CUBIC CORP /DE/
Form 10-Q
May 18, 2015
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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, 2015

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 May 4, 2015, registrant had only one class of common stock of which there were 26,882,875 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, 2015

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EXPLANATORY NOTE REGARDING AUDIT COMMITTEE INVESTIGATION

As disclosed in Item 2.02 of Form 8-K furnished on February 17, 2015, the Audit Committee of Cubic Corporation (Company , we , and us) conducted an investigation with the assistance of Latham & Watkins LLP and Deloitte FAS LLP to review the Company s controls and procedures in connection with programs that are accounted for under the percentage of completion method. The Company s internal controls identified the issue which led to the investigation. As a result of the investigation, the Audit Committee and management of the Company have together determined that at September 30, 2014, the total estimated costs of certain of the Company s Cubic Global Defense Systems (CGD Systems) segment (formerly known as Cubic Defense Systems (CDS) segment) contracts were inappropriately reduced during its accounting close for the year ended September 30, 2014. The inappropriate reduction of the estimated costs to complete these contracts resulted in the overstatement of CGD Systems sales and operating income by approximately $750,000 for the fourth quarter and full year of fiscal 2014. This error, in addition to other unrelated immaterial errors that have been identified by the Company s management, are considered cumulatively immaterial and have been corrected in the financial statements for the quarter ended December 31, 2014.

See Note 1, Basis for Presentation of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1. Financial Statements and Part I - Item 4. Controls and Procedures for further detail.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

(amounts in thousands, except per share data)

	Six Months Ended March 31,		Three Months Ended March 31,	
	2015	**2014**	**2015**	**2014**
Net sales:				
Products	$ 259,122	$ 268,770	$ 130,510	$ 146,789
Services	398,200	392,859	208,324	207,703
	657,322	661,629	338,834	354,492
Costs and expenses:				
Products	194,545	196,944	90,121	110,185
Services	305,337	324,180	156,045	162,693
Selling, general and administrative	100,476	85,019	52,922	48,265
Research and development	6,892	9,873	2,640	4,959
Amortization of purchased intangibles	14,429	11,403	8,494	6,010
Restructuring costs	5,258	203	5,406	203
	626,937	627,622	315,628	332,315
Operating income	30,385	34,007	23,206	22,177
Other income (expense):				
Interest and dividend income	903	363	438	118
Interest expense	(1,933)	(1,613)	(1,062)	(752)
Other income (expense) - net	(900)	40	16	386
Income before income taxes	28,455	32,797	22,598	21,929
Income taxes	34,304	8,248	33,609	5,809
Net income (loss)	(5,849)	24,549	(11,011)	16,120
Less noncontrolling interest in income of VIE	23	69	13	28
Net income (loss) attributable to Cubic	$ (5,872)	$ 24,480	$ (11,024)	$ 16,092
Net income (loss) per share attributable to Cubic				
Basic	$ (0.22)	$ 0.91	$ (0.41)	$ 0.60
Diluted	$ (0.22)	$ 0.91	$ (0.41)	$ 0.60
Dividends per common share	$ 0.14	$ 0.12	$ 0.14	$ 0.12
Weighted average shares used in per share calculations:				

Basic	26,861	26,785	26,862	26,786
Diluted	26,861	26,892	26,862	26,901

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in thousands)

	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net income (loss)	$ (5,849)	$ 24,549	$ (11,011)	$ 16,120
Other comprehensive income (loss):				
Foreign currency translation	(33,057)	11,862	(19,094)	3,645
Change in net unrealized gains/losses from cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	967	(181)	300	(1,288)
Adjustment for net gains/losses realized and included in net income, net of tax	(868)	(23)	(392)	(55)
Total change in net unrealized gains/losses from cash flow hedges, net of tax	99	(204)	(92)	(1,343)
Total other comprehensive income (loss)	(32,958)	11,658	(19,186)	2,302
Total comprehensive income (loss)	$ (38,807)	$ 36,207	$ (30,197)	$ 18,422

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CUBIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	March 31, 2015	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 208,104	$ 215,849
Restricted cash	69,157	69,056
Marketable securities	4,482	1,196
Accounts receivable - net	376,425	394,179
Recoverable income taxes	15,516	16,055
Inventories - net	48,779	38,775
Deferred income taxes and other current assets	28,122	30,277
Total current assets	750,585	765,387
Long-term contract receivables	14,310	15,870
Long-term capitalized contract costs	73,070	76,209
Property, plant and equipment - net	70,754	64,149
Deferred income taxes	2,701	17,849
Goodwill	237,395	184,141
Purchased intangibles - net	85,463	63,618
Other assets	23,670	7,383
	$ 1,257,948	$ 1,194,606
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 55,000	$
Trade accounts payable	22,986	31,344
Customer advances	117,890	91,690
Accrued compensation and other current liabilities	144,082	133,367
Income taxes payable	10,174	12,737
Deferred income taxes	4,773	474
Current portion of long-term debt	514	563
Total current liabilities	355,419	270,175
Long-term debt	101,412	101,827
Other long-term liabilities	58,457	40,103
Shareholders equity:		
Common stock	23,308	20,669
Retained earnings	793,514	803,059
Accumulated other comprehensive loss	(38,330)	(5,372)
Treasury stock at cost	(36,078)	(36,078)
Shareholders equity related to Cubic	742,414	782,278
Noncontrolling interest in variable interest entity	246	223
Total shareholders equity	742,660	782,501
	$ 1,257,948	$ 1,194,606

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating Activities:				
Net income (loss)	$ (5,849)	$ 24,549	$ (11,011)	$ 16,120
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	20,064	15,229	11,117	7,852
Share-based compensation expense	5,291	2,585	4,238	1,725
Changes in operating assets and liabilities net of effects from acquisitions	41,592	(71,662)	48,473	(15,201)
NET CASH PROVIDED BY (USED IN) IN OPERATING ACTIVITIES	61,098	(29,299)	52,817	10,496
Investing Activities:				
Acquisition of businesses, net of cash acquired	(89,460)	(79,683)	(6,037)	(10,708)
Purchases of property, plant and equipment	(2,580)	(10,947)	(1,704)	(6,025)
Purchases of marketable securities	(4,590)		(4,590)	
Proceeds from sales or maturities of marketable securities	1,196	4,055	1,196	4,055
Purchases of other assets	(2,993)		(641)	
NET CASH USED IN INVESTING ACTIVITIES	(98,427)	(86,575)	(11,776)	(12,678)
Financing Activities:				
Proceeds from short-term borrowings	70,000	30,000	10,000	10,000
Principal payments on short-term borrowings	(15,000)		(15,000)	
Principal payments on long-term debt	(269)	(284)	(131)	(144)
Proceeds from issuance of common stock		113		113
Purchases of common stock	(1,723)		(141)	
Dividends paid	(3,627)	(3,215)	(3,627)	(3,215)
Net change in restricted cash	(101)	397	(42)	457
Contingent consideration payments related to acquisitions of businessess		(1,117)		(447)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	49,280	25,894	(8,941)	6,764
Effect of exchange rates on cash	(19,696)	11,431	(11,259)	(615)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,745)	(78,549)	20,841	3,967
Cash and cash equivalents at the beginning of the period	215,849	203,892	187,263	121,376
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 208,104	$ 125,343	$ 208,104	$ 125,343
Supplemental disclosure of non-cash investing and financing activities:				

Liability incurred to acquire DTECH, net	$	8,854	$		$		$	
Liability incurred to acquire Intific, net	$	1,173	$	2,233	$		$	2,233
Liability incurred to acquire ITMS, net	$		$	3,301	$		$	
Liability incurred to acquire internal use software	$	10,800	$		$	10,800	$	

See accompanying notes.

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CUBIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2015

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, with the exceptions discussed within the Audit Committee Investigation and Correction of Immaterial Errors subsections below, considered necessary to fairly state the financial position of Cubic Corporation at March 31, 2015 and September 30, 2014; the results of its operations for the three- and six-month periods ended March 31, 2015 and 2014; and its cash flows for the three- and six-month periods ended March 31, 2015 and 2014. Operating results for the three- and six-month periods ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015. 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, 2014.

In February 2015, we implemented a plan to restructure our defense services and defense systems businesses into a single business called Cubic Global Defense (CGD) to better align our defense business organizational structure with customer requirements, increase operational efficiencies and improve collaboration and innovation across the company. After this restructuring there is now a single, combined management structure for our legacy Cubic Defense Systems (CDS) and legacy Mission Support Services (MSS) segments. However, for segment financial reporting purposes, we continue to report the financial results of our defense systems and defense services segments separately. These two reporting segments have been renamed Cubic Global Defense Systems (CGD Systems) and Cubic Global Defense Services (CGD Services), respectively. There have been no significant changes in the operations that are included in each of these reporting segments as a result of the restructuring.

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.

Audit Committee Investigation

Our Audit Committee has conducted an investigation with the assistance of Latham & Watkins LLP and Deloitte FAS LLP to review our controls and procedures in connection with programs that are accounted for under the percentage of completion method. Through the application of the Company s internal controls, management identified an issue which led to the investigation. As a result of the investigation, the Audit Committee and management of the Company have together determined that as of September 30, 2014, the total estimated costs of certain of our CGD Systems segment contracts were inappropriately reduced during its accounting close for the year ended September 30, 2014. The inappropriate reduction of the estimated costs to complete these contracts resulted in the overstatement of CGD Systems sales and operating income by approximately $750,000 for the fourth quarter and full year of fiscal 2014.

Correction of Immaterial Errors

During the accounting close for our March 31, 2015 financial statements, we identified certain errors, unrelated to the matters described in the paragraph above, in our September 30, 2014 financial statements. These errors included an overstatement of revenue recognition on one contract and the understatement of cost of sales on a small number of contracts. The cumulative impact of these errors resulted in an overstatement of the Company s operating income for the year ended September 30, 2014 of $1.6 million.

The cumulative amount of the errors described in the two paragraphs above overstated the Company s operating income for fiscal 2014 by $2.4 million and understated the Company s operating income for 2013 and prior years, cumulatively, by $0.3 million. The impact of correcting the above mentioned errors in the quarter ended December 31, 2014 understated operating income for the quarter by $2.1 million. The impact of correcting these errors (overstated) understated the following amounts in the quarter ended December 31, 2014 (in thousands):

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	Audit Committee Investigation Error	Other Errors	Total Errors
Net sales:			
Products	$ 747	$ 517	$ 1,264
Costs and expenses:			
Products		138	138
Services		438	438
Selling, general and administrative		(1,385)	(1,385)
		(809)	(809)
Operating income	747	1,326	2,073
Income before income taxes	747	1,326	2,073
Income taxes	299	490	789
Net income attributable to Cubic	$ 448	$ 836	$ 1,284

Based on a qualitative and quantitative analysis of these errors, management concluded that all such errors are cumulatively and individually considered immaterial to the 2014 financial statements and are immaterial to the expected full year results for 2015 and had no effect on the trend of financial results. As such, these errors have been corrected in the financial statements for the quarter ended December 31, 2014.

Interim Goodwill Impairment Test

Goodwill represents the purchase price paid in excess of the fair value of net tangible and intangible assets acquired. Goodwill is not amortized but is subject to an impairment test on an annual basis and when circumstances indicate that an impairment is more likely than not. Such circumstances include a significant adverse change in the business climate for one of our reporting units or a decision to dispose of a reporting unit or a significant portion of a reporting unit.

At March 31, 2015 our Defense Services reporting unit had $94.4 million of goodwill. In the second quarter of fiscal 2015, we learned that our Defense Services business had not won two contracts for new work on which it had submitted proposals. Consequently, in the second quarter our Defense Services business lowered its internal profitability projections. As such, in the second quarter of fiscal 2015 we believed that it was appropriate to perform an interim goodwill impairment test for our Defense Services reporting unit.

The test for goodwill impairment is a two-step process. The first step of the test is performed by comparing the fair value of each reporting unit to its carrying value, including recorded goodwill. If the carrying value of a reporting unit exceeds its fair value, the second step is performed to measure the amount of the impairment, if any, by comparing the implied fair value of goodwill to its carrying value. Any resulting impairment determined would be recorded in the current period.

Determining the fair value of a reporting unit for purposes of the goodwill impairment test is judgmental in nature and involves the use of estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market multiples from publicly traded comparable companies. These approaches use significant estimates and assumptions including projected future cash flows, discount rate reflecting the inherent risk in future cash flows, perpetual growth rate and determination of appropriate market comparables. Based upon the results of the first step of the impairment analysis that we performed, the estimated fair value for our Defense Services reporting unit exceeded its carrying value. As such, no impairment of goodwill was recorded in connection with our interim impairment test.

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Unforeseen negative changes in future business or other market conditions for any of our reporting units including margin compression or loss of business, could cause recorded goodwill to be impaired in the future. Also, changes in estimates and assumptions we make in conducting our goodwill assessment could affect the estimated fair value of our reporting units and could result in a goodwill impairment charge in a future period.

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 for the year ended September 30, 2014.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* which requires companies to present in the financial statements an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except to the extent such items are not available or not intended to be used at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position. In such instances, the unrecognized tax benefit is required to be presented in the financial statements as a liability and not be combined with deferred tax assets. This amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Accordingly, we adopted this standard in the first quarter of fiscal year 2015. This adoption did not have a significant impact on our financial statements.

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments contained in this update change the criteria for reporting discontinued operations and enhance the reporting requirements for discontinued operations. Under the revised standard, a discontinued operation must represent a strategic shift that has or will have a major effect on an entity s operations and financial results. Examples could include a disposal of a major line of business, a major geographical area, a major equity method investment, or other major parts of an entity. The revised standard will also allow an entity to have certain continuing cash flows or involvement with the component after the disposal. Additionally, the standard requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. We adopted this standard in the second quarter of fiscal year 2015. This adoption did not have a significant impact on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance and will require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. ASU 2014-09 will be effective for us starting in the first quarter of fiscal 2018. However, on April 1, 2015, the FASB voted to propose a one-year deferral to the effective date, but to permit entities to adopt one year earlier if they choose (i.e., the original effective date). The proposal will be subject to the FASB s due process requirement, which includes a period for public comments. ASU 2014-09 allows for two methods of adoption: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the fiscal 2018 opening retained earnings balance. We have not yet determined which method of adoption we will select. As the new standard will supersede substantially all existing revenue guidance affecting us under GAAP, it could impact revenue and cost recognition on a significant number of contracts across our business segments, in addition to our business processes and our information technology systems. As a result, our evaluation of the effect of the new standard will likely extend over several future periods.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern*, which requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. This adoption is not expected to have a significant impact on our financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. The new standard modifies current guidance on consolidation under the variable interest model and the voting model. ASU 2015-02 will be effective for the Company beginning in the first quarter of fiscal 2016. We are currently evaluating the impact of the ASU 2015-02 on our financial statements.

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Note 2 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.

DTECH LABS, Inc.

On December 16, 2014 we acquired all of the outstanding capital stock of DTECH LABs, Inc. (DTECH). DTECH, based in Sterling, VA, is a provider of modular networking and baseband communications equipment and adds networking capability to our secure communications business in our CGD Systems segment. In addition, this acquisition expands the portfolio of product offerings and the customer base of our CGD Systems segment.

For the three months ending March 31, 2015, the amount of DTECH s sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) were $10.8 million and $1.0 million, respectively. For the six months ended March 31, 2015, the amount of DTECH s sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) were $11.8 million and $1.8 million, respectively. Included in DTECH s operating results for the six months ended March 31, 2015 are $0.8 million of transaction and acquisition related costs before related income taxes.

The purchase agreement states that the cost of the acquisition is approximately $99.5 million, adjusted by the difference between the net working capital acquired and the targeted working capital amounts and adjusted for other acquisition related payments made upon closing, plus a contingent amount of up to $15.0 million based upon DTECH s achievement of revenue and gross profit targets in the future. The acquisition date fair value of the consideration transferred is estimated to be $99.2 million. In December 2014, we paid cash of approximately $83.4 million and in March 2015, we paid cash of approximately $6.0 million. At March 31, 2015 we have recorded a liability of $8.9 million as an estimate of the fair value of additional cash consideration that will be due to the seller in the future. The fair value of the additional consideration is made up of two components, the holdback consideration and the contingent consideration.

Approximately $5.4 million of cash consideration (Holdback Consideration) will be paid to the seller over time when certain events occur in the future. The fair value of the Holdback Consideration is estimated to approximate $5.0 million using a discounted cash flow model, based upon the expected timing of the payment of the Holdback Consideration. In addition to the Holdback Consideration, we will pay the seller up to $15.0 million of contingent cash consideration based upon DTECH s achievement of revenue and gross profit targets. The purchase agreement specifies independent revenue and gross profit targets for the period from our acquisition of DTECH through September 30, 2015, and separately for each of fiscal 2016 and fiscal 2017. The total fair value of the contingent consideration has been estimated at $3.9 million using a real options approach (see Note 5 for further discussion of fair value measurements). The contingent consideration liability will be re-measured to fair value at each reporting date until the contingency is resolved and any changes in fair value will be recognized in earnings. There has been no 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 acquisition of DTECH was paid for with a combination of funds from our existing cash resources and borrowings on our revolving credit facility. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Customer relationships	$	35.1
Non compete agreements		0.7
Backlog		2.1
Cash		0.9
Accounts receivable		5.4
Inventory		4.1
Warranty obligation		(0.4)
Tax liabilities		(3.3)
Accounts payable and accrued expenses		(3.4)
Other net assets acquired		0.2
Net identifiable assets acquired		41.4
Goodwill		57.8
Net assets acquired	$	99.2

The estimated fair values of the assets acquired and liabilities assumed, including the fair value of purchased intangibles, are preliminary estimates pending the finalization of our valuation analyses. The estimated fair value of the accounts receivable, inventory, warranty obligation, accounts payable and accrued expenses will be finalized as further information is received from the seller regarding these items and analysis of this information is completed.

The preliminary 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 agreements used the with-and-without 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 expected to be deductible for tax purposes.

The goodwill resulting from the acquisition consists primarily of the synergies expected from combining the operations of DTECH with our existing CGD Systems business, including the synergies expected from combining the networking and secure communications technologies of DTECH, and complementary products that will enhance our overall product and service portfolio. The goodwill also consists of the value of the assembled workforce that became our employees following the close of the acquisition. The amount recorded as goodwill is allocated to our CGD Systems segment and is 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 DTECH for future periods is as follows (in millions):

Year Ended
September 30,

2015	$	9.2
2016		8.0
2017		6.8
2018		5.5
2019		4.1
Thereafter		4.3

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Intific

On February 28, 2014 we acquired all of the outstanding capital stock of Intific Inc. (Intific). Intific is focused on software and game-based solutions in modeling and simulation, training and education, cyber warfare, and neuroscience. The acquisition of Intific expanded the portfolio of services and customer base of our CGD Systems segment.

For the three months ended March 31, 2015, the amount of Intific s sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) were $3.4 million and $0.5 million, respectively. For the three months ended March 31, 2014, the amount of Intific s sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) 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.

For the six months ended March 31, 2015, the amount of Intific s sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) were $6.8 million and $1.2 million, respectively.

The acquisition date fair value of the consideration transferred was $12.4 million. Through March 31, 2015, we have paid cash of approximately $11.2 million to the seller and as of March 31, 2015 we have accrued a liability of $1.2 million for the remaining cash to be paid.

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 assets		1.5
Accounts payable and accrued expenses		(0.6)
Deferred tax liabilities		(1.5)
Other net assets acquired		0.5
Net identifiable assets acquired		5.0
Goodwill		7.4
Net assets acquired	$	12.4

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 and the amortization expense is not expected to be deductible for tax purposes.

The net deferred tax assets and liabilities offset each other to a negligible amount. However, the deferred tax liabilities of $1.5 million 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 deferred tax assets of $1.5 million primarily related to the future tax deduction for the cancellation of unvested options.

The goodwill resulting from the acquisition consists primarily of the synergies expected from combining the operations of Intific with our existing CGD Systems 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 CGD Systems segment and is not expected to be deductible for tax purposes.

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The estimated amortization expense related to the intangible assets recorded in connection with our acquisition of Intific for future periods is as follows (in millions):

Year Ended September 30,		
2015	$	0.9
2016		0.7
2017		0.6
2018		0.5
2019		0.2
Thereafter		0.1

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.

For the three months ended March 31, 2015, the amount of ITMS sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) were $12.2 million and $0.5 million, respectively. For the three months ended March 31, 2014, the amount of ITMS sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) were $12.6 million and $0.2 million, respectively.

For the six months ended March 31, 2015, the amount of ITMS sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) were $22.2 million and $1.6 million, respectively. For the six months ended March 31, 2014, the amount of ITMS sales and net loss after taxes included in our Condensed Consolidated Statement of Income (Loss) 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 acquisition date fair value of the consideration transferred was $72.2 million. We paid the seller cash of $69.0 million in November 2013 and in May 2014, we paid the remaining cash of $3.2 million

The following table summarizes the 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		(2.6)
Accounts payable and accrued expenses		(4.6)
Other net assets acquired		2.6
Net identifiable assets acquired		31.4
Goodwill		40.8
Net assets acquired	$	72.2

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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. Future amortization of purchased intangibles is not 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.

The estimated amortization expense related to the intangible assets recorded in connection with our acquisition of ITMS for future periods is as follows (in millions):

Year Ended September 30,		
2015	$	5.9
2016		4.9
2017		3.9
2018		2.9
2019		0.9
Thereafter		0.1

Changes in goodwill for the six months ended March 31, 2015 were as follows (in millions):

	Cubic Global	**Cubic Global**