance-based vesting, no common equivalent shares are included in the computation of diluted EPS until the related performance criteria have been met.

Basic and diluted EPS are computed as follows (amounts in thousands, except per share data).

	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013 (As Restated)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013 (As Restated)
Net income attributable to Cubic	$ 24,480	$ 43,891	$ 16,092	$ 29,650
Weighted average shares - basic	26,785	26,736	26,786	26,736

Effect of dilutive securities		107				115		
Weighted average shares - diluted		26,892		26,736		26,901		26,736
Net income per share attributable to Cubic, basic	$	0.91	$	1.64	$	0.60	$	1.11
Effect of dilutive securities								
Net income per share attributable to Cubic, diluted	$	0.91	$	1.64	$	0.60	$	1.11
Anti-dilutive employee share-based awards		15						

Note 5 Balance Sheet Details

Marketable Securities

Marketable securities consist of exchange traded funds whose underlying assets consist of highly liquid debt instruments with short- term maturities. Marketable securities are classified and accounted for as available-for-sale. These investments are recorded at fair

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value in the accompanying Condensed Consolidated Balance Sheets and the change in fair value is recorded, net of taxes, as a component of other comprehensive income. There have been no significant realized or unrealized gains or losses on these marketable securities to date. Marketable securities have been classified as current assets in the accompanying Condensed Consolidated Balance Sheets based upon the nature of the securities and availability for use in current operations.

Accounts Receivable

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

	March 31, 2014	September 30, 2013 (As Restated)
Trade and other receivables	$ 28,277	$ 17,352
Long-term contracts:		
Billed	138,095	98,983
Unbilled	291,147	282,346
Allowance for doubtful accounts	(483)	(658)
Total accounts receivable	457,036	398,023
Less estimated amounts not currently due	(17,410)	(19,021)
Current accounts receivable	$ 439,626	$ 379,002

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, 2014 under transportation systems contracts in the U.S. and Australia based upon the payment terms in the contracts. The non-current balance at September 30, 2013 represented non-current amounts due from customers under transportation systems contracts in the same locations.

Inventories

Inventories consist of the following (in thousands):

	March 31, 2014	September 30, 2013 (As Restated)
Work in process and inventoried costs under long-term contracts	$ 89,621	$ 80,918
Customer advances	(25,998)	(21,865)
Raw material and purchased parts	680	693
Net inventories	$ 64,303	$ 59,746

Pursuant to contract provisions, agencies of the U.S. government and certain other customers have title to, or security interest in, inventories related to such contracts as a result of advances, performance-based payments, and progress payments. Contract advances, performance-based payments and progress payments received are recorded as an offset against the related inventory balances for contracts that that are accounted for on a percentage-of-completion basis using units-of-delivery as the basis to measure progress toward completing the contract. This determination is performed on a contract by contract basis. Any amount of payments received in excess of the cumulative amount of accounts receivable and inventoried costs for a contract is classified as customer advances, which is classified as a liability on the balance sheet.

At March 31, 2014, work in process and inventoried costs under long-term contracts includes approximately $1.2 million in costs incurred outside the scope of work or in advance of a contract award compared to $5.8 million at September 30, 2013. 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.

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Long-term Capitalized Costs

Long-term capitalized contract costs consist of costs incurred on a contract to develop and manufacture a transportation fare system for a customer for which revenue recognition did not begin until the customer began operating the system in the fourth quarter of 2013. These capitalized costs are being amortized into cost of sales based upon the ratio of revenue recorded during the period compared to the revenue expected to be recognized over the term of the contract.

Note 6 Fair Value of Financial Instruments

The valuation techniques required to determine fair value 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 fair value of cash equivalents and short term borrowings approximates their cost. The fair value of our available for sale marketable securities is determined based on quoted market prices for identical securities. Derivative financial instruments 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, we use 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.

The fair value of our contingent consideration obligation to the Seller of NEK is revalued to its fair value each period and any recorded increase or decrease is recorded into selling, general and administrative expense. Any changes in the assumed timing and amount of the probability of payment scenarios could impact the fair value. At September 30, 2013, the estimated fair value of the liability for contingent consideration was $3.5 million. We paid the Seller $1.1 million during the six months ended March 31, 2014 upon the resolution of certain of the contingencies and at March 31, 2014 the estimated fair value of the remaining contingent consideration is $2.4 million. We have estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. We have estimated that the probability of payment of any amounts less than the maximum possible additional cash consideration of $2.4 million is remote, and we have estimated that all contingent consideration amounts will be due within sixteen months of the acquisition date. As such, we have estimated that the fair value of the additional cash consideration approximates the maximum possible contingent payments to the Seller of $2.4 million. There was no change in the fair value of the contingent consideration between the date of the acquisition of NEK and March 31, 2014 other than for payments of amounts to the Seller; therefore, there has been no change in contingent consideration recorded in operations. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and each subsequent period. Accordingly, changes in the assumptions described above can materially impact the amount of contingent consideration expense we record in any period.

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The following table presents assets and liabilities measured and recorded at fair value on our balance sheets on a recurring basis (in thousands):

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ 28,797	$	$	$ 28,797
Marketable securities				
Current derivative assets		6,282		6,282
Noncurrent derivative assets		8,588		8,588
Total assets measured at fair value	$ 28,797	$ 14,870	$	$ 43,667
Liabilities				
Current derivative liabilities	$	$ 6,084	$	$ 6,084
Noncurrent derivative liabilities		8,286		8,286
Contingent consideration to Seller of NEK			2,368	2,368
Total liabilities measured at fair value	$	$ 14,370	$ 2,368	$ 16,738

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ 125,512	$	$	$ 125,512
Marketable securities	4,055			4,055
Current derivative assets		1,597		1,597
Noncurrent derivative assets		6,096		6,096
Total assets measured at fair value	$ 129,567	$ 7,693	$	$ 137,260
Liabilities				
Current derivative liabilities	$	$ 2,360	$	$ 2,360
Noncurrent derivative liabilities		5,366		5,366
Contingent consideration to Seller of NEK			3,485	3,485
Total liabilities measured at fair value	$	$ 7,726	$ 3,485	$ 11,211

We did not have any significant non-financial assets or liabilities measured at fair value after initial recognition on a non-recurring basis during the three and six months ended March 31, 2014 or 2013.

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.

Long-term debt and short-term borrowings are carried at amortized cost. The fair value of long-term debt is calculated by discounting the value of the note based on market interest rates for similar debt instruments, which is a Level 2 technique. The following table presents the estimated fair value and carrying value of our long-term debt (in millions):

	March 31, 2014	September 30, 2013
Fair value	$ 97.1	$ 95.8

Carrying value	$ 102.7	$ 102.9

Note 7 Financing Arrangements

In March 2013, we entered into a note purchase and private shelf agreement pursuant to which we issued $100.0 million of senior unsecured notes, bearing interest at a rate of 3.35% and maturing on March 12, 2025. Interest on these notes is due semi-annually and principal payments are due from 2021 through 2025. In addition, pursuant to the agreement, we may from time to time issue and sell, and the purchasers may in their sole discretion purchase, within the next three years, additional senior notes in aggregate principal amount of up to $25.0 million that will have terms, including interest rate, as we and the purchasers may agree upon at the time of issuance.

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We have a committed five-year revolving credit agreement (Revolving Credit Agreement) with a group of financial institutions in the amount of $200 million, which expires in May 2017. The available line of credit is reduced by any letters of credit issued under the Revolving Credit Agreement. As of March 31, 2014, there were borrowings totaling $30.0 million under this agreement and there were letters of credit outstanding totaling $27.8 million, which reduce the available line of credit to $142.2 million.

We have a secured letter of credit facility agreement with a bank (Secured Letter of Credit Facility) which is cancellable by us at any time upon the completion of certain conditions to the satisfaction of the bank. At March 31, 2014 there were letters of credit outstanding under this agreement of $59.7 million. Restricted cash at March 31, 2014 of $69.0 million was held on deposit in the U.K. as collateral in support of this Secured Letter of Credit 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 $62.7 million, and any increase above this amount would require bank approval and additional restricted funds to be placed on deposit. We may choose at any time to terminate the facility and move the associated letters of credit to another credit facility. Letters of credit outstanding under the Secured Letter of Credit Facility do not reduce the available line of credit under the Revolving Credit Agreement.

As of March 31, 2014, we had letters of credit and bank guarantees outstanding totaling $91.5 million, including the letters of credit outstanding under the Revolving Credit Agreement and the Secured Credit Facility described above, which guarantee either our performance or customer advances under certain contracts. In addition, we had financial letters of credit outstanding totaling $11.2 million as of March 31, 2014, which primarily guarantee our payment of certain self-insured liabilities. We have never had a drawing on a letter of credit instrument, nor are any anticipated; therefore, we estimate the fair value of these instruments to be zero.

We maintain short-term borrowing arrangements in New Zealand and Australia totaling $0.5 million New Zealand dollars (equivalent to approximately $0.4 million) and $3.0 million Australian dollars (equivalent to approximately $2.8 million) to help meet the short- term working capital requirements of our subsidiaries in those countries. At March 31, 2014, no amounts were outstanding under these borrowing arrangements.

The terms of certain of our lending and credit agreements include provisions that require and/or limit, among other financial ratios and measurements, the permitted levels of debt, coverage of cash interest expense, and under certain circumstances, payments of dividends or other distributions to shareholders. As of March 31, 2014 this agreement does not restrict such distributions to shareholders. As a result of our restatement, we have been unable to comply with covenants requiring us to provide our lenders with audited financial statements and interim financial information on a timely basis. However, we have entered into amendments to our financing arrangements which have included waivers to extend the dates by which we are required to deliver our audited financial statements and interim financial information to May 31, 2014, and as such we are not in default under our lending arrangements or credit agreements.

Our self-insurance arrangements are limited to certain workers compensation plans, automobile liability and product liability claims. Under these arrangements, we self-insure only up to the amount of a specified deductible for each claim. Self-insurance liabilities included in other current liabilities on the balance sheet amounted to $8.0 million and $8.8 million as of March 31, 2014, and September 30, 2013, respectively.

Note 8 Pension Plans

The components of net periodic pension cost (benefit) are as follows (in thousands):

	Six Months Ended March 31,		Three Months Ended March 31,	
	2014	2013	2014	2013
Service cost	$ 306	$ 276	$ 154	$ 136
Interest cost	4,956	4,461	2,485	2,217
Expected return on plan assets	(6,556)	(5,834)	(3,287)	(2,900)
Amortization of actuarial loss	397	907	199	450
Administrative expenses	76	38	38	19