

CUBIC CORP /DE/  
Form 10-K  
November 26, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**  
**EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended September 30, 2014**

**Commission File Number 001-08931**

**CUBIC CORPORATION**

Exact Name of Registrant as Specified in its Charter

**Delaware**  
State of Incorporation

**95-1678055**  
IRS Employer Identification No.

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

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Securities registered pursuant to Section 12(b) of the Act:

**Common Stock**  
Title of each class

**New York Stock Exchange, Inc.**  
Name of exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

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

The aggregate market value of 20,224,387 shares of common stock held by non-affiliates of the registrant was: \$1,032,859,444 as of March 31, 2014, based on the closing stock price on that date. Shares of common stock held by each officer and director and by each person or group who owns 10% or more of the outstanding common stock have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of November 6, 2014 including shares held by affiliates is: 26,860,299 (after deducting 8,945,300 shares held as treasury stock).

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with its 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission subsequent to the date hereof but not later than 120 days after registrant's fiscal year ended September 30, 2014.

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Table of Contents

**CUBIC CORPORATION**

ANNUAL REPORT ON FORM 10-K

For the Year Ended September 30, 2014

TABLE OF CONTENTS

	<b>Page No.</b>
<b><u>Part I</u></b>	
<u>Item 1.</u>	3
<u>Item 1A.</u>	14
<u>Item 1B.</u>	29
<u>Item 2.</u>	29
<u>Item 3.</u>	31
<u>Item 4.</u>	32
<b><u>Part II</u></b>	
<u>Item 5.</u>	32
<u>Item 6.</u>	32
<u>Item 7.</u>	33
<u>Item 7A.</u>	53
<u>Item 8.</u>	55
<u>Item 9.</u>	96
<u>Item 9A.</u>	96
<b><u>Part III</u></b>	
<u>Item 10.</u>	99
<u>Item 11.</u>	99
<u>Item 12.</u>	99
<u>Item 13.</u>	99
<u>Item 14.</u>	99
<b><u>Part IV</u></b>	
<u>Item 15.</u>	100
	101

Table of Contents

**PART I**

**Item 1. BUSINESS.**

**GENERAL**

CUBIC CORPORATION (Cubic) is a leading international provider of cost-effective systems and solutions that address the mass transit and global defense markets' most pressing challenges. We believe that we have significant transportation and defense industry expertise which, combined with our innovative technology capabilities, contributes to our leading customer positions and allows us to deepen and further expand each of our business segments in key markets. We operate in three reportable business segments across the global transportation and defense markets.

Our Cubic Transportation Systems (CTS) business accounted for approximately 43% of our sales in fiscal year 2014. CTS specializes in the design, development, production, installation, maintenance and operation of automated fare payment, traffic management and enforcement solutions, real-time information collection systems, and revenue management infrastructure and technologies for transportation agencies. As part of our turnkey solutions, CTS also provides these customers with a comprehensive suite of business process outsourcing (BPO) services and expertise, such as card and payment media management, central systems and application support, retail network management, passenger call centers and financial clearing and settlement support. As transportation authorities seek to optimize their operations by outsourcing bundled systems and services, CTS has transformed itself from a provider of automated fare collection (AFC) systems into a systems integrator and services company focused on the intelligent transportation market.

Our complementary defense businesses, Mission Support Services (MSS) and Cubic Defense Systems (CDS), provided approximately 57% of our sales in fiscal year 2014. MSS provides comprehensive training and exercise, operations analysis, and modeling and simulation support, as well as training analysis, curriculum design, and operations and maintenance services to all four branches of the U.S. military, including the special operations forces, as well as to allied nations. In addition, MSS offers a broad range of highly specialized national security solutions to the intelligence community. CDS is a leading provider of realistic, high-fidelity air, ground combat, surface, and cyber training systems for the U.S. and allied nations. These training solutions offer the latest live, virtual, constructive, and game-based technology, integrated to optimize training effectiveness. CDS is also a key supplier of secure communications solutions, including Intelligence, Surveillance and Reconnaissance (ISR) data links, personal locator systems for search and rescue missions, and high power amplifiers for HF communications, and cross domain products.

We have a broad customer base across our businesses, with approximately 63% of our fiscal year 2014 sales generated from the U.S. federal, state and local governments. Approximately 7% of these domestic sales were attributable to Foreign Military Sales, which are sales to allied foreign governments facilitated by the U.S. government. The remainder of our fiscal year 2014 sales were attributable to sales to foreign government agencies and municipalities. In fiscal year 2014, 58% of our total sales were derived from services, with product sales accounting for the remaining 42%. Headquartered in San Diego, California, we had approximately 7,900 employees working on 4 continents and in 23 countries as of September 30, 2014.

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We were incorporated in the State of California in 1949 and began operations in 1951. In 1984, we moved our corporate domicile to the State of Delaware. Our internet address is [www.Cubic.com](http://www.Cubic.com). The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports can be found on our internet website under the heading "Investor Relations". We make these reports readily available free of charge in a reasonably practicable time after we electronically file these materials with the Securities and Exchange Commission (the SEC).

### **BUSINESS SEGMENTS**

Information regarding the amounts of revenue, operating profit and loss and identifiable assets attributable to each of our business segments, is set forth in Note 16 to the Consolidated Financial Statements for the year ended September 30, 2014. Additional information regarding the amounts of revenue and operating profit and loss attributable to major classes of products and services is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations," which follows in Item 7 of this Form 10-K.

### **TRANSPORTATION SYSTEMS SEGMENT**

CTS is a systems integrator of payment and information technology and services for intelligent travel solutions. We deliver integrated systems for transportation and traffic management, delivering tools for travelers to choose the smartest and easiest way to travel and pay for their journeys, and enabling transportation authorities and agencies to manage demand across the entire transportation network.

Table of Contents

all in real time. We offer fare collection and revenue management devices, software, systems and multiagency, multimodal integration technologies, as well as a full suite of operational services that help agencies and operators efficiently collect fares and revenue, manage operations, reduce revenue leakage and make transportation more convenient. Through our NextBus and ITMS businesses, respectively, we also deliver real-time passenger information systems for tracking and predicting vehicle bus arrival times and we are a leading provider of urban and inter-urban intelligent transportation and enforcement solutions and technology and infrastructure maintenance services to UK and other international city, regional and national road and transportation agencies. Through our Urban Insights business we use big data and predictive analytics technology and a consulting model to help the transportation industry improve operations, reduce costs and better serve travelers.

CTS is comprised of approximately 2,100 employees working in major transportation markets worldwide. As an established partner with transportation authorities and operators worldwide, we have installed over 130,000 devices and deployed over 20 regional central systems which in total process approximately 24 billion fare-related transactions per year, generating more than \$18 billion of revenue per year for such transportation authorities and operators. Products accounted for 47% of the segment's fiscal year 2014 sales, with services accounting for the remaining 53%.

We believe that we hold the leading market position in large-scale automated fare payment and revenue management systems and services for major metropolitan areas. CTS has delivered over 20 regional back office operations which together serve over 38 million people every day in major markets around the world. We have implemented and, in many cases, operate automated fare payment and revenue management systems for some of the world's largest transportation systems, such as London (Oyster®), Chicago (Ventra®), the San Francisco Bay Area (Clipper®) and the Los Angeles region (TAP®). In addition we have numerous active projects worldwide, including in the New York (Metrocard®) / New Jersey (PATCO®, PATH Smartlink®) region, Chicago (Ventra®), Vancouver, Sydney, Brisbane, the Frankfurt / RMV region, Sweden, the Washington, D.C. / Maryland / Virginia region, the San Diego region, Miami, Minneapolis / St. Paul and Atlanta. In addition to helping us secure similar projects in new markets, our comprehensive suite of new technologies and capabilities enables us to benefit from a recurring stream of revenues in established markets resulting from innovative new services, technology obsolescence, equipment refurbishment and the introduction of new or adjacent applications.

Consistent with our history of creating next-generation, state-of-the-art technologies and systems, we are in the process of developing and implementing components of our NextCity® initiative, which envisions integrated payment and information technology and services across all modes of transport and which has been furthered by our acquisitions of NextBus and ITMS, as well as the launch of Urban Insights. NextCity comprises a fully integrated solution offering innovative fare payment and revenue management technologies, such as contactless bank cards, general purpose reloadable (GPR) cards, transit branded debit/credit cards and near field communication (NFC) phones directly at the point of travel, predictive data analytics, and intermodal compatibility across an entire transportation network. Two key information technology (IT) components of NextCity are the creation and distribution of real-time data through the integration of payment and information systems, ultimately enabling operators to manage demand and customers to manage their travel through improved data analytics and seamless access to predictive and relevant information, as well as the specialization in the development and supply of complex traffic management systems for the monitoring and control of urban and inter-urban road networks, encompassing integrated traffic and incident management, decision support, vehicle tracking and passenger information through integrated user interfaces.

Our hardware systems and services offerings are summarized as follows:

<b>Devices</b>	<b>Systems</b>	<b>Services</b>
<ul style="list-style-type: none"> <li>• Point-of-sale</li> <li>• Farebox</li> </ul>	<ul style="list-style-type: none"> <li>• Multimodal payment and revenue management</li> <li>• Bus</li> </ul>	<ul style="list-style-type: none"> <li>• Central system and application support</li> <li>• Systems operation and maintenance</li> </ul>

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- Driver control units
  - Gates
  - Validators
  - Vendor
  - Back office
- encoders
- Depot computers
  - ITS equipment
- Bus Rapid Transit
  - Rail
  - Light rail
  - Commuter rail
  - Heavy Rail
- Subway
  - Ferries
  - Parking
  - Tolling
  - Other modes
  - Regional
  - Smart card-based
  - Open payment
  - Credit cards
  - NFC mobile phones
  - GPR cards
  - Central system and device level software
  - Real-time passenger information
  - Automatic vehicle location
  - Traffic management systems
  - Traffic safety enforcement systems
- Field asset management services
  - Passenger call centers
  - Card and payment media management
  - Communications infrastructure management
  - Financial clearing and settlement services
- Retail network management
  - Web support services
  - Technology maintenance services for international government road and transportation agencies



Table of Contents

Industry Overview

We define our addressable transportation market as large-scale, multi-modal AFC, Real-Time Passenger Information and Intelligent Transport systems and services and estimate this market to be approximately \$4 billion annually. We project the long-term growth for this market to be driven primarily by customer infrastructure expansion as well as technological obsolescence leading to replacement and upgrades. The average lifecycle of our automated fare collection systems is approximately 10 years, providing long-term recurring sales visibility and opportunities for future replacements and upgrades. Also, there are additional opportunities that stem from entry into new geographies and program expansion into new areas, such as intelligent transportation systems and services, analytics, mobile payment and information technologies, and revenue collection systems and services for other transportation applications such as tolling and parking, which we believe increase the global addressable market from \$4 billion to approximately \$12 billion. We believe industry experience, past performance, technological innovation and price are the key factors customers consider in awarding programs and such factors can serve as barriers to entry to potential competitors when coupled with scale and the upfront investments required for these programs.

The AFC business is a niche market which is only capable of sustaining a relatively few number of suppliers. Due to the long life expectancy of these systems and the few companies with the capabilities to supply them, there is fierce competition to win new contracts, often resulting in low initial contract profitability.

Advances in communications, networking and security technologies are enabling interoperability of multiple modes of transportation within a single networked system, as well as interoperability of multiple transit operators within a single networked system. As such, there is a growing trend for regional payment systems, usually built around a large transit agency and including neighboring operators, all sharing a common regional transit payment media. Recent transit agency procurements for open payment fare systems will extend the acceptance of payment media from transit smart cards, to contactless bank cards and Near Field Communication (NFC) enabled smart phones.

There is also an emerging trend for other applications to be added to these regional systems to expand the utility of the transit payment media, offering higher value and incentives to the end users, and lowering costs and creating new revenue streams through the integration of multi-modal and multi-operator systems for the regional system operators. As a result, these regional systems have created opportunities for new levels of systems support and services including customer support call centers and web support services, smart card production and distribution, financial clearing and settlement, retail merchant network management, transit benefit support, and software application support. In some cases, operators are choosing to outsource the ongoing operations and commercialization of these regional payment systems. This growing new market provides the opportunity to establish lasting relationships and grow revenues and profits over the long term.

Our NextBus business uses a software-as-a-service solution NextBus technologies provide transit passengers with accurate, real-time predicted arrival information about buses, subways and trains, and include real-time management and dispatch tools that enable transit operators to effectively manage their systems.

Through the acquisition of Intelligent Transport Management Solutions Limited (ITMS), we have broadened our portfolio of information based solutions and transportation agency customers. ITMS is a provider of traffic management systems technology, traffic and road enforcement and the maintenance of traffic signals, emergency equipment and other critical road and tunnel infrastructure. The ITMS acquisition is part of our NextCity vision and it expands CTS potential market beyond fare collection and real-time passenger information.

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Urban Insights combines a consulting and services team with specific data science methods and a cloud-based big data and predictive analytics platform to generate business insight discovery that helps transportation planners and administrators quickly comprehend what needs to be done to advance service quality for their customers and optimize urban transportation networks. Urban Insights harnesses the power of big data and predictive analytics to help the transportation industry improve operations, reduce costs and better serve travelers.

Table of Contents

**Raw Materials** CTS

Raw materials used by CTS include sheet steel, composite products, copper electrical wire and castings. A significant portion of our end product is composed of purchased electronic components and subcontracted parts and supplies. We procure all of these items from third-party suppliers. In general, supplies of raw materials and purchased parts are adequate to meet our requirements.

**Backlog** CTS

Funded sales backlog of CTS at September 30, 2014 and 2013 amounted to \$1.995 billion and \$1.526 billion, respectively. We expect that approximately \$508 million of the September 30, 2014 backlog will be converted into sales by September 30, 2015.

**CTS Competitive Environment:**

We are one of several companies specializing in the provision of automated fare collection systems solutions and services for transportation operators worldwide. Our competitors include Thales, Xerox, Kapsch, Imtech and Scheidt & Bachmann. The requirements of recent open standards fare collection system procurements call for system integration with payment industry infrastructures and outsourcing of longer term IT support functions, which can be attractive to other IT system integrators such as Accenture, LG Corp., and IBM. In addition, there are many smaller local competitors, particularly in European and Asian markets.

For large tenders, our competitors may form consortiums that could include telecommunications companies, financial institutions and consulting companies in addition to the companies noted above. These procurement activities are very competitive and require that we have highly skilled and experienced technical personnel to compete.

We believe that our competitive advantages include intermodal and interagency regional integration expertise, technical skills, past contract performance, systems quality and reliability, experience in the industry and long-term customer relationships.

Table of Contents

**MISSION SUPPORT SERVICES SEGMENT**

MSS is a leading provider of training, operations, intelligence, maintenance, technical, and other support services to the U.S. government and its agencies and allied nations. These services complement the systems and solutions provided by the CDS segment. MSS is comprised of approximately 4,000 employees working in 14 nations throughout the world. Our employees serve with clients in actual training and operational environments to help prepare and support forces through the provision of comprehensive training, exercises, staff augmentation, education, operational, intelligence, technical, and logistical assistance to meet the full scope of their assigned missions. The scope of mission support that we provide includes: training and rehearsals for both small and large scale combat operations; training and preparation of military advisor and training teams; combat and material development; military staff augmentation; information technology and information assurance; logistics and maintenance support for fielded and deployed systems; support to national intelligence and special operations activities; peacekeeping; consequence management; and humanitarian assistance operations worldwide. We also plan, prepare, execute and document realistic and focused mission rehearsal exercises (using both live and computer-based exercises) as final preparation of forces prior to deployment. In addition, we provide high level consultation and advisory services to the governments and militaries of allied nations.

U.S. government service contracts are typically awarded on a competitive basis with options for multiple years. We typically compete as a prime contractor to the government, but also team with other companies on select opportunities. Over the last several years we have experienced a number of challenges in the defense services market, including sequestration, reductions in the U.S. government's budgets, increased price competition, contract awards for shorter performance periods, and we have seen an increased amount of required subcontracting to small businesses as a result of the U.S. government's increased emphasis on meeting small business contracting mandates. In addition, some of the contracts where we were the prime contractor in the past have been set aside at re-compete for participation by small businesses only.

Much of our early work centered on battle command training and simulation in which military commanders are taught to make correct decisions in battlefield situations. Our comprehensive business base has broadened to include integrated live, virtual and constructive training support; advanced distance learning and other professional military education; comprehensive logistics and maintenance support; weapons effects and analytical modeling; analysis, training, and other support to the national security community, including intelligence and special operations forces; homeland security training and exercises; training and preparation of U.S. Army and Marine Corps foreign service advisor teams; and military force modernization. Additionally, we support the deployment and re-deployment of both active and reserve component forces; and we provide in-country logistics, maintenance, operational and training support to U.S. Forces deployed in overseas locations.

Our contracts include providing mission support services to all four of the U.S. Army's major combat training centers (CTCs): Joint Readiness Training Center (JRTC) as prime contractor, the National Training Center (NTC) and Mission Command Training Program (MCTP) as a principal subcontractor and the Joint Multinational Readiness Center (JMRC) as prime contractor supporting constructive simulations. These services include planning, executing and documenting realistic and stressful large scale exercises and mission rehearsals that increase the readiness of both active and reserve U.S. conventional and special operations forces by placing them in situations as close to actual combat as possible.

For the U.S. Armed Services, MSS is a principal member of the contractor team that supports and helps manage and execute all aspects of the operations of the Joint Force Development (JFD), including support to worldwide joint exercises and the development and fielding of the Joint National Training Capability (JNTC). We provide training and professional military education support to the U.S. Army's Quartermaster Center and School, the Signal School and to the Transportation School. We also provide contractor maintenance and instructional support necessary to operate and maintain a wide variety of flight simulation and training systems and other facilities worldwide, for U.S. and allied forces under multiple long-term contracts, including direct support to USMC aircrew training systems worldwide instructional support services for the Chief of Naval Aviation Training program and with a new award in 2014 support to the Navy helicopter simulator maintenance program. In addition, we provide a broad range of operational support to the U.S. Navy for Anti-Submarine Warfare (ASW) and counter-mine operations and training.

We provide comprehensive support to help plan, manage and execute Defense Threat Reduction Agency (DTRA) worldwide consequence management exercise program, which trains senior U.S. and allied civilian and military personnel, first responders and other users of DTRA products. Additionally as a subcontractor we support the DTRA with technology-based engineering and other services necessary to accomplish DTRA's mission of predicting and defeating the effects of chemical, biological, radiological, nuclear and high explosive (CBRNE) weapons. We support DTRA with modeling and simulations to analyze, assess and predict the effects of such weapons in combat and other environments.

We provide Research, Development and Technical Engineering (RDTE) support to the U.S. Air Force Research Laboratories (AFRL) for assistance in the identification and application of current, new and emerging technologies leading to proof-of-principle evaluations of advanced operational concepts.

Table of Contents

We have multiple contracts with all U.S. Armed Services and other government agencies to improve the quality and reach of training and education of individuals and small teams up through collective training of large organizations. Our services, products and capabilities include development and deployment of curriculum and related courseware, computer-based training, knowledge management and distribution, advanced distance learning (e-learning), serious military games for training and other advanced education programs for U.S. and allied forces.

An important part of our services business is to provide specialized teams of military experts to advise the governments and militaries of the nations of the former Warsaw Pact and Soviet Union, and other former communist countries in the transformation of their militaries to a NATO environment. These very broad defense modernization contracts involve both the nations' strategic foundation and the detailed planning of all aspects of reform. We also develop and operate battle simulation centers for U.S. forces in Europe, as well as for select countries in Central and Eastern Europe.

Through the acquisitions of Abraxas Corporation (Abraxas) in December 2010 and certain assets of NEK Special Programs Group, LLC (which were placed in NEK Services, Inc.) (NEK) in December 2012, we have expanded our support services to the military and national intelligence communities, as well as for special operations, law enforcement and homeland security clients. With these acquisitions and our organic skillsets, we are broadening our service offerings across the U.S. Department of Defense (DoD) and national security markets to pursue prime contract opportunities.

We believe the combination and scope of our mission support services and training systems business is unique in the industry, permitting us to offer customers a complete training and combat readiness capability from one source.

**Backlog MSS**

Funded sales backlog of our MSS segment at September 30, 2014 was \$171 million compared to \$221 million at September 30, 2013. Total backlog, including unfunded options under multiyear service contracts, was \$616 million at September 30, 2014 compared to \$627 million at September 30, 2013. We expect that approximately \$261 million of the September 30, 2014 total backlog will be converted into sales by September 30, 2015.

**DEFENSE SYSTEMS SEGMENT**

CDS is focused on two primary lines of business: training systems and secure communications (SC) products. The first line of business, training systems, is well diversified and supplies to the DoD and 40 allied nations. It is a market leader in live and virtual military training systems and has launched an emerging and fast growing presence in game-based training systems. Training systems provided by CDS include customized military range instrumentation systems, live-fire range design and maintenance, laser-based training systems, virtual simulation systems, and game-based synthetic training environments. The second line of business, SC, includes ISR data links, power amplifiers, avionics systems, multi-band communication tracking devices, and cross domain products to solve data access challenges across multi-level security designations. CDS is comprised of approximately 1,600 employees working in 12 nations on 4 continents.

## Training Systems

Our training systems business is a pioneer and market leader in the design, innovation, and manufacture of instrumented training systems and products for the US military and the militaries of allied nations. We design and manufacture realistic, high-fidelity air, ground, surface, and cyber training systems. They are implemented in both live and synthetic training environments, and are used to effectively deliver a range of training objectives, such as training for fighter pilots, ground troops, infantry, armored vehicles, ship operation and maintenance personnel, cyber warriors, and special operations forces. These systems deliver stressful scenarios and weapons effects, collect event and tactical performance data, record simulated engagements and tactical actions, and deliver after actions reviews to evaluate individual and collective training effectiveness.

Strategically CDS is very well positioned to lead the increasing trend to fully integrated solutions that connect live, virtual, constructive, and game-based training environments into a seamless training event. Our training business portfolio is currently organized into air combat, ground combat, virtual training, cyber training, and game-based advanced learning systems.

Table of Contents

*Air Combat Training Systems*

In air combat, Cubic was the initial developer and supplier of Air Combat Maneuvering Instrumentation (ACMI) capability during the Vietnam War, which provides advanced live training to fighter pilots around the world. The ACMI product line has progressed through five generations of technologies and capabilities. The latest generation, the P5 ACMI, provides advanced air combat training capability to the U.S. Air Force, Navy and Marine Corps, and has solidified Cubic's market leading position. We have also developed a broad international base for this product, particularly in Asia Pacific and the Middle East. In addition to procuring the ACMI training system, many nations also rely on Cubic for on-site operations and maintenance support.

*Ground Combat Training Systems*

CDS is a leading provider of realistic, easy-to-use, high fidelity, reliable, and cost effective tactical engagement simulation systems that minimize user set-up time and increase training effectiveness. Our leadership role in instrumented training was established during the 1990s when Cubic provided turnkey systems for U.S. Army training centers including the Joint Readiness Training Center (JRTC) at Fort Polk, Louisiana and the Combat Maneuver Training Center (CMTTC) at Hohenfels, Germany, now known as the Joint Multinational Readiness Center. Since the completion of these original contracts, we have significantly expanded our market footprint with the sale of fixed, mobile and urban operation training centers to uniformed military and security forces in the U.S. and allied nations around the world. Our Laser-based tactical engagement simulation systems, widely known as the Multiple Integrated Laser Engagement Systems (MILES), are used at CTCs to enable realistic training without live ammunition. Cubic MILES are being utilized by all branches of the U.S. Armed Services, as well as the Department of Energy, and numerous international government customers. We have increased our focus on joint training solutions and those that can operate simultaneously in multiple simulation environments including live, virtual, constructive and gaming domains. In fiscal year 2013 we acquired the assets of Advanced Interactive Systems (AIS), which provides live fire training solutions to US and international forces, further deepening our training capabilities and expanding our customer base.

*Virtual Training Systems*

Our Virtual Training product line provides virtual training systems for various applications, employing actual or realistic weapons and systems together with visual imagery to simulate battlefield environments. Cubic provides Engagement Skills Trainers for small arms training, maintenance trainers for combat systems and vehicles, as well as operational trainers for missiles, armored vehicles and naval applications. In fiscal year 2013, we significantly expanded our virtual training portfolio through a \$298.5 million indefinite delivery/indefinite quantity (ID/IQ) award to provide immersive game based training for the Littoral Combat Ship (LCS). This award became the genesis of our Game-Based Learning Systems business described below. In fiscal year 2014, we were awarded a \$112.9 million ID/IQ contract from the Naval Air Systems Command, Training Systems Division (NAWCTSD) to develop hands-on training devices, desktop trainers and simulators for each variant of the LCS Mission Bays.

*Cyber Training Systems*

Driven by the highly dynamic and complex nature of cyber-attacks, cyber security solutions are transitioning from traditional perimeter defenses to integrated analytical tools to evaluate threats/intrusions in real-time. The underlying shift to cloud-based services and Big Data places a



premium on rapid detection and analysis of cyber threats particularly for military and intelligence customers. Cyber considerations are also assuming greater prominence in mission rehearsal and tactical exercises. Within the rapidly growing market, and in response to specific customer needs, CDS is developing a repository of threats, unique network topology modeling, and remote provisioning to simulate cyber effects on DoD systems/missions. Unlike expensive stovepipe hardware solutions, this approach allows the company to engage the market more broadly and with far greater flexibility. Ultimately, this solution can be offered to commercial entities as well.

#### *Game-Based Learning Systems*

The \$298.5 million LCS courseware contract win by the Simulation Systems Division during 2013 has opened a large new market for CDS. A key discriminator in the LCS proposal was the use of a high fidelity gaming engine that allows Avatars to instruct students at their own pace in an immersive environment based on realistic graphics. By integrating instructional material into a gaming environment we have dramatically reduced instructor costs and provided a platform that is ideal for embedded training. These technologies are easily transferrable to different training domains and subject matter. The experiential learning environment can be augmented with intelligent tutoring and assessment tools increasing the value of this approach. At present the company is investing in the appropriate tool sets and staffing resources to meet the Navy's requirements. Near-term opportunities include other Navy and DoD customers, while longer-term applications under consideration exist in commercial markets such as education, health care, and retail.

#### **Secure Communications**

Our secure communications products business supplies secure data links, search and rescue avionics, high power RF amplifiers, cyber security appliances, and asset tracking solutions for the U.S. military, government agencies, and allied nations.

Table of Contents

*Data Links*

Our data links portfolio originated with the U.S. Army/Air Force Joint STARS system during the 1980s, and we continue to supply ISR data links to US and international forces today. More recently we have focused on the supply of Common Data Link (CDL) products for ship borne applications, unmanned aerial vehicles (UAV), remote video terminals and hand-held products. Smaller, tactical versions of our Common Data Link have been selected for both UAV and remote video terminal applications such as the U.K. s Watchkeeper and the U.S. Navy s Fire Scout MQ-8 UAV programs.

*Personal Locator System and Power Amplifiers*

Our Personnel Locator System (PLS) is standard equipment on U.S. aircraft with a search and rescue mission. PLS is designed to interface with all modern search and rescue system standards. These include systems used by the Canadian Coast Guard, the U.S. Navy, the U.S. Air Force and the French Army. We also supply high power amplifiers and direction finding systems to major prime contractors and end users for both domestic and international applications.

*Cyber Cross-Domain*

In June 2010 Cubic acquired Safe Harbor Holdings, a cyber security and information assurance company. This acquisition expanded our service offerings into areas including specialized security and networking infrastructure, system certification and accreditation, and enterprise-level network architecture and engineering services. We also provide cross-domain hardware solutions to address multi-level security challenges across common networks.

**Raw Materials CDS**

The principal raw materials used by CDS are sheet aluminum and steel, copper electrical wire and composite products. A significant portion of our end products are composed of purchased electronic components and subcontracted parts and supplies. We procure these items primarily from third-party suppliers. In general, supplies of raw materials and purchased parts are adequate to meet our requirements.

**Backlog CDS**

Funded and total backlog of CDS at September 30, 2014 was \$570 million compared to \$494 million at September 30, 2013. We expect that approximately \$345 million of the September 30, 2014 backlog will be converted into sales by September 30, 2015.

**MSS and CDS Competitive Environment**

Cubic's broad defense business portfolio means we compete with numerous companies, large and small, across the globe. Well known competitors include Lockheed Martin, Northrop Grumman, General Dynamics, Boeing, L3 Communications, Saab Training Systems, SAIC, Leidos, A-T Solutions, Booz Allen Hamilton, and Engility as well as other smaller companies. In many cases, we have also teamed with several of these companies, in both prime and subcontractor roles, on specific bid opportunities. While we are generally smaller than our principal competitors, we believe our competitive advantages include an outstanding record of past performance, strong incumbent relationships, the ability to control operating costs and rapidly focus technology and innovation to solve customer problems.

In the defense market, we continue to focus on expanding our domestic and international footprint in the global military simulation and training market as well as enabling the convergence and integration of live, virtual and constructive training technologies. U.S. federal budgetary decisions and constraints have put downward pressure on growth in the defense industry and has affected our business in 2014. However, we believe that much of our business is well positioned in areas that the DoD has indicated are areas of focus for future defense spending to help the DoD meet its critical future capability requirements for protecting U.S. security and the security of our allies in the years to come.

We are also well-positioned in large, relatively stable markets. According to the 2014 Global Military Simulation and Virtual Training Market report, the value of the global military simulation and virtual training programs market is \$9.0 billion in 2014. The value of the market is expected to increase at a CAGR of 3.48% over the forecast period, to reach a value of \$12.6 billion by 2024. In the U.S., we believe that there are near term pressures on training budgets for systems and services due to cost pressures resulting from sequestration. However, we believe that changes in training doctrine and the use of new types of training that are cost effective will be essential for the military to fulfill its mission. Globally, we are focused on the emerging economies within the Asia-Pacific region and the Middle East, which are expected to be strong markets for simulation and training products and services with projected growth rates in excess of the overall market. In addition, new platforms and the significant increase in unmanned vehicles and other advanced weapon systems could generate significant demand for operator training on these new platforms.

Table of Contents

Our secure communications products address the large and broadly defined Command, Control, Communications, Computers, Intelligence, Surveillance, Reconnaissance (C4ISR) market, with an estimated addressable market of approximately \$2 billion annually. We believe that our products and technologies address mission critical requirements such as: integrated communications suites for unmanned aerial vehicles (UAV), ships and the dismounted soldier; battlefield awareness; and secure and encrypted communications. We believe that these technologies will continue to experience strong demand as the U.S. military maintains a smaller, more agile force structure

**BUSINESS STRATEGY**

Our objective is to consistently grow sales, improve profitability and deliver attractive returns on capital. We intend to expand our position as the leading provider of automated payment and fare collection systems and services to transportation customers worldwide and build on our position with U.S. and foreign governments as the leading full spectrum supplier of training systems and mission support services. Our strategies to achieve these objectives include:

**Maintain Niche Market Leadership**

We seek to defend our leadership positions in core markets by ensuring all our businesses are absolutely customer facing, thereby maintaining our long-term relationships with our customers. By achieving this goal, we can leverage our returns through follow-on business with existing customers and expand our presence in the market through sales of similar systems at competitive prices to new customers. The length of relationship with many of our customers exceeds 30 years and further supports our industry-wide leadership and technological capabilities. In addition, as a result of maintaining a high level of performance, we continue to provide a combination of support services for our long-term customers. Such long-term relationships include the following:

<b>Business Area</b>	<b>Year</b>
Automated Fare Collection	1972, provided the San Francisco Bay Area Rapid Transit (BART) ticket encoding and vending technology.
Air Combat Training	1973, supplied first Top Gun Air Combat Maneuvering Instrumentation system for the Marine Corps Air Station at Yuma, AZ.
Ground Combat Training	1990, pioneered the world's first turnkey ground combat-instrumentation system at Hohenfels, Germany for the U.S. Army.
MILES	1995, won a contract for our first laser engagement simulation system for the U.S. Army.
Korea Battle Simulation Center (KBSC)	1991, won a contract to design, stand up and operate this large and complex training center to support all U.S. Forces in Korea. Have provided continuous support since 1991.
Joint Coalition Warfare Center (JCWC), now Joint Force Development (JFD)	1994, won a contract to design, stand up and operate this large and complex training center to support U.S. joint forces worldwide. Have provided continuous support since 1994.

**Superior Operational Performance**

Our businesses will continue to achieve high levels of performance on current contracts, delivering world-class solutions on schedule and on budget. Achieving this level of performance will deliver high value to our customers, employees, and shareholders. Superior program execution will help us defend our positions in core markets and expand to new customers by leveraging solid past performance.

**Strategic Reinvestment of Capital**

We target markets that have the potential for above-average growth where domain expertise, innovation, technical competency and contracting dynamics can help to create meaningful barriers to entry. We will strategically reinvest our cash in key program captures, internal R&D, and acquisitions to target new priority markets, ensure market leader positions and improve shareholder equity.

Table of Contents

**Innovation**

We continue to invest in R&D to maintain a leadership role in the technological evolution within our core focus areas of the global transportation and defense markets. We are committed to using innovation and technology to address our customers' most pressing problems and demanding requirements. We have made meaningful and recognized contributions to technological advancements within our industries.

The cost of company sponsored R&D activities was \$18.0 million, \$24.4 million, and \$28.7 million in 2014, 2013 and 2012, respectively. In addition to internally funded R&D, a significant portion of our new product development occurs in conjunction with the performance of work on our contracts. The amount of contract-required engineering and product development activity was approximately \$69.1 million in 2014 compared to \$68.3 million in 2013 and \$81.2 million in 2012; however, these costs are included in cost of sales as they are directly related to contract performance. In fiscal year 2014, we spent 1.3% of our sales on internally funded R&D, primarily focused in our CDS and CTS segments.

In addition to R&D initiatives, our innovation portfolio covers design of public private partnerships (P3s) and innovative program financing in the transportation segment. Through public private partnerships, public transportation agencies are able to modernize their system infrastructures without draining precious capital budgets or increasing transit fares and losing ridership. This structure will also allow the agencies to transfer operational costs and risks to the private sector while maintaining controls through program acceptance criteria and operational performance requirements.

**Pursue Strategic Acquisitions**

We have sought out strategic acquisitions that help us overcome existing barriers in target markets with the goal of accelerating our growth. We are focused on finding attractive acquisitions that enhance our market positions, provide expansion into complementary growth markets and ensure sustainable long-term profitability. We have developed an acquisition strategy that focuses on specific consolidation and growth opportunities in the defense and transportation markets. Over the last several years, we have completed multiple acquisitions as a means to diversify our customer base and expand our systems and services offerings.

For example, through the acquisitions of ITMS and Intific, we have broadened our portfolio of information based solutions for transportation agency customers and we have strengthened our virtual simulation and advance research capabilities.

**Enhance Services Business**

We view services as a core element of our business and we are working to expand our service offerings and customer base. In aggregate, approximately 58% of our sales in fiscal year 2014, were from service-related work. We believe that a strong base of service work helps to consistently generate profits and smooth the sales fluctuations inherent in systems work.

At CTS, we deliver a number of customer services from key service facilities for multiple transportation authorities worldwide. Due to the technical complexities of operating electronic fare collection and payment systems, transportation agencies are turning to their system suppliers for IT services and other operational and maintenance services, such as regional settlement, card management and customer support services that would otherwise be performed by the agencies. As a result, we are transitioning from an AFC supplier to an intelligent transportation systems integrator and services company providing a suite of turnkey outsourced services for more than 20 transit authorities and cities worldwide. Today, CTS delivers a wide range of services from customer support to financial management and technical support at its full service operation centers in Concord, California, Brisbane, and Sydney Australia and London, England. Our Tullahoma, Tennessee facility is used as a service center of patron call support and help desk for both the east and west coasts of the U.S.

At MSS, we provide a combination of services to our many domestic and international customers. Multiple-award ID/IQ contracts are now the primary contract vehicle in the U.S. government services marketplace. We have increased our participation on ID/IQ contracts, giving us more opportunities to bid for work and increasing our chances to develop new customers, programs and capabilities. We expand our scope of opportunities by offering additional services to current customers and transferring our skill sets to support similar programs for new customers. The broad spectrum of services we offer reinforces this strategy, and includes planning and support for theater and worldwide exercises, computer-based simulations, training and preparation of foreign military advisor and transition teams, mobilization and demobilization of deploying forces, range support and operations, logistics and maintenance operations, curriculum and leadership development, special operations forces (SOF) support, intelligence support, force modernization, open source data collection, as well as engineering and other technical support.

For CDS, increased services and operations and maintenance opportunities can reduce the volatility and timing uncertainties associated with large equipment contracts and add depth to the revenue base. Compared to the U.S. market where small business requirements, omnibus contracts and local preferences create acquisition challenges, we believe the international market offers greater opportunities to bundle and negotiate multi-year, turnkey contracts. We believe these long-term contracts reinforce CDS competitive posture and enable the company to provide enhanced services through regular customer contact and increased visibility of product performance and reliability.

Table of Contents

Through the acquisitions of Abraxas in December 2010 and NEK in December 2012, MSS has expanded Cubic's support services capabilities to the national intelligence communities, as well as to additional domestic and international special operations, law enforcement, and security clients. With these acquisitions and organic skill sets, we have increased our addressable markets and related services offerings.

**Expand International Footprint**

We have developed a large global presence in our three business segments. CTS has delivered over 400 projects in 40 major markets on 5 continents to date. Approximately 70% of the CTS segment's fiscal year 2014 sales were attributable to international customers. CTS has expanded in Australia with the award of a \$341.0 million contract to design and build an electronic ticketing system for Sydney and to operate and maintain the system until 2024. The Australian operation is now one of three primary operating regions of CTS alongside North America and Europe, and will be the base for us to pursue opportunities in the Asia-Pacific region. In Germany, we have successfully implemented a new electronic ticketing system for the Transit Authority Rhein-Main-Verkehrsverbund, and are operating new ticketing applications using cell phone technologies.

CDS has delivered systems in more than 40 allied nations. In fiscal year 2014, approximately 46% of CDS's sales were to allied foreign governments, including projects funded by the U.S. government pursuant to Foreign Military Sales and Foreign Military Financing arrangements. Beginning in 2013 we have expanded our presence in the UK, Canada, and the United Arab Emirates in response to growing opportunities. These complement a well-established and sound presence in Singapore, Australia, New Zealand, and Italy.

In fiscal year 2014, approximately 11% of MSS sales were performed internationally, including its long-term force modernization programs supporting multiple Central and Eastern European countries. MSS is now coordinating with CTS and CDS to use their broader international presence to help identify additional global service opportunities. We are actively working to leverage MSS's significant domestic special operations forces (SOF) and related security capabilities and experience to develop new international customers. The international SOF/Security markets, particularly in the area of training support, offer strong potential for near-term and sustained growth for the foreseeable future.

**INTELLECTUAL PROPERTY**

We seek to protect our proprietary technology and inventions through patents and other proprietary-right protection, and also rely on trademark laws to protect our brand. However, we do not regard ourselves as materially dependent on patents for the maintenance of our competitive position. We also rely on trade secrets, proprietary know-how and continuing technological innovation to remain competitive.



Table of Contents

**REGULATION**

Our businesses must comply with and are affected by various government regulations that impact our operating costs, profit margins and our internal organization and operation of our businesses. We deal with numerous U.S. government agencies and entities, including all branches of the U.S. military and the DoD. Therefore, we must comply with and are affected by laws and regulations relating to the formation, administration, and performance of U.S. government and other contracts. These laws and regulations, among other things, include the Federal Acquisition Regulations and all department and agency supplements, which comprehensively regulate the formation, administration and performance of U.S. government contracts. Other federal regulations require certification and disclosure of cost or pricing data in connection with contract negotiations for certain types of contracts, define allowable and unallowable costs, govern reimbursement rights under cost-based contracts, and restrict the use, dissemination and exportation of products and information classified for national security purposes. For additional discussion of government contracting laws and regulations and related matters, see Risk factors and Business Industry Considerations and Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies, Estimates and Judgments Revenue Recognition with respect to pricing and revenue under government contracts.

Our business is subject to a range of foreign, federal, state and local laws and regulations regarding environmental protection and employee health and safety, including those that govern the emission and discharge of hazardous or toxic materials into the environment and the generation, storage, treatment, handling, use, transportation and disposal of such materials. From time to time, we have been named as a potentially responsible party at third-party waste disposal sites. We do not currently expect compliance with such laws and regulations to have a material effect upon our capital expenditures, earnings or competitive position. However, such laws and regulations are complex, change frequently and have tended to become increasingly stringent over time. Accordingly, we cannot assure you that such laws and regulations will not have a material effect on our business in the future.

**OTHER MATTERS**

We do not engage in any business that is seasonal in nature. Since our revenues are generated primarily from work on contracts performed by our employees and subcontractors, first quarter revenues tend to be lower than the other three quarters due to our policy of providing many of our employees seven holidays in the first quarter, compared to one or two in each of the other quarters of the year. In addition, customer demand for training tends to be similarly affected in the first fiscal quarter. This is not necessarily a consistent pattern as it depends upon actual activities in any given year.

We employed approximately 7,900 persons at September 30, 2014.

Our domestic products and services are sold almost entirely by our employees. Overseas sales are made either directly or through representatives or agents.

**Item 1A. RISK FACTORS.**

**Risks relating to our business**

*We have restated our prior consolidated financial statements, which may lead to additional risks and uncertainties, including shareholder litigation, loss of investor confidence and negative impacts on our stock price.*

In May 2014, we restated our consolidated financial statements as of and for the years ended September 30, 2013 and 2012 and for the quarterly periods within the fiscal years ended September 30, 2013 and 2012. The determination to restate these consolidated financial statements and the unaudited interim condensed consolidated financial statements was made by our Audit and Compliance Committee upon management's recommendation following the identification of errors related to our method of recognizing revenues on two contracts at one of our wholly-owned subsidiaries. We previously restated our historical financial statements in 2012 following the identification of errors, which related primarily to the misapplication of GAAP for certain methods of revenue recognition.

The fact that we have completed two restatements in the last two years may lead to a loss of investor confidence and have negative impacts on the trading price of our common stock.

*Our business and stock price may be adversely affected if our internal control over financial reporting is not effective.*

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Management's assessment of our internal control over financial reporting as of September 30, 2013, identified material weaknesses in our internal control over financial reporting related to accounting for revenue of one of our significant wholly owned subsidiaries. A material weakness is defined as a deficiency, or

Table of Contents

combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As described in Item 9A Controls and Procedures Management's Report on Internal Control Over Financial Reporting, we have developed and implemented new control procedures over financial reporting related to accounting for revenue for this significant wholly owned subsidiary, and we concluded that we had remediated this material weakness as of September 30, 2014. We will need to monitor and evaluate these procedures to ensure that they are designed and operating effectively. We may be at risk for future material weaknesses, particularly if these new procedures do not operate effectively. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, which could cause us to fail to meet our reporting obligations, lead to a loss of investor confidence and have a negative impact on the trading price of our common stock.

***We depend on government contracts for substantially all of our revenues and the loss of government contracts or a delay or decline in funding of existing or future government contracts could decrease our backlog or adversely affect our sales and cash flows and our ability to fund our growth.***

Our revenues from contracts, directly or indirectly, with foreign and U.S. state, regional and local governmental agencies represented substantially all of our total revenues in fiscal year 2014. Although these various government agencies are subject to common budgetary pressures and other factors, many of our various government customers exercise independent purchasing decisions. As a result of the concentration of business with governmental agencies, we are vulnerable to adverse changes in our revenues, income and cash flows if a significant number of our government contracts, subcontracts or prospects are delayed or canceled for budgetary or other reasons.

The factors that could cause us to lose these contracts and could decrease our backlog or otherwise materially harm our business, prospects, financial condition or results of operations include:

- budget constraints affecting government spending generally, or specific departments or agencies such as U.S. or foreign defense and transit agencies and regional transit agencies, and changes in fiscal policies or a reduction of available funding;
- re-allocation of government resources as the result of actual or threatened terrorism or hostile activities or for other reasons;
- disruptions in our customers' ability to access funding from capital markets;
- curtailment of governments' use of outsourced service providers and governments' in-sourcing of certain services;
- the adoption of new laws or regulations pertaining to government procurement;

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- government appropriations delays or blanket reductions in departmental budgets;
- suspension or prohibition from contracting with the government or any significant agency with which we conduct business;
- increased use of shorter duration awards by the federal government in the defense industry, which increases the frequency we may need to recompile for work;
- impairment of our reputation or relationships with any significant government agency with which we conduct business;
- impairment of our ability to provide third-party guarantees and letters of credit; and
- delays in the payment of our invoices by government payment offices.

In addition, some of our international work is done at the request and at the expense of the U.S. government and its agencies. Therefore, risks associated with performing work for the U.S. government and its agencies may also apply to our international contracts.

***Government spending priorities and terms may change in a manner adverse to our businesses.***

At times, our businesses have been adversely affected by significant changes in U.S. and foreign government spending during periods of declining budgets. A significant decline in overall spending, or the decision not to exercise options to renew contracts, or the loss of or substantial decline in spending on a large program in which we participate could materially adversely affect our business, prospects, financial condition or results of operations. For example, the U.S. defense and national security budgets in general, and spending in

Table of Contents

specific agencies with which we work, such as those that are a part of the DoD, have declined from time to time for extended periods, resulting in program delays, program cancellations and a slowing of new program starts. Future levels of expenditures and authorizations for defense-related programs by the U.S. and foreign governments may decrease, remain constant or shift to programs in areas where we do not currently provide products or services, thereby reducing the chances that we will be awarded new contracts.

Even though our contract periods of performance for a program may exceed one year, Congress and certain foreign governments must usually approve funds for a given program each fiscal year and may significantly reduce funding of a program in a particular year. Significant reductions in these appropriations or the amount of new defense contracts awarded may affect our ability to complete contracts, obtain new work and grow our business. Congress and such foreign governments do not always enact spending bills by the beginning of the new fiscal year. Such delays leave the affected agencies under-funded which delays their ability to contract. Future delays and uncertainties in funding could impose additional business risks on us.

In addition, the DoD has recently increased its emphasis on awarding contracts to small businesses and awarding shorter duration contracts, each of which has the potential to reduce the amount of revenue we could otherwise earn from such contracts. Shorter duration contracts lower our backlog numbers and increase the risk associated with recompeting for a contract, as we would need to do so more often. In addition, as we may need to expend capital resources at higher levels upon the award of a new contract, the shorter the duration of the contract, the less time we have to recoup such expenditures and turn a profit under such contract.

***Sequestration may adversely affect our businesses which are dependent on federal government funding.***

Pursuant to a law passed in August 2011, which went into effect on March 1, 2013, there have been deep and automatic cuts in defense budgets and other non-defense budgets. Although there are proposals in Congress to mitigate the impact of these cuts, it is unknown what additional programs will be cut, over what time period and by what amount. Unless this legislation is reversed, annual automatic spending cuts will be enacted through 2021. Some programs may be cancelled in their entirety.

All of our U.S. defense contracts are at risk of being cut or terminated. Our domestic transportation contracts could be materially harmed if transit agencies do not receive expected federal funds and are required to curtail their plans to expand or upgrade their fare collection systems.

***Failure to raise the national debt limit may cause the U.S. government to be unable to pay funds due to us.***

Congress and the executive branch may reach an impasse on increasing the national debt limit which would restrict the U.S. government's ability to pay contractors for prior work. A failure to receive such payments for an extended period of time could result in substantial layoffs of our employees, drawdowns of our credit lines and our inability to pay debts when due, which could materially adversely affect our business, prospects, financial condition or results of operations.

***A deadlock in the U.S. Congress over budgets and spending could cause another partial shutdown of the U.S. government, which could result in a termination or suspension of some or all of our contracts with the U.S. government.***

Congress may fail to pass a budget or continuing resolution, which would result in a partial shutdown of the U.S. government and cause the termination or suspension of our contracts with the U.S. government. We would be required to furlough affected employees for an indefinite time. It is uncertain in such a circumstance if we would be compensated or reimbursed for any loss of revenue during such a shutdown. If we were not compensated or reimbursed, it could result in significant adverse effects on our revenues, operating costs and cash flows.

*Our contracts with government agencies may be terminated or modified prior to completion, which could adversely affect our business.*

Government contracts typically contain provisions and are subject to laws and regulations that give the government agencies rights and remedies not typically found in commercial contracts, including providing the government agency with the ability to unilaterally:

- terminate our existing contracts;
- reduce the value of our existing contracts;
- modify some of the terms and conditions in our existing contracts;
- suspend or permanently prohibit us from doing business with the government or with any specific government agency;

Table of Contents

- control and potentially prohibit the export of our products;
- cancel or delay existing multi-year contracts and related orders if the necessary funds for contract performance for any subsequent year are not appropriated;
- decline to exercise an option to extend an existing multi-year contract; and
- claim rights in technologies and systems invented, developed or produced by us.

Most U.S. government agencies and some other agencies with which we contract can terminate their contracts with us for convenience, and in that event we generally may recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. If an agency terminates a contract with us for default, we may be denied any recovery and may be liable for excess costs incurred by the agency in procuring undelivered items from an alternative source. We may receive show-cause or cure notices under contracts that, if not addressed to the agency's satisfaction, could give the agency the right to terminate those contracts for default or to cease procuring our services under those contracts.

In the event that any of our contracts were to be terminated or adversely modified, there may be significant adverse effects on our revenues, operating costs and income that would not be recoverable.

***Changes in future business or other market conditions could cause business investments and/or recorded goodwill or other long-term assets to become impaired, resulting in substantial losses and write-downs that would reduce our results of operations.***

As part of our strategy, we will, from time to time, acquire a minority or majority interest in a business. These investments are made upon careful analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining acquisition price. After acquisition, unforeseen issues could arise which adversely affect the anticipated returns or which are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. We evaluate our recorded goodwill balances for potential impairment annually as of July 1, or when circumstances indicate that the carrying value may not be recoverable. The goodwill impairment test is performed by comparing the fair value of each reporting unit to its carrying value, including recorded goodwill. In the fourth quarter of fiscal 2013, we recognized a goodwill impairment in our MSS segment of \$50.9 million. This goodwill impairment, and any impairment that might be necessary in the future, is measured by comparing the implied fair value of goodwill to its carrying value, and any impairment determined is recorded in the current period. No goodwill impairment was recognized in 2014. Any future impairment could result in substantial losses and write-downs that would reduce our results of operations. For more information on the goodwill impairment recognized in 2013 and the accounting policies we have in place for impairment of goodwill, see our discussion under Valuation of Goodwill in Item 7 of this Form 10-K.

***Failure to retain existing contracts or win new contracts under competitive bidding processes may adversely affect our revenue.***

We obtain most of our contracts through a competitive bidding process, and substantially all of the business that we expect to seek in the foreseeable future likely will be subject to a competitive bidding process. Competitive bidding presents a number of risks, including:

- the need to compete against companies or teams of companies with more financial and marketing resources and more experience in bidding on and performing major contracts than we have;
- the need to compete against companies or teams of companies that may be long-term, entrenched incumbents for a particular contract for which we are competing and that have, as a result, greater domain expertise and better customer relations;
- the need to compete to retain existing contracts that have in the past been awarded to us on a sole-source basis or as to which we have been incumbent for a long time;
- the U.S. government's increased emphasis on awarding contracts to small businesses could preclude us from bidding on certain work or reduce the scope of work we can bid as a prime contractor and limit the amount of revenue we could otherwise earn as a prime contractor for such contracts;
- the award of contracts to providers offering solutions at the lowest price technically acceptable which may lower the profit we may generate under a contract awarded using this pricing method or prevent us from submitting a bid for such work due to us deeming such work to be unprofitable;



Table of Contents

- the reduction of margins achievable under any contracts awarded to us;
- the expense and delay that may arise if our competitors protest or challenge new contract awards;
- the need to bid on some programs in advance of the completion of their design, which may result in higher R&D expenditures, unforeseen technological difficulties, or increased costs which lower our profitability;
- the substantial cost and managerial time and effort, including design, development and marketing activities, necessary to prepare bids and proposals for contracts that may not be awarded to us;
- the need to develop, introduce and implement new and enhanced solutions to our customers' needs;
- the need to locate and contract with teaming partners and subcontractors; and
- the need to accurately estimate the resources and cost structure that will be required to perform any fixed-price contract that we are awarded.

We may not be afforded the opportunity in the future to bid on contracts that are held by other companies and are scheduled to expire if the agency decides to extend the existing contract. If we are unable to win particular contracts that are awarded through the competitive bidding process, we may not be able to operate in the market for services that are provided under those contracts for a number of years. If we win a contract, and upon expiration the customer requires further services of the type provided by the contract, there is frequently a competitive rebidding process and there can be no assurance that we will win any particular bid, or that we will be able to replace business lost upon expiration or completion of a contract.

As a result of the complexity and scheduling of contracting with government agencies, we occasionally incur costs before receiving contractual funding by the government agency. In some circumstances, we may not be able to recover these costs in whole or in part under subsequent contractual actions.

In addition, the customers currently serviced by our CTS segment are finite in number. The loss of any one of these customers, or the failure to win replacement awards upon expiration of contracts with such customers.

If we are unable to consistently retain existing contracts or win new contract awards, our business, prospects, financial condition and results of operations will be adversely affected.

***Many of our U.S. government customers spend their procurement budgets through multiple-award or ID/IQ contracts, under which we are required to compete among the awardees for post-award orders. Failure to win post-award orders could affect our ability to increase our sales.***

The U.S. government can select multiple winners under multiple-award contracts, federal supply schedules and other agency-specific ID/IQ contracts, as well as award subsequent purchase orders among such multiple winners. This means that there is no guarantee that these ID/IQ, multiple-award contracts will result in the actual orders equal to the ceiling value under the contract, or result in any actual orders. We are only eligible to compete for work (purchase orders and delivery orders) as an awardee pursuant to government-wide acquisition contracts already awarded to us. Our failure to compete effectively in this procurement environment could reduce our sales, which would adversely affect our business, results of operations and financial condition.

***The U.S. government's emphasis on awarding contracts to small businesses could preclude us from acting as a prime contractor and increase the number of contracts we receive as a subcontractor to small businesses, which could decrease the amount of our revenues from such contracts. Some of these small businesses may not be financially sound, which could adversely affect our business.***

There is emphasis by the U.S. government on awarding contracts to small businesses, which may preclude companies the size of ours from obtaining certain work, other than as a subcontractor to these small businesses. There are inherent risks in contracting with small companies that may not have the capability or financial resources to perform these contracts or administer them correctly. If a small business with which we have a subcontract fails to perform, fails to bill the government properly or fails financially, we may have difficulty receiving timely payments or may incur bad debt write-offs if the small business is unable or unwilling to pay us for work we perform. In addition, being a subcontractor may limit the amount of revenue we could otherwise earn as a prime contractor for such contracts. When we only act as a subcontractor, we may only receive up to 49% of the value of the contract award, and such percentage may be less should the small business partner or partners be able to service a larger piece of the award. Failure to maintain good relationships with small business partners operating in our industries could preclude us from winning work as a subcontractor as part of a large contracting consultation. This could result in significant adverse effects on our revenues, operating costs and cash flows.

Table of Contents

***Government audits of our contracts could result in a material charge to our earnings, have a negative effect on our cash position following an audit adjustment or adversely affect our ability to conduct future business.***

U.S. government agencies, including the DoD and others, routinely audit and review a contractor's performance on government contracts, indirect rates and pricing practices, and compliance with applicable contracting and procurement laws, regulations and standards. Based on the results of such audits, the auditing agency is authorized to adjust our unit prices if the auditing agency does not find them to be fair and reasonable. The auditing agency is also authorized to require us to refund any excess proceeds we received on a particular item over its final adjusted unit price.

The DoD, in particular, also reviews the adequacy of, and compliance with, our internal control systems and policies, including our purchasing, accounting, financial capability, pricing, labor pool, overhead rate and management information systems. Our failure to obtain an adequate determination of our various accounting and management internal control systems from the responsible U.S. government agency could significantly and adversely affect our business, including our ability to bid on new contracts and our competitive position in the bidding process. Failure to comply with applicable contracting and procurement laws, regulations and standards could also result in the U.S. government imposing penalties and sanctions against us, including suspension of payments and increased government scrutiny that could delay or adversely affect our ability to invoice and receive timely payment on contracts or perform contracts, or could result in suspension or debarment from competing for contracts with the U.S. government. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made against us, whether or not true.

In addition, transit authorities have the right to audit our work under their respective contracts. If, as the result of an adverse audit finding, we were suspended or prohibited from contracting with the U.S. government, any significant government agency or a transit authority terminated its contract with us, or our reputation or relationship with such agencies and authorities was impaired or they otherwise ceased doing business with us or significantly decreased the amount of business done with us, it would adversely affect our business, results of operations and financial condition.

***Our international business exposes us to additional risks, including exchange rate fluctuations, foreign tax and legal regulations and political or economic instability that could harm our operating results.***

Our international operations subject us to risks associated with operating in and selling products or services in foreign countries, including:

- devaluations and fluctuations in currency exchange rates;
- changes in foreign laws that adversely affect our ability to sell our products or services or our ability to repatriate profits to the United States;

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- increases or impositions of withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures to us;
- increases in investment and other restrictions or requirements by foreign governments in order to operate in the territory or own the subsidiary;
- costs of compliance with local laws, including labor laws;
- compliance with anti-corruption laws, anti-money laundering laws and sanctions;
- export control regulations and policies which govern our ability to supply foreign customers;
- unfamiliar and unknown business practices and customs;
- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements;
- the complexity and necessity of using foreign representatives and consultants or being prohibited from such use;

Table of Contents

- the uncertainty of the ability of foreign customers to finance purchases;
- imposition of tariffs or embargoes, export controls and other trade restrictions;
- potentially being prohibited from bidding for international work due to perceived conflicts or national security concerns resulting from the significant amount of work we do for the U.S. government and its agencies;
- the difficulty of management and operation of an enterprise in various countries; and
- economic and geopolitical developments and conditions, including ongoing instability in global economies and financial markets, international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships and military and political alliances.

Our foreign subsidiaries generally enter into contracts and make purchase commitments that are denominated in foreign currencies. Accordingly, we are exposed to fluctuations in exchange rates, which could have a significant impact on our results of operations. We have no control over the factors that generally affect this risk, such as economic, financial and political events and the supply of and demand for applicable currencies. While we use foreign exchange forward and option contracts to hedge significant contract sales and purchase commitments that are denominated in foreign currencies, our hedging strategy may not prevent us from incurring losses due to exchange fluctuations.

***We may not be able to receive the necessary licenses required for us to sell our export-controlled products and services overseas. In addition, the loss of our registration as either an exporter or a broker under International Traffic in Arms Regulations (ITAR), would adversely affect our business, results of operations and financial condition.***

U.S. government agencies, primarily the Directorate of Defense Trade Controls within the State Department and the Bureau of Industry Security within the U.S. Department of Commerce, must license shipments of certain export-controlled products that we export. These licenses are required due to both the products we export and to the foreign customers we service. If we do not receive a license for an export-controlled product, we cannot ship that product. We cannot be sure of our ability to gain any licenses required to export our products, and failure to receive a required license would eliminate our ability to make that sale. A delay in obtaining the necessary licenses to sell our export-controlled products abroad could result in delayed deliveries and delayed recognition of revenue, which could cause us reputational damage and could result in a customer's decision not to do business with us in the future. We may also be subject to inquiries by such U.S. government agencies relating to issues involving the export-controlled products and services we export and failure to satisfactorily resolve such inquiries would adversely affect our business, results of operations and financial condition.

In addition to obtaining a license for certain of our exports outside of the United States, we are also required to maintain a standing registry under ITAR as an exporter. We operate as an exporter when we ship certain products to our customers outside the United States. If we were to lose our registration as an exporter under ITAR, we would not be able to sell export-controlled products abroad, which would adversely affect our business, results of operations and financial condition.

***Our operating margins may decline under our fixed-price contracts if we fail to accurately estimate the time and resources necessary to satisfy our obligations.***

Approximately 78% of our revenues in fiscal year 2014 were from fixed-price contracts under which we bear the risk of cost overruns. Our profits are adversely affected if our costs under these contracts exceed the assumptions we used in bidding for the contract. We may therefore need to absorb any increases in our supply costs and may not be able to pass such costs increases along to our customers. Sometimes we are required to fix the price for a contract before the project specifications are finalized, which increases the risk that we will incorrectly price these contracts. The complexity of many of our engagements makes accurately estimating the time and resources required more difficult.

***We may not receive the full amounts estimated under the contracts in our total backlog, which could reduce our sales in future periods below the levels anticipated and which makes backlog an uncertain indicator of future operating results.***

As of September 30, 2014, our total backlog was approximately \$3.2 billion. Orders may be cancelled and scope adjustments may occur, and we may not realize the full amounts of sales that we may anticipate in our backlog numbers. There can be no assurance that the projects underlying the contracts and purchase orders will be placed or completed or that amounts included in our backlog ultimately will be billed and collected. Additionally, the timing of receipt of sales, if any, on contracts included in our backlog could change. The failure to realize amounts reflected in our backlog could materially adversely affect our business, financial condition and results of operations in future periods.

Table of Contents

*We may be liable for civil or criminal penalties under a variety of complex laws and regulations, and changes in governmental regulations could adversely affect our business and financial condition.*

Our businesses must comply with and are affected by various government regulations that impact our operating costs, profit margins and our internal organization and operation of our businesses. These regulations affect how we do business and, in some instances, impose added costs. Any changes in applicable laws could adversely affect our business and financial condition. Any material failure to comply with applicable laws could result in contract termination, price or fee reductions or suspension or debarment from contracting. The more significant regulations include:

- the Federal Acquisition Regulations (FAR) and all department and agency supplements, which comprehensively regulate the formation, administration and performance of U.S. government contracts;
- the Truth in Negotiations Act and implementing regulations, which require certification and disclosure of all cost and pricing data in connection with contract negotiations;
- the ITAR, which control the export and import of defense related articles and services on the U.S. Munitions Control List;
- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data;
- regulations of most state and regional agencies and foreign governments similar to those described above;
- the trade sanctions laws and regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Control;
- the Foreign Corrupt Practices Act and the U.K. Bribery Act;
- the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Protection Act;
- healthcare reform laws and regulations, including those enacted under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act of 2010;

- tax laws and regulations in the U.S. and in other countries in which we operate;
- the civil False Claims Act, which provides for substantial civil penalties for violations, including for submission of a false or fraudulent claim to the U.S. government for payment or approval;
- the Procurement Integrity Act, which requires evaluation of ethical conflicts surrounding procurement activity and establishing certain employment restrictions for individuals who participate in the procurement process; and
- the Small Business Act and the Small Business Administration, size status regulations, which regulate eligibility for performance of government contracts which are set aside for, or a preference is given in the evaluation process if awarded to, specific types of contractors such as small businesses and minority-owned businesses.

The FAR and many of our U.S. government contracts contain organizational conflicts of interest clauses that may limit our ability to compete for or perform certain other contracts. Organizational conflicts of interest arise when we engage in activities that provide us with an unfair competitive advantage. A conflict of interest issue that precludes our competition for or performance on a significant program or contract could harm our prospects and negative publicity about a conflict of interest issue could damage our reputation.

In addition, the U.S. and foreign governments may revise existing contract rules and regulations or adopt new contract rules and regulations at any time and may also face restrictions or pressure regarding the type and amount of services it may obtain from private contractors. For instance, Congressional legislation and initiatives dealing with procurement reform and shifts in the buying practices of U.S. government agencies resulting from those proposals could have adverse effects on government contractors, including us. Any of these changes could impair our ability to obtain new contracts or renew contracts under which we currently perform when those contracts are eligible for recompetition. Any new contracting methods could be costly or administratively difficult for us to implement, which would adversely affect our business, results of operations and financial condition.



Table of Contents

***Our failure to identify, attract and retain qualified technical and management personnel could adversely affect our existing businesses, financial condition and results of operations.***

We may not be able to identify, attract or retain qualified technical personnel, including engineers, computer programmers and personnel with security clearances required for classified work, or management personnel to supervise such activities that are necessary for maintaining and growing our existing businesses, which could adversely affect our financial condition and results of operations. The technically complex nature of our operations results in difficulties finding qualified staff. In our defense businesses especially, experienced personnel possessing required security clearances are finite in number. A number of our employees maintain a top secret clearance level. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit and retain employees who already hold security clearances. If our cleared employees lose or are unable to timely obtain security clearances or we lose a facility clearance, our U.S. government customers may terminate the contract or decide not to renew it upon its expiration. As a result, to the extent we cannot obtain or maintain the required security clearances for a particular contract, or we fail to obtain them on a timely basis, we may not generate the sales anticipated from the contract, which could harm our operating results. To the extent we are not able to obtain facility security clearances or engage employees with the required security clearances for a particular contract, we will be unable to perform that contract and we may not be able to compete for or win new awards for similar work.

***Our business could be negatively affected by cyber or other security threats or other disruptions.***

We face cyber threats, threats to the physical security of our facilities and employees, including senior executives, and terrorist acts, as well as the potential for business disruptions associated with information technology failures, damaging weather or other acts of nature, and pandemics or other public health crises, which may adversely affect our business.

We routinely experience cyber security threats, threats to our information technology infrastructure and attempts to gain access to our company sensitive information, as do our customers, suppliers, subcontractors and joint venture partners. We may experience similar security threats at customer sites that we operate and manage as a contractual requirement.

Prior cyber attacks directed at us have not had a material impact on our financial results, and we believe our threat detection and mitigation processes and procedures are robust. Due to the evolving nature of these security threats, however, the impact of any future incident cannot be predicted.

Although we work cooperatively with our customers and our suppliers, subcontractors, and joint venture partners to seek to minimize the impacts of cyber threats, other security threats or business disruptions, in addition to our internal processes, procedures and systems, we must also rely on the safeguards put in place by those entities.

The costs related to cyber or other security threats or disruptions may not be fully mitigated by insurance or other means. Occurrence of any of these events could adversely affect our internal operations, the services we provide to customers, loss of competitive advantages derived from our R&D efforts, early obsolescence of our products and services, our future financial results, our reputation or our stock price. The occurrence of any of these events could also result in civil and/or criminal liabilities.

*We may incur significant costs in protecting our intellectual property which could adversely affect our profit margins. Our inability to obtain, maintain and enforce our patents and other proprietary rights could adversely affect our businesses prospects and competitive positions.*

We seek to protect our proprietary technology and inventions through patents and other proprietary-right protection, and also rely on trademark laws to protect our brand. However, we may fail to obtain the intellectual property rights necessary to provide us with a competitive advantage, and any of our owned or licensed intellectual property rights could be challenged, invalidated, circumvented, infringed or misappropriated. We may also fail to apply for or obtain intellectual property protection in important foreign countries, and the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States. If we are unable to obtain or maintain these protections, we may not be able to prevent third parties from using our technology and inventions, which could adversely affect our business. We may incur significant expense in obtaining, maintaining, defending and enforcing our intellectual property rights. We may fail to take the actions necessary to enforce our intellectual property rights and even if we attempt to enforce such rights we may ultimately be unsuccessful, and such efforts may result in our intellectual property rights being challenged, limited in scope, or declared invalid or unenforceable. Also, some aspects of our business and services may rely on technologies and software developed by or licensed from third parties, and we may not be able to maintain our relationships with such third parties or enter into similar relationships in the future on reasonable terms or at all.

We also rely on trade secrets, proprietary know-how and continuing technological innovation to remain competitive. We have taken measures to protect our trade secrets and know-how, including seeking to enter into confidentiality agreements with our employees, consultants and advisors, but the measures we have taken may not be sufficient. For example, confidentiality agreements may not provide adequate protection or may be breached. We generally control and limit access to our product documentation and other proprietary information, but other parties may independently develop our know-how or otherwise obtain access to our technology, which could adversely affect our businesses prospects and competitive position.

Table of Contents

***Assertions by third parties that we violate their intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.***

Third parties may claim that we, our customers, licensees or parties indemnified by us are infringing upon or otherwise violating their intellectual property rights. Such claims may be made by competitors seeking to obtain a competitive advantage or by other parties. Additionally, in recent years, individuals and groups have begun purchasing intellectual property assets for the purpose of making claims of infringement and attempting to extract settlements from companies like ours. Any claims that we violate a third party's intellectual property rights can be time consuming and costly to defend and distract management's attention and resources, even if the claims are without merit. Such claims may also require us to redesign affected products and services, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or providing the affected products and services. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations. If we cannot or do not license the infringed technology on favorable terms or cannot or do not substitute similar technology from another source, our revenue and earnings could be adversely impacted.

***We compete primarily for government contracts against many companies that are larger, better capitalized and better known than us. If we are unable to compete effectively, our business and prospects will be adversely affected.***

Our businesses operate in highly competitive markets. Many of our competitors are larger, better financed and better known companies who may compete more effectively than we can. In order to remain competitive, we must keep our capabilities technically advanced and compete on price and on value added to our customers. Our ability to compete may be adversely affected by limits on our capital resources and our ability to invest in maintaining and expanding our market share. Consolidation in the industries in which we operate and government budget cuts have led to pressure being placed on the margins we may earn on any contracts we win. In addition, should the transportation market move towards requiring contractors to provide up-front financing for contracts they are awarded (for example, our contract for the Chicago Open Standards Fare System), we may need to compete more heavily on the basis of our financial strength, which may limit the contracts we can service at any one time.

***The terms of our financing arrangements may restrict our financial and operational flexibility, including our ability to invest in new business opportunities.***

Our current \$200.0 million unsecured revolving credit agreement expires in May 2017. The available line of credit on the agreement is reduced by any letters of credit issued under the agreement. As of September 30, 2014, there were no borrowings under the agreement; however, there were letters of credit outstanding under the agreement totaling \$8.1 million, which reduced the available line of credit to \$191.9 million at that date.

We also have a secured letter of credit facility agreement with a bank that has no expiration date and is cancellable by us at any time upon the completion of certain conditions to the satisfaction of the bank. As of September 30, 2014, there were letters of credit outstanding under this agreement of \$61.6 million. In support of this facility, we placed \$69.1 million of our cash on deposit in the U.K. as collateral in a restricted account with the bank providing the facility. We are required to leave the cash in the restricted account so long as the bank continues to maintain associated letters of credit under the facility. The maximum amount of letters of credit currently allowed by the facility is \$62.6 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 facility do not reduce the available line of credit available under the revolving credit agreement described above.

On March 12, 2013, we entered into a note purchase and private shelf agreement pursuant to which we issued \$100.0 million in aggregate principal amount of senior unsecured notes, bearing interest at a rate of 3.35%. Principal payments are due from 2021 through 2025. In addition, pursuant to the agreement, through March 2016 we may from time to time issue and sell, and the purchasers may in their sole discretion purchase 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. The terms of the notes payable 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 September 30, 2014 this agreement does not restrict such distributions to shareholders.

Table of Contents

***Our development contracts may be difficult for us to comply with and may expose us to third-party claims for damages.***

We are often party to government and commercial contracts involving the development of new products and systems. These contracts typically contain strict performance obligations and project milestones. We cannot assure you we will comply with these performance obligations or meet these project milestones in the future. If we are unable to comply with these performance obligations or meet these milestones, our customers may terminate these contracts and, under some circumstances, recover damages or other penalties from us. If other parties elect to terminate their contracts or seek damages from us, it could materially harm our business and negatively impact our stock price.

***Our revenues could be less than expected if we are not able to deliver services or products as scheduled due to disruptions in supply.***

Since our internal manufacturing capacity is limited, we use contract manufacturers. While we use care in selecting our manufacturers, we have less control over the reliability of supply, quality and price of products or components than if we manufactured them. In some cases, we obtain products from a sole supplier or a limited group of suppliers. Consequently, we risk disruptions in our supply of key products and components if our suppliers fail or are unable to perform because of shortages in raw materials, operational problems, strikes, natural disasters, financial condition or other factors. We may have disputes with our vendors arising from, among other things, the quality of products and services or customer concerns about the vendor. If any of our vendors fail to timely meet their contractual obligations or have regulatory compliance or other problems, our ability to fulfill our obligations may be jeopardized. Economic downturns can adversely affect a vendor's ability to manufacture or deliver products. Further, vendors may also be enjoined from manufacturing and distributing products to us as a result of litigation filed by third parties, including intellectual property litigation. If we were to experience difficulty in obtaining certain products, there could be an adverse effect on our results of operations and on our customer relationships and our reputation. Additionally, our key vendors could also increase pricing of their products, which could negatively affect our ability to win contracts by offering competitive prices.

Any material supply disruptions could adversely affect our ability to perform our obligations under our contracts and could result in cancellation of contracts or purchase orders, penalties, delays in realizing revenues, payment delays, as well as adversely affect our ongoing product cost structure.

***Failure to perform by our subcontractors could materially and adversely affect our contract performance and our ability to obtain future business.***

Our performance of contracts often involves subcontractors, upon which we rely to complete delivery of products or services to our customers. We may have disputes with subcontractors. A failure by a subcontractor to satisfactorily deliver products or services can adversely affect our ability to perform our obligations as a prime contractor. Any subcontractor performance deficiencies could result in the customer terminating our contract for default, which could expose us to liability for excess costs of reprocurement by the customer and have a material adverse effect on our ability to compete for other contracts.

***Our future success will depend on our ability to develop new products, systems and services that achieve market acceptance in our current and future markets.***

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Both our commercial and government businesses are characterized by rapidly changing technologies and evolving industry standards. Accordingly, our performance depends on a number of factors, including our ability to:

- identify emerging technological trends in our current and target markets;
- develop and maintain competitive products, systems and services;
- enhance our offerings by adding technological innovations that differentiate our products, systems and services from those of our competitors; and
- develop, manufacture and bring to market cost-effective offerings quickly.

We believe that, in order to remain competitive in the future, we will need to continue to develop new products, systems and services, which will require the investment of significant financial resources. The need to make these expenditures could divert our attention and resources from other projects, and we cannot be sure that these expenditures ultimately will lead to the timely development of new products, systems or services. In recent years, we have spent an amount equal to approximately 1% to 2% of our annual sales on internal R&D efforts. There can be no assurances that this percentage will not increase should we require increased innovations to successfully compete in the markets we serve. We may also experience delays in completing development and introducing certain new products, systems or services in the future due to their design complexity. Any delays could result in increased costs of development or redirect resources from other projects. In addition, we cannot provide assurances that the markets

Table of Contents

for our products, systems or services will develop as we currently anticipate, which could significantly reduce our revenue and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing products, systems or services that gain market acceptance in advance of ours, or that cause our existing products, systems or services to become non-competitive or obsolete, which could adversely affect our results of operations.

***If we deliver products or systems with defects, our reputation will be harmed, revenue from, and market acceptance of, our products and systems will decrease and we could expend significant capital and resources as a result of such defects.***

Our products and systems are complex and frequently operate in high-performance, challenging environments. Notwithstanding our internal quality specifications, our products and systems have sometimes contained errors, defects and bugs when introduced. If we deliver products or systems with errors, defects or bugs, our reputation and the market acceptance and sales of our products and systems would be harmed. Further, if our products or systems contain errors, defects or bugs, we may be required to expend significant capital and resources to alleviate such problems and incur significant costs for product recalls and inventory write-offs. Defects could also lead to product liability lawsuits against us or against our customers, and could also damage our reputation. We have agreed to indemnify our customers in some circumstances against liability arising from defects in our products and systems. In the event of a successful product liability claim, we could be obligated to pay damages significantly in excess of our product liability insurance limits.

***We face certain significant risk exposures and potential liabilities that may not be covered adequately by insurance or indemnity.***

We are exposed to liabilities that are unique to the products and services we provide. A significant portion of our business relates to designing, developing, manufacturing, operating and maintaining advanced defense and transportation systems and products. New technologies associated with these systems and products may be untested or unproven. In addition, certain activities in connection with which our training systems are used or our services are provided are inherently dangerous. While in some circumstances we may receive indemnification from U.S. and foreign governments, and we maintain insurance for certain risks, the amount of our insurance or indemnity may not be adequate to cover all claims or liabilities, and we may be forced to bear substantial costs from an accident or incident. It also is not possible for us to obtain insurance to protect against all operational risks and liabilities. Substantial claims resulting from an incident in excess of the indemnification we receive and our insurance coverage would harm our financial condition, results of operations and cash flows. Moreover, any accident or incident for which we are liable, even if fully insured, could negatively affect our standing with our customers and the public, thereby making it more difficult for us to compete effectively, and could significantly impact the cost and availability of adequate insurance in the future.

***We may acquire other companies, which could increase our costs or liabilities or be disruptive to our business.***

Part of our strategy involves the acquisition of other companies. For example, in November 2013 we acquired Intelligent Transport Management Solutions Limited (ITMS), a provider of intelligent transport solutions and technology maintenance services to UK and international government road transport agencies, and in February 2014 we acquired Intific Inc., which is focused on software and game-based solutions in modeling and simulation, training and education, cyber warfare, and neuroscience. We cannot assure you that we will be able to integrate acquired companies successfully without substantial expense, delay or operational or financial problems. Such expenses, delays or operational or financial problems may include the following:

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- we may need to divert management resources to integration, which may adversely affect our ability to pursue other more profitable activities;
- integration may be difficult as a result of the necessity of coordinating geographically separated organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures;
- we may not be able to eliminate redundant costs anticipated at the time we select acquisition candidates; and
- one or more of our acquisition candidates may have unexpected liabilities, fraud risk, or adverse operating issues that we fail to discover through our due diligence procedures prior to the acquisition.

As a result, the integration of acquired businesses may be costly and may adversely impact our results of operations and financial condition.

*Our employees may engage in misconduct or other improper activities, which could harm our business, financial condition and results of operations.*

We are exposed to the risk of employee fraud or other misconduct. Employee misconduct could include intentionally failing to comply with U.S. government procurement regulations, engaging in unauthorized activities, attempting to obtain reimbursement for improper expenses, or submitting falsified time records, which could result in legal proceedings against us, lost contracts or reduced



Table of Contents

revenues. For example, see "Legal proceedings" in Item 3 of this Form 10-K for a discussion of certain litigation relating to misconduct by one of our former employees. Employee misconduct could also involve improper use of our customers' sensitive or classified information, which could result in regulatory sanctions against us and serious harm to our reputation. Misconduct could also involve making payments to government officials or third parties which would expose us to being in violation of the Foreign Corrupt Practices Act, the UK Anti-Bribery Act or similar laws in other countries.

It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in controlling unknown or unmanaged risks or losses, which could harm our business, financial condition and results of operations. In addition, alleged or actual employee misconduct could result in investigations or prosecutions of employees engaged in the subject activities, which could result in unanticipated consequences or expenses and management distraction for us regardless of whether we are alleged to have any responsibility.

***Unanticipated changes in our tax provisions or exposure to additional tax liabilities could affect our profitability.***

Our business operates in many locations under government jurisdictions that impose taxes based on income and other criteria. Changes in domestic or foreign tax laws and regulations, or their interpretation, could result in higher or lower tax rates assessed, changes in the taxability of certain revenues or activities, or changes in the deductibility of certain expenses, thereby affecting our tax expense and profitability. In addition, audits by tax authorities could result in unanticipated increases in our tax expense.

***Our results of operations have historically fluctuated and may continue to fluctuate significantly in the future, which could adversely affect our stock price.***

Our results of operations are affected by factors such as the unpredictability of contract awards due to the long procurement process for most of our products and services, the potential fluctuation of governmental agency budgets, any timing differences between our work performed and costs incurred under a contract and our ability to recognize revenue and generate cash flow from such contract, the time it takes for the new markets we target to develop and for us to develop and provide products and services for those markets, competition and general economic conditions. Our contract type/product mix and unit volume, our ability to keep expenses within budget and our pricing affect our operating margins. Significant growth in costs to complete our contracts may adversely affect our results of operations in future periods and cause our financial results to fluctuate significantly on a quarterly or annual basis. In addition, certain contracts in our CTS segment are structured such that we incur significant expenses during the design and build phases of the contract that are not offset by revenue recognized or cash flows generated under the contract until we deliver a product or perform operational or maintenance services during the latter phases of the contract. Consequently, we do not believe that comparison of our results of operations from period to period is necessarily meaningful or predictive of our likely future results of operations. In future financial periods our operating results or cash flows may be below the expectations of public market analysts or investors, which could cause the price of our stock to decline significantly.

***The funding and costs associated with our pension plans may cause our earnings, cash flows, and shareholders' equity to fluctuate significantly from year to year.***

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Certain of our employees in the U.S. are covered by a noncontributory defined benefit pension plan and approximately one-half of our European employees are covered by a contributory defined benefit pension plan. The impact of these plans on our GAAP earnings may be volatile in that the amount of expense we record for our pension plans may materially change from year to year because those calculations are sensitive to changes in several key economic assumptions, including discount rates, inflation, salary growth, expected return on plan assets, retirement rates and mortality rates. Changes in these factors affect our plan funding, cash flows, earnings, and shareholders' equity.

In recent years, we have taken certain actions to mitigate the effect of our defined benefit pension plans on our financial results. For example, benefits under the U.S. plan were frozen as of December 31, 2006, so no new benefits have accrued after that date, and benefits under the European plan were frozen as of September 30, 2010, though the European plan is a final pay plan, which means that benefits will be adjusted for increases in the salaries of participants until their retirement or departure from the company. U.S. and European employees hired subsequent to the dates of freezing of the respective plans are not eligible for participation in the defined benefit plans. For more information on how these factors could impact earnings, cash flows and shareholders' equity, see "Pension costs" in Item 7 of this Form 10-K.

### **Risks relating to our common stock**

#### *The price of our common stock may fluctuate significantly*

An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock.

Table of Contents

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares or at all. The market price of our common stock could fluctuate significantly for various reasons, which include:

- our quarterly or annual earnings or those of our competitors;
  
- the public's reaction to our press releases, our other public announcements and our filings with the Securities and Exchange Commission;
  
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of our competitors;
  
- new laws or regulations or new interpretations of laws or regulations applicable to our business;
  
- changes in accounting standards, policies, guidance, interpretations or principles;
  
- changes in general conditions in the domestic and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events;
  
- litigation involving our company or investigations or audits by regulators into the operations of our company or our competitors;
  
- strategic action by our competitors; and
  
- sales of common stock by our directors, executive officers and significant shareholders.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. If litigation is instituted against us, it could result in substantial costs and a diversion of our management's attention and resources.

***Our Executive Chairman of the Board of Directors beneficially owns a large percentage of our common stock and as a result can exert significant influence over us.***

At October 1, 2014, Walter C. Zable, our Executive Chairman of the Board of Directors, and Karen F. Cox, Mr. Zable's sister, beneficially owned an aggregate of 5,062,146 shares, or approximately 18.9%, of our outstanding common stock, including shares owned by trusts, of which Mr. Zable and Ms. Cox are co-trustees. In their capacities as co-trustees, Mr. Zable and Ms. Cox share voting and dispositive power over the shares owned by such trusts. Accordingly, Mr. Zable and Ms. Cox may be able to substantially influence all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combination transactions. Circumstances may arise in which the interests of these shareholders could conflict with the interests of our other shareholders. These shareholders could delay or prevent a change in control of Cubic even if such a transaction would be beneficial to our other shareholders.

***Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which shareholders vote.***

Our board of directors has the authority, without action or vote of our shareholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options and the vesting of restricted stock units, shares that may be issued in the future under our 2005 Equity Incentive Plan or shares of our authorized but unissued preferred stock. Issuances of common stock or preferred voting stock could reduce your influence over matters on which our shareholders vote and, in the case of issuances of preferred stock, likely could result in your interest in us being subject to the prior rights of holders of that preferred stock.

***Provisions in our charter documents and Delaware law could delay or prevent a change in control of Cubic.***

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control that shareholders may consider favorable, including transactions in which shareholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempt by our shareholders to replace or remove our current management by making it more difficult to replace or remove our board of directors. These provisions include:

Table of Contents

- prior to the date of the transaction, an affirmative vote of the holders of at least 662/3% of our outstanding common stock is required for the approval, adoption or authorization of a business combination;
- a prohibition on shareholder action through written consent;
- a requirement that special meetings of shareholders be called only by our board of directors or by a committee of our board of directors that has been duly designated to do so by our board of directors;
- the authority of our board of directors to issue preferred stock with such terms as our board of directors may determine; and
- a requirement for the affirmative vote of the holders of at least 662/3% of the total voting power of all outstanding shares of our voting stock to amend our amended and restated bylaws, or to amend specific provisions of our amended and restated certificate of incorporation.

In addition, Delaware law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested shareholder, generally a person who, together with its affiliates, owns or within the last three years has owned 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested shareholder, unless the business combination is approved in a prescribed manner. Accordingly, Delaware law may discourage, delay or prevent a change in control of our company.

***If we are unable to pay semiannual dividends at the targeted level, our reputation and stock price may be harmed.***

We have consistently paid cash dividends to our shareholders since 1971, and, in fiscal 2014, we paid \$6.4 million of cash dividends to our shareholders.

The dividend program requires the use of a portion of our cash flows. Our ability to continue to pay semiannual dividends will depend on our ability to generate sufficient cash flows from operations in the future. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our control. Our board of directors may, at its discretion, decrease the targeted semiannual dividend amount or entirely discontinue the payment of dividends at any time. Any failure to pay dividends after we have announced our intention to do so may adversely affect our reputation and investor confidence in us, and negatively impact our stock price.

***If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

**CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION**

This report, including the documents incorporated by reference herein, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to the safe harbor created by such Act. Any statements about our expectations, beliefs, plans, objectives, assumptions, future events or our future financial and/or operating performance, including those concerning new programs and growth in the markets in which we do business, increases in demand for our products and for fully integrated systems, retention of existing contracts and receipt of new contracts, the development of new products, systems and services, expansion of our automated payment and fare collection systems and services, maintenance of long-term relationships with our existing customers, expansion of our service offerings and customer base for services, maintenance of a diversified business mix, expansion of our international footprint, strategic acquisitions, U.S. and foreign government funding, supplies of raw materials and purchased parts, cash needs, financial condition, liquidity, prospects, and the trends that may affect us or the industries in which we operate, are not historical and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as may, will, anticipate, estimate, plan, project, continuing, ongoing, expect, intend, predict, potential, opportunity and similar words or phrases or the negatives of these words or phrases. These forward-looking statements involve risks, estimates, assumptions and uncertainties, including those discussed in Risk factors and elsewhere throughout this report and in the documents incorporated by reference herein, that could cause actual results to differ materially from those expressed in these statements.

Table of Contents

Such risks, estimates, assumptions and uncertainties include, among others: unanticipated issues related to the restatement of our financial statements; our ability to monitor and evaluate the effectiveness of new processes and procedures we have implemented to remediate the material weaknesses that existed in our internal control over financial reporting; our dependence on U.S. and foreign government contracts; delays in approving U.S. and foreign government budgets and cuts in U.S. and foreign government defense expenditures; the ability of certain government agencies to unilaterally terminate or modify our contracts with them; our ability to successfully integrate new companies into our business and to properly assess the effects of such integration on our financial condition; the U.S. government's increased emphasis on awarding contracts to small businesses, and our ability to retain existing contracts or win new contracts under competitive bidding processes; negative audits by the U.S. government; the effects of politics and economic conditions on negotiations and business dealings in the various countries in which we do business or intend to do business; competition and technology changes in the defense and transportation industries; our ability to accurately estimate the time and resources necessary to satisfy obligations under our contracts; the effect of adverse regulatory changes on our ability to sell products and services; our ability to identify, attract and retain qualified employees; business disruptions due to cyber security threats, physical threats, terrorist acts, acts of nature and public health crises; our involvement in litigation, including litigation related to patents, proprietary rights and employee misconduct; our reliance on subcontractors and on a limited number of third parties to manufacture and supply our products; our ability to comply with our development contracts and to successfully develop, introduce and sell new products, systems and services in current and future markets; defects in, or a lack of adequate coverage by insurance or indemnity for, our products and systems; changes in U.S. and foreign tax laws, exchange rates or our economic assumptions regarding our pension plans; and other factors discussed elsewhere in this report.

Because the risks, estimates, assumptions and uncertainties referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any forward-looking statements. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. Further, any forward-looking statement speaks only as of the date on which it is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

**Item 1B. UNRESOLVED STAFF COMMENTS.**

None

**Item 2. PROPERTIES.**

We conduct our operations in approximately 2.0 million square feet of both owned and leased properties located in the United States and foreign countries. We own approximately 56% of the square footage, including about 500,000 square feet located in San Diego, California and 425,000 square feet located in Orlando, Florida. All owned and leased properties are considered in good condition and adequately utilized. The following table identifies significant properties by business segment:

Location of Property	Owned or Leased
<b>Corporate Headquarters:</b>	

San Diego, CA	Owned
<b>Investment properties:</b>	
New York, NY	Owned
Teterboro, NJ	Leased
<b>Transportation Systems:</b>	
Arlington, VA	Leased
Atlanta, GA	Leased
Auburn, Australia	Leased
Beckton, London, England	Leased
Brisbane, Australia	Leased
Burnaby, BC, Canada	Leased
Chicago, IL	Leased
Concord, CA	Leased
Cumbernauld, Glasgow, Scotland	Leased
Emeryville, CA	Leased



Table of Contents

<b>Location of Property</b>	<b>Owned or Leased</b>
Greenford, London, England	Leased
Hamburg, Germany	Leased
Harbor Quay, London, England	Leased
Hyderabad, India	Leased
Inglewood, CA	Leased
Kingswinford, West Midlands, England	Leased
Kingswood, Australia	Leased
London, England	Leased
Malmö, Sweden	Leased
Mascot, Australia	Leased
Merthsham, Surrey, England	Leased
Murrarie, Australia	Leased
Newtonabby, Belfast, England	Leased
New York, NY	Leased
Norwalk, CA	Leased
Oakland, CA	Leased
Oldham, England	Leased
Concord, Ontario, Canada	Leased
Perth, Australia	Leased
Salfords, Surrey, England	Owned
San Diego, CA	Owned
San Francisco, CA	Leased
Stockton-on-Tees, England	Leased
Sydney, Australia	Leased
Tullahoma, TN	Leased and Owned
Vancouver, BC	Leased
Vaxjo, Sweden	Leased
Wollongong, Australia	Leased
<b>Mission Support Services:</b>	
Colorado Springs, CO	Leased
Columbus, GA	Owned
Fayetteville, NC	Leased
Hampton, VA	Leased
Herndon, VA	Leased
Honolulu, HI	Leased
Kingstowne, VA	Leased
Leavenworth, KS	Leased
Olympia, WA	Leased
Orlando, FL	Leased
San Diego, CA	Leased
Shalimar, FL	Leased
Tampa, FL	Leased
<b>Defense Systems:</b>	
Abu Dhabi UAE	Leased
Alexandria, VA	Leased
Arlington, VA	Leased
Auckland, New Zealand	Leased
Austin, TX	Leased
Canberra, Australia	Leased
Farnham, Surrey, England	Leased
Heisingor, Denmark	Leased
Herndon, VA	Leased

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Mexico City, Mexico	Leased
Orlando, FL	Owned
Panama City, FL	Leased
San Diego, CA	Owned

Table of Contents

<b>Location of Property</b>	<b>Owned or Leased</b>
Sunnyvale, CA	Leased
Singapore	Leased
St. Petersburg, FL	Leased
Tijuana, Mexico	Leased
Townsville, Australia	Leased
Vienna, VA	Leased
Yervan, Armenia	Leased

**Item 3. LEGAL PROCEEDINGS.**

In November 2011, we received a claim from a public transit authority customer which alleged that the authority incurred a loss of transit revenue due to the inappropriate and illegal actions of one of our former employees, who has pled guilty to the charges. This individual was employed to work on a contract we acquired in a business combination in 2009 and had allegedly been committing these illegal acts from almost two years prior to our acquisition of the contract, until his arrest in May 2011. The transit system was designed and installed by a company unrelated to us. The transit authority sought recoupment from us of a total amount of \$4.5 million for alleged lost revenue, fees and damages. In March 2012, the county superior court entered a default judgment against our former employee and others for \$2.9 million based upon the estimated loss of revenue by the public transit authority customer. In 2012, we recorded an accrued cost of \$2.9 million within general and administrative expense in the transportation systems segment based upon the court's assessment of these losses. In July 2014 we entered into a settlement agreement with the customer for a cash payment of \$2.6 million plus an assignment of forty percent of any insurance proceeds we receive under relevant insurance policies. In June 2014 we reduced our accrued costs to \$2.6 million. We have submitted our claim to our insurance carriers but have not yet resolved the level of coverage. Any potential insurance proceeds, and any related assignment of a portion of the proceeds to the customer, will not be recognized in the financial statements until receipt of any such insurance proceeds is probable.

In October and December of 2013, and January of 2014, lawsuits were filed in the United States District Court for the Northern District of Illinois, Eastern Division against us and one of our transit customers alleging variously, among other things, breach of contract, violation of the Illinois Consumer Fraud Act, unjust enrichment and violation of the Electronic Funds Act. In January 2014 these cases were consolidated into a single case and the Plaintiffs are seeking to have the case certified as a class action. Plaintiffs variously claim, among other things, that: (i) they were wrongly charged for calling the call center that we operate for patrons of our transit customer, (ii) they were wrongly charged for a transfer and a second fare, (iii) they were not credited the cost of a transit card even after registration of the card, as is required under the terms of the cardholder agreement, and (iv) they were double charged for rides taken. We are undertaking the defense of the transit customer pursuant to our contractual obligations to that customer. We are investigating the matter and plan to vigorously defend this lawsuit. As this case is in its early stages, we cannot estimate the probability of loss or any range of estimate of possible loss.

Also in October 2013, a lawsuit was filed in the Circuit Court of Cook County, Illinois, County Department, Chancery Division against our same transit customer alleging conversion and unjust enrichment. This lawsuit was later amended and refiled in May 2014. The plaintiff alleges his bank debit card was charged two dollars and twenty-five cents for his ride on the transit system rather than the ride being charged to his transit fare card. This plaintiff is also seeking to have his case certified as a class action for all patrons whose bank cards were charged in the same manner. We are investigating the matter and we are undertaking the defense pursuant to our contractual obligations to our transit customer. We plan to vigorously defend this lawsuit. As this case is in its early stages, we cannot estimate the probability of loss or any range of estimate of possible loss.

In October 2014, a lawsuit was filed in the United States District Court, Northern District of Illinois against us and our same transit customer alleging infringement of various patents held by the plaintiff. We are investigating the matter and plan to vigorously defend the lawsuit. We are also undertaking defense of our customer in this matter pursuant to our contractual obligations to that customer. Due to the preliminary nature of this case, we cannot estimate the probability of loss or any range of estimate of possible loss.

In addition to the matters described above, we are subject to various claims and legal proceedings that arise in the ordinary course of our business from time to time, including claims and legal proceedings that have been asserted against us by customers, former employees and competitors. We have accrued for estimated losses in the accompanying audited consolidated financial statements for matters where we believe the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable. Based on currently available information, management does not believe that the ultimate outcome of these unresolved matters, individually or in the aggregate, are likely to have a material adverse effect on our financial position, results of operations, or cash flows. However, litigation is subject to inherent uncertainties and our views on these matters may change in the future. Were an unfavorable outcome to occur in any one or more of those matters or the matters described above, over and above the amount, if any, that has been estimated and accrued in our audited consolidated financial statements, it could have a material adverse effect on our business, financial condition, results of operations and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

Table of Contents

**Item 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

**PART II**

**Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

The principal market on which our common stock is being traded is the New York Stock Exchange under the symbol CUB. The closing high and low sales prices for the stock, as reported in the consolidated transaction reporting system of the New York Stock Exchange for the quarterly periods during the past two fiscal years, and dividend information for those periods, are as follows:

MARKET AND DIVIDEND INFORMATION

Quarter	Sales Price of Common Shares				Dividends per Share			
	Fiscal 2014		Fiscal 2013		Fiscal 2014		Fiscal 2013	
	High	Low	High	Low				
First	\$ 56.55	\$ 49.14	\$ 50.67	\$ 46.25				
Second	54.13	49.04	48.40	41.74	\$ 0.12	\$ 0.12		
Third	52.25	44.21	49.52	40.90				
Fourth	47.04	42.60	54.16	48.14	\$ 0.12	\$ 0.12		

On November 6, 2014, the closing price of our common stock on the New York Stock Exchange was \$48.10. There were 674 shareholders of record of our common stock as of November 6, 2014.

**Item 6. SELECTED FINANCIAL DATA.**

FINANCIAL HIGHLIGHTS AND SUMMARY OF CONSOLIDATED OPERATIONS

(amounts in thousands, except per share data)

This summary should be read in conjunction with the related consolidated financial statements and accompanying notes in Item 8 herein.

Table of Contents

	Years Ended September 30,				
	2014	2013	2012	2011	2010
<b>Results of Operations:</b>					
Sales	\$ 1,398,352	\$ 1,361,407	\$ 1,404,084	\$ 1,301,584	\$ 1,200,623
Cost of sales	1,082,535	1,055,313	1,060,140	983,269	943,189
Selling, general and administrative expenses	181,672	165,230	164,189	159,791	124,306
Research and development	17,959	24,445	28,722	25,260	18,976
Interest expense	4,084	3,427	1,602	1,541	1,760
Income taxes	19,831	14,502	40,332	34,119	38,106
Net income attributable to Cubic (1)	69,491	25,086	97,427	86,044	72,667
<b>Per Share Data:</b>					
Net income per share, basic (1)	\$ 2.59	\$ 0.94	\$ 3.64	\$ 3.22	\$ 2.72
Net income per share, diluted (1)	2.59	0.94	3.64	3.22	2.72
Cash dividends	0.24	0.24	0.24	0.28	0.18
<b>Shares used in calculating net income per share:</b>					
Basic	26,787	26,736	26,736	26,736	26,735
Diluted	26,845	26,760	26,736	26,736	26,735
<b>Year-End Data:</b>					
Shareholders' equity related to Cubic	\$ 782,278	\$ 716,946	\$ 677,171	\$ 580,627	\$ 512,305
Equity per share, basic	29.20	26.82	25.33	21.72	19.16
Total assets	1,194,606	1,109,618	1,014,550	963,650	868,608
Long-term debt	102,390	102,920	11,503	15,918	20,494

(1) Results for the year ended September 30, 2013 include the impact of a goodwill impairment charge of \$50.9 million, before the impact of applicable income taxes. See Note 7 of the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of the goodwill impairment.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.****Company Overview**

We are a leading international provider of cost-effective systems and solutions that address the mass transit and global defense markets' most pressing and demanding requirements. We are engaged in the design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also provide a broad range of engineering, training, technical, logistic, and information technology services. We serve the needs of various federal and regional government agencies in the U.S. and allied nations around the world with products and services that have both defense and civil applications. Our main areas of focus are in mass transit automated fare payment and revenue management infrastructure, defense, intelligence, homeland security, and information technology, including cyber security. For the fiscal year ended September 30, 2014, 43% of sales were derived from transportation systems and related services, while 57% were derived from defense systems and services. The U.S. government remains our largest customer, accounting for approximately 47% of sales in 2014, 51% of sales in

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2013, and 50% of sales in 2012. In fiscal year 2014, 58% of our total sales were derived from services, with product sales accounting for the remaining 42%.

We operate in three reportable business segments: transportation systems, mission support services and defense systems. We organize our business segments based on the nature of the products and services offered.

We are operating in an environment that is characterized by continuing economic pressures in the U.S. and globally. A significant component of our strategy in this environment is to focus on program execution, improving the quality and predictability of the delivery of our products and services, and providing opportunities for customers to outsource services where we can provide a lower cost and more effective solution. Recognizing that many of our U.S. based customers are resource constrained, we are continuing our focus on developing and extending our portfolio in international and adjacent markets. Our international sales, including Foreign Military Sales (FMS), comprised 46% of our total sales for fiscal year 2014. International sales from Cubic Transportation Systems (CTS), Mission Support Services (MSS) and Cubic Defense System (CDS) amounted to 70%, 11% and 46%, respectively, of the applicable segment sales for fiscal year 2014. To the extent our business and contracts include operations in foreign countries, other risks are introduced into our business, including changing economic conditions, fluctuations in relative currency values, regulation by foreign countries, and the potential for deterioration of political relations.



Table of Contents

We continuously strive to strengthen our portfolio of products and services to meet the current and future needs of our customers. We accomplish this in part by our independent R&D activities, and through acquisitions. Company-sponsored R&D spending totaled \$18.0 million in 2014. In 2014 through our acquisition of Intific Inc., we significantly broadened our advanced research capabilities. Intific brings us a wide range of expertise including computer simulation, animation, human-machine interaction, robotics, neuroscience, visualization, gaming, and artificial intelligence.

We selectively pursue the acquisition of businesses that complement our current portfolio and allow access to new customers or technologies. In pursuing our business strategy, we routinely conduct discussions, evaluate targets, and enter into agreements regarding possible acquisitions. As part of our business strategy, we seek to identify acquisition opportunities that will expand or complement our existing products and services, or customer base, at attractive valuations. We have made a number of niche acquisitions of businesses during the past several years, including NextBus, Inc. in January 2013, Intelligent Transport Management Solutions Limited (ITMS) in November 2013 and Intific Inc. in February 2014. Generally, these acquisitions are dilutive to earnings in the short-term due to acquisition related costs, integration costs, retention payments and often higher amortization of purchased intangibles in the early periods after acquisition. However, we expect that each of these recent acquisitions will be accretive to earnings in the long-term.

Industry Considerations

The U.S. government continues to focus on discretionary spending, entitlements, tax, and other initiatives to stimulate the economy, create jobs, and reduce the deficit. The current presidential administration and Congress will likely continue to debate the size and expected growth of the U.S. federal budget as well as the defense budget over the next few years and balance decisions regarding defense, homeland security, and other federal spending priorities in a constrained fiscal environment imposed by the Budget Control Act of 2011 (Budget Act), which, in part, reduces defense spending by a minimum of \$487 billion over a ten-year period that began in fiscal year 2012.

On March 1, 2013, the sequestration of appropriations in fiscal year 2013 imposed by the Budget Act was implemented by the federal government. While the ultimate effects of sequestration still cannot be determined, these reductions have had an impact upon our customers procurement of products and services and will continue to have significant impact on the defense industry. These budgetary considerations may also impact funding to our U.S. mass transit customers from the federal government for large infrastructure projects.

While these budgetary considerations have put downward pressure on growth in the defense industry and will likely continue to do so, we believe that much of our business is well positioned in areas that the DoD has indicated are areas of focus for future defense spending to help the DoD meet its critical future capability requirements for protecting U.S. security and the security of our allies in the years to come.

In transportation, we continue to believe that our products and services are critical to our customers to ensure that they maximize revenue and efficiencies in fare collection in a resource constrained environment. Some customers have responded to the current market environment by seeking financing for their projects from the system supplier. An example of this is our contract with the Chicago Transit Authority, awarded in late 2011. We have designed and manufactured a new fare collection system for the Chicago Transit Authority and will receive monthly payments for the system over an approximate ten-year period which began as of January 1, 2014. .

While future defense plans, changes in defense spending levels and changes in spending for mass transit projects could have a materially adverse effect on our consolidated financial position, we have and plan to continue to make strategic investments and acquisitions to align our businesses in growth areas of our respective markets that we believe are the most critical priorities and mission areas for our customers.

**Segment Overview**

***Cubic Transportation Systems***

CTS is a systems integrator of payment and information technology and services for intelligent travel solutions. We deliver integrated systems for transportation and traffic management, delivering tools for travelers to choose the smartest and easiest way to travel and pay for their journeys, and enabling transportation authorities and agencies to manage demand across the entire transportation network all in real time. We offer fare collection devices, software, systems and multiagency, multimodal integration technologies, as well

Table of Contents

as a full suite of operational services that help agencies and operators efficiently collect fares, manage operations, reduce revenue leakage and make transportation more convenient. Through our NextBus and ITMS businesses, respectively, we also deliver real-time passenger information systems for tracking bus arrival times and we are a leading provider of intelligent transport solutions and technology maintenance services to UK and other international government road transport agencies.

The transportation markets we serve are undergoing a substantial change. Mounting pressure on transportation authorities to stretch their operating budgets is fueling a trend toward outsourced services and payment systems that lower operating cost. We believe we are positioned at the forefront of this change.

We provide a wide range of services for transportation authorities in major markets worldwide, including computer hosting services, call center and web services, payment media issuance and distribution services, retail point of sale network management, payment processing, financial clearing and settlement, software application support and outsourced asset operations and maintenance. Significant regions where we currently provide services include London, Sydney, Brisbane, Sweden, Washington D.C., Los Angeles, San Francisco and Atlanta. CTS operates full service operation centers in North America, Europe and Australia. In 2014, revenues from services provided by CTS were \$315.0 million, or 53% of CTS sales.

CTS is a prime contractor and has active projects worldwide, including in the New York (Metrocard®) / New Jersey (PATCO®, PATH Smartlink®) region, Chicago (Ventra®), Vancouver, Sydney (Opal®), Brisbane (*go card*®), the Frankfurt / RMV region, Sweden, the Washington, D.C. / Maryland / Virginia region (SmarTrip®), the Los Angeles region, the San Diego region, Miami, Minneapolis / St. Paul and Atlanta. In addition to helping us secure similar projects in new markets, our comprehensive suite of new technologies and capabilities enable us to benefit from a recurring stream of revenues in established markets resulting from innovative new services, technology obsolescence, equipment refurbishment and the introduction of new or adjacent applications.

We are currently designing and building major new systems in Sydney and Vancouver. Typically, profit margins during the design and build phase of major projects are lower than during the operate-and-maintain phase. This has in the past caused, and may in the future cause, swings in profitability from period to period. In addition, cash flows are often negative during portions of the design- and-build phase, until major milestones are reached and cash payments are received. This was the case in 2014, for our Chicago and Vancouver contracts as we experienced negative cash flows from these two major projects. Each of these projects includes a ten-year operate and maintain period and we expect cash flows from these projects to be positive in future years.

Cash payment terms offered by our mass transit customers in a competitive environment are sometimes not favorable to us. The customers budget constraints often result in less funding available for the build of a new system, with more funds becoming available when the system becomes operational. This, coupled with the inherent risks in managing large infrastructure projects, can yield negative cash flows and lower and less predictable profit margins on contracts during the design and build phase. Conversely, during the operate-and-maintain phase, revenues and costs are typically more predictable and profit margins tend to be higher. In 2014 we did not experience this typical result in gross margins as we achieved higher gross margins on product sales than on service sales. This was due to strong product sales in the UK and improved product sales margins in Australia; while we experienced higher costs in providing the first year of services on a transportation contract in Chicago than are expected in future years.

Gross profit margins from services sales in CTS were 24% and 37% for fiscal years 2014 and 2013, respectively, and gross profit margin from product sales was 28% and 15% in 2014 and 2013, respectively. Generally, the trend toward more services revenues has helped to generate higher profit margins from the segment in recent years than in the past; however in 2014 service gross margins were lower than product gross

margins mostly due to the increased costs of the first year of providing services on the Chicago contract. The mix of product and services sales can produce fluctuations in margin from period-to-period; however, we expect the trend of increasing services sales to continue in the next several years.

Most of our sales in CTS for fiscal year 2014 were from fixed-price contracts. However, some of our service contracts provide for variable payments, in addition to the fixed payments, based on meeting certain service level requirements and, in some cases, based on system usage. Service level requirements are generally contingent upon factors that are under our control, while system usage payments are contingent upon factors that are generally not under our control, other than basic system availability. Development and system integration contracts in CTS are usually accounted for on a percentage-of-completion basis using the cost-to-cost method to measure progress toward completion, which requires us to estimate our costs to complete these contracts on a regular basis. Our actual results can vary significantly from these estimates and changes in estimates can result in significant swings in revenues and profitability from period to period. Generally, we are at risk for increases in our costs, unless an increase results from customer-requested changes. At times, there can be disagreement with a customer over who is responsible for increases in costs. In these situations we must use judgment to determine if it is probable that we will recover our costs and any profit margin.

Table of Contents

Revenue under contracts for services in CTS is generally recognized either as services are performed or when a contractually required event has occurred, depending on the contract. Revenue under such contracts is generally recognized on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these services contracts are expensed as incurred, and may vary from period to period. Incentive fees included in some of our CTS service contracts are recognized when they become fixed and determinable based on the provisions of the contract. As described above, often these fees are based on meeting certain contractually required service levels or based on system usage levels. Contractual terms can also result in variation of both revenues and expenses, resulting in fluctuations in earnings from period to period.

For the new fare collection system for the Chicago Transit Authority, the contract specifies that we would not begin to be paid until we entered the service period. In accordance with authoritative accounting literature, we did not begin recognizing revenue on this contract until it entered the service period in August 2013. As of September 30, 2014, we had capitalized \$76.2 million, net, in direct costs associated with developing the new fare collection system. Selling, general and administrative (SG&A) costs associated with this contract are not being capitalized, but are being expensed as incurred. Capitalized costs are being recognized as cost of sales based upon the ratio of revenue recorded during a period compared to the revenue expected to be recognized over the term of the contract.

On November 26, 2013 we acquired all of the outstanding capital stock of ITMS, a wholly owned U.K. subsidiary of 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 total acquisition-date fair value of consideration transferred for ITMS was \$72.2 million. For fiscal year 2014, ITMS had \$43.7 million of revenue and was slightly accretive to our earnings per share, after consideration of costs for transaction, integration and the amortization of purchased intangibles.

***Mission Support Services***

MSS is a leading provider of highly specialized support services to the U.S. government and allied nations. Services provided include live, virtual and constructive training, real-world mission rehearsal exercises, professional military education, intelligence support, information technology, information assurance and related cyber support, development of military doctrine, consequence management, infrastructure protection and force protection, as well as support to field operations, force deployment and redeployment and logistics.

MSS is a highly specialized and customer centric business which we believe knows how to meet the unique requirements of each of its many customers. In the government services marketplace, reputation, quality and relationships are always important. We uphold our credentials for professional excellence by consistently providing high-value and cost-effective support for our customers.

MSS is focused on customers within the U.S. government, extending to the DoD, all branches of the U.S. Armed Services, the Department of Homeland Security, non-military agencies, and allied nations under FMS contracts funded by the U.S. government. MSS is the prime contractor at more than 40 military training and support facilities and supports some of the largest exercises and training events each year including the largest annual constructive simulation training event under our Korea Battle Simulation Center (KBSC) support contract. Cubic won the recomplete of the KBSC contract which has a base and four option periods. The segment supports all four of the U.S. Army's combat training centers (CTCs) comprised of: the Joint Readiness Training Center (JRTC) in Fort Polk, Louisiana, which is the nation's premier training center for light infantry forces; the National Training Center (NTC) in Fort Irwin, California, the Army's premier heavy maneuver CTC; the Joint Multinational Readiness Center (JMRC) in Hohenfels, Germany, which is the U.S. Army Europe's combat maneuver training center for realistic training from the individual to the brigade level; and the Mission Command Training Program (MCTP) in Fort Leavenworth, Kansas, which delivers mission command training to the Army's senior commanders and is the Army's only worldwide deployable CTC. We also currently

provide and/or have provided defense modernization support for 13 NATO entrants in Central and Eastern Europe under FMS contracts.

We are adapting to a new era in defense and national security spending practices. In the past, many of the contracts we were awarded in MSS were long-term in nature, spanning periods of five to ten years. The DoD now relies heavily upon indefinite delivery/indefinite quantity (ID/IQ) and small business set aside contracts. For us that means a lower backlog of long-term service contracts due to the shorter term nature of these ID/IQ Task Order awards. Shorter-term contracts combined with this tougher competitive environment, where the lowest price technically acceptable bids usually win, have resulted in a trend toward lower profit margins from the segment in recent periods. For example, the gross profit margin in MSS was 10% in 2014 compared to 11% in 2013 and 2012. Threats related to sequestration and margin compression were among the factors that resulted in a decline in the estimated fair value of MSS and a resulting \$50.9 million goodwill impairment in 2013. We must continue to work to keep our costs low to remain competitive under these market conditions. These conditions also provide the opportunity for us to increase our market share of the large DoD services market. To maximize our business opportunities under ID/IQ contract vehicles, we often seek new work both as a prime contractor and a subcontractor. By increasing our participation in multiple award ID/IQ contracts we improve our chances to develop new customers, programs and capabilities. Retaining customers is a critical component of our success; we remain vigilant in maintaining a high win rate on re-compete contracts to retain our customers. Despite the trend toward small business awards by the U.S. government, where we must take a role as a subcontractor, 87% of our revenues in fiscal year 2014 were as a prime contractor.

Table of Contents

MSS expanded and deepened its training services through the acquisition of Omega Training Group in 2008, which positioned the segment at key locations, such as Fort Bliss, Texas, and Fort Benning, Georgia, which were recipients of work from the 2005 Base Realignment and Closure (BRAC). In addition, MSS has been focused on diversifying its business over the last three years to the national security market. The acquisitions of Abraxas in fiscal year 2011, and NEK in December 2012, add to the segment's specialized skills and further diversify the business to new customers and markets which are directly aligned with DoD's emphasis on intelligence and the special operations forces communities where trusted credentials are a high barrier to entry. NEK provides Special Forces training-related services to the U.S. Army and other national security related customers provides a platform to expand MSS' work both in the U.S. and to key foreign allies. At NEK we employ 500 employees with substantial experience in the Special Forces community.

For fiscal year 2014, NEK was slightly dilutive to our earnings per share after consideration of the amortization of purchased intangibles. In fiscal year 2015, we anticipate that this acquisition should be accretive.

Cost reimbursable and time and materials contracts accounted for 66% of our sales in MSS for fiscal year 2014, with the remaining sales derived from fixed-price contracts. Revenues under cost reimbursable contracts are recognized as costs are incurred, plus the estimated fee earned under the contract terms. Often these are structured as award fees based on performance and are generally accrued during the performance of the contract based on our historical experience with such awards. Revenues under time and materials contracts are recognized as services are delivered based on the terms of the contract. Revenues under our fixed-price service contracts with the U.S. government are recorded under the cost-to-cost percentage-of-completion method.

***Cubic Defense Systems***

CDS is focused on two primary lines of business: training systems and secure communications. The segment is a diversified supplier of live and virtual military training systems, and secure communication systems and products to the DoD, other U.S. government agencies and allied nations. We design and manufacture instrumented range systems for fighter aircraft, armored vehicles and infantry force-on-force live training weapons effects simulations, laser-based tactical and communication systems, and precision gunnery solutions. Our secure communications products are aimed at intelligence, surveillance, asset tracking and search and rescue markets.

CDS is building upon its role as a leader in air and ground combat training systems worldwide. Our products and systems help our customers to retain technological superiority with cost-effective solutions. We design, innovate, manufacture and field a diverse range of technologies that are critical to combat readiness, supply chain logistics and national security for the U.S. and allied nations. Our primary lines of business include air combat training ranges and after action review software, ground combat training systems, including a full range of laser engagement simulation systems, virtual small arms training systems, Intelligence, Surveillance and Reconnaissance (ISR) data links, personnel locator systems, multi-band communication tracking devices and cross domain appliances for cyber security. We also provide ongoing support services for systems we have built for several of our international customers.

Our established international footprint in 40 allied nations is a key ingredient to our strategy. Our global footprint helps to insulate us from possible shifts or downturns in DoD spending. Sales from international customers of CDS have become a major part of our business with 46% of sales in 2014 from international customers. In addition, expansion into adjacent markets gives us an effective means to add scale to our business. We look for attractive acquisition candidates to expand our product offerings and we invest in the development of innovative new products that deliver real value to our customers. Through a business acquisition we made in 2014, we now offer software and game-based solutions in modeling and simulation, training and education, cyber warfare, and neuroscience. Through business acquisitions we made in 2013 we offer live fire training solutions to US and international forces, further deepening our training capabilities and expanding our customer base, and we

acquired a specialist engineering business with strong project management competencies in training range design, operations, communications, and safety requirements.

Fixed-price contracts accounted for 92% of CDS revenue for fiscal year 2014. Development and system integration contracts in CDS are generally accounted for on a percentage-of-completion basis using the cost-to-cost method to measure progress toward completion, which requires us to estimate our costs to complete these contracts on a regular basis. Our actual results can vary significantly from these estimates and changes in estimate can result in significant swings in revenues and profitability from period to period. Generally, we are at risk for increases in our costs, unless an increase results from customer-requested changes. At times, there can be disagreement with a customer over who is responsible for increases in costs. In these situations we must use judgment to determine if it is probable that we will recover our costs and any profit margin.

CDS also has many long-term, fixed-price production contracts that do not require substantial development effort. For these contracts we use the units-of-delivery percentage-of-completion method as the basis to measure progress toward completing the contract and recognizing sales. The units-of-delivery measure recognizes revenues as deliveries are made to the customer generally using unit sales values in accordance with the contract terms. We estimate profit as the difference between total estimated revenue and total estimated cost of a contract and recognize that profit over the life of the contract based on deliveries.



Table of Contents

Increasingly, CDS is receiving contracts from foreign customers to not only develop and deliver a system, but to maintain the system for a period of years after the delivery. While service contracts have not historically been a significant part of our CDS business, this type of multiple-element contract has become more common in recent years. Revenues under contracts for services in CDS are generally recognized as services are performed on a straight-line basis over the period of contract performance. Costs incurred under these services contracts are expensed as incurred, and may vary from period to period, resulting in fluctuations in earnings.

The gross profit margin in fiscal 2014 was 30%, compared to 32% in 2013 and 35% in 2012. While we expect to win significant new work in foreign markets in the future, we do not expect gross profit margins to match 2012 levels, which were favorable due to certain foreign contracts. At times, particularly favorable or unfavorable contracts can cause variation in this ratio, due to competition and the prevalence of fixed-price arrangements. Fixed-price contracts create both the risk of cost growth and the opportunity to increase margins if we are able to reduce our costs.

Operating overview

Cubic Corporation sales in 2014 were \$1.398 billion compared to \$1.361 billion in 2013, an increase of 3%. Increases in sales for CTS and CDS of 13% and 10%, respectively, were partially offset by a 15% decrease in MSS sales. Consolidated sales in 2014 would have decreased by 3% without the addition of businesses that we acquired in 2013 and 2014. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in an increase in sales of \$6.4 million in 2014 from 2013.

Sales in 2013 were \$1.361 billion compared to \$1.404 billion in 2012, a decrease of 3%. Decreases in sales for MSS and CDS of 5% and 7%, respectively, were partially offset by a 1% increase in CTS sales. Consolidated sales in 2013 would have decreased by 5% without the addition of NEK, NextBus and two smaller businesses that were acquired during 2013. No businesses were acquired during fiscal 2012. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$5.6 million in 2013 from 2012.

Operating income was \$92.5 million in 2014 compared to \$40.7 million in 2013, an increase of 127%. MSS operating income increased by \$43.9 million in 2014, because we recorded a goodwill impairment charge of \$50.9 million in 2013. Excluding the impact of the 2013 goodwill impairment, MSS operating income decreased primarily due to reduced sales and reduced profit margins on contracts due to competitive pressures driving down bid prices. CDS operating income increased by 89% in 2014 from 2013 due to an increase in operating margin on increased training system sales, and because CDS operating profits were negatively impacted in 2013 by \$7.8 million of restructuring charges and by a \$2.8 million write-down of inventory in our global asset tracking product line in 2013. Businesses acquired by CDS in fiscal years 2014 and 2013 had operating losses of \$8.0 million for 2014, including a \$3.7 million charge for compensation expense related to amounts paid to Intific employees upon the close of the acquisition in February 2014. CTS operating income decreased by 1%. Businesses we acquired in all of our segments in 2014 and 2013 generated operating losses of \$11.5 million in 2014. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in an increase in operating income of \$5.9 million in 2014 from 2013.

Operating income was \$40.7 million in 2013 compared to \$136.2 million in 2012, a decrease of 70%. Operating income and operating margin percentages decreased in all three of our business segments. Decreased operating profits on decreased sales in Europe, as well as cost growth on contracts in Sydney and Vancouver contributed to the decrease in operating margins for CTS. CDS operating profits were negatively impacted in 2013 by lower margins on lower sales from a ground training system in the Far East, a \$2.8 million write-down of inventory in our global asset tracking product line and \$7.8 million of restructuring charges incurred in 2013. MSS recorded a \$50.9 million goodwill impairment in 2013 as discussed in the MSS segment disclosures below. MSS also experienced a decrease in gross margins on a decrease in sales, particularly

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in the fourth quarter of 2013 due to lower training activity and continued pressure on bid prices. MSS bid rates were impacted by the tougher competitive environment, where the lowest price technically acceptable bid often wins the contract award. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in operating income of \$0.2 million in 2013 from 2012.

Net income attributable to Cubic increased to \$69.5 million (\$2.59 per share) in 2014 from \$25.1 million (\$0.94 per share) in 2013. The increase in net income attributable to Cubic was primarily due to the increase in operating income described above and a decrease in the effective income tax rate described below.

Net income attributable to Cubic decreased to \$25.1 million (\$0.94 per share) in 2013 from \$97.4 million (\$3.64 per share) in 2012. The decrease in net income attributable to Cubic was primarily due to the decrease in operating income as the result of a goodwill impairment charge of \$50.9 million in 2013 and an increase in interest expense due to a higher average debt balance in 2013.

Table of Contents

The gross margin from product sales was 27% in 2014, compared to 24% in 2013. The increase in gross margin percentage was primarily due to higher margins on higher sales of transportation products in the U.K. In addition, although product sales gross margins were impacted in 2014 by an increase in the estimated costs to complete a CTS fare system for a customer in Vancouver, the impact of this cost growth in 2014 was less than the impact on 2013 product sales gross margins of increases in estimated costs experienced in 2013 to complete the fare systems for customers in Sydney and Vancouver. The gross margin from service sales was 19% in 2014 compared to 21% in 2013. The decrease in the gross margin percentages on services sales was primarily the result of increased costs of providing services on a transportation contract in Chicago. The provision of services under this contract began just prior to the end of fiscal 2013. Revenue recognized on this contract is limited to billable amounts, which were significantly less than costs incurred to provide these services until the billable amounts increased upon system acceptance, which occurred effective January 1, 2014.

The gross margin from product sales was 24% in 2013 compared to 31% in 2012. The decrease in gross margin percentage was primarily due to cost growth on transportation contracts in Sydney and Vancouver in 2013 as well as a change in estimate that had occurred during 2012 related to a ground combat training range contract. Prior to 2012 we had been working for more than a year under an arrangement without a firm contract price or scope of work and had been recognizing sales equal to costs. We reached agreement with the customer on a price and scope of work in the third quarter of 2012, resulting in higher sales and operating income of \$12.5 million in 2012 because of this favorable change in estimate. Declining sales from more profitable CDA training system contracts were also responsible for the decrease in the product sales gross margin percentage in 2013. The gross margin from service sales was 21% in 2013 compared to 18% in 2012. The increase in service gross margin percentage was primarily caused by the change in mix of service sales between segments. More profitable CTS and CDA service sales increased in 2013 as a percentage of total service sales as compared to a heavier weighting of MSS sales as a percentage of service sales in 2012.

SG&A expenses increased to \$181.7 million or 13% of sales in 2014, compared to \$165.2 million or 12% of sales in 2013. The increase in SG&A expenses is primarily due to SG&A expenses associated with companies acquired in 2013 and 2014, including a \$3.7 million charge for compensation expense related to amounts paid to Intific employees upon the close of the acquisition in February 2014. In 2014 we also incurred \$1.3 million of professional fees in connection with strategic and IT system resource planning. In addition, stock-based compensation added \$5.1 million to SG&A expenses for the year compared to \$3.0 million last year. The change in SG&A expenses between 2014 and 2013 was also impacted by a 2013 reduction of SG&A expenses of \$1.4 million related to proceeds from an insurance claim for losses that we incurred over the period from fiscal 2010 to fiscal 2012. The \$1.3 million expense related to strategic and IT system resource planning and much of the increase in stock-based compensation has not been allocated to segment operations as these costs are not recoverable in our contracts with the U.S. government, resulting in an increase in unallocated corporate costs in 2014 compared to 2013.

SG&A expenses increased to \$165.2 million or 12% of sales in 2013 from \$164.2 million or 12% of sales in 2012. The increase in SG&A expenses in 2013 was primarily due to \$3.0 million of stock-based compensation recorded as SG&A expense during 2013 related to our long-term equity incentive award program which began in March 2013. In addition, \$1.1 million of professional services costs were recognized in the first quarter of 2013 related to the restatement of our financial statements for the year ended September 30, 2012 and previous periods. In addition, we incurred \$0.9 million of expenses in 2013 related to our secondary offering of outstanding shares that were sold by certain of our shareholders. Partially offsetting these increases in SG&A expenses was a 2013 reduction of SG&A expenses of \$1.4 million related to proceeds from an insurance claim for losses that we incurred over the period from fiscal 2010 to fiscal 2012.

Company-sponsored R&D spending, related primarily to new transportation and defense technologies we are developing, totaled \$18.0 million in 2014 compared to \$24.4 million in 2013. Company-sponsored R&D spending for CDS decreased \$5.1 million in 2014 while Company-sponsored R&D spending for CTS decreased by \$1.4 million in 2014. Company-sponsored R&D spending totaled \$24.4 million in 2013 compared to \$28.7 million in 2012. Company-sponsored R&D spending for CDS decreased \$5.8 million in 2013 while Company-sponsored R&D spending for CTS increased by \$1.6 million in 2013. The amount of contract-required engineering and development activity in 2014 was approximately \$69.1 million compared to \$68.3 million in 2013 and \$81.2 million in 2012; however, these costs are included in cost of sales, rather than R&D, as they are directly related to contract performance.

Amortization expense increased to \$22.6 million in 2014 compared to \$16.7 million in 2013 and \$14.8 million in 2012. The increases in amortization expense were primarily related to our acquisitions of ITMS and Intific in 2014 and our acquisitions of NEK and NextBus in 2013.

Interest and dividend income was \$1.4 million in 2014 compared to \$1.6 million in 2013 and \$3.0 million in 2012. The changes in interest and dividend income between these years were generally correlated with changes in the average cash balances held by our wholly owned subsidiaries in New Zealand and Australia. These foreign currency investments earned a higher interest rate than our other cash and short-term investments. Interest expense was \$4.1 million in 2014 compared to \$3.4 million in 2013 and \$1.6 million in 2012. The increases in interest expense were consistent with our average outstanding debt balances from 2012 to 2014.

Table of Contents

Other income (expense) netted to expense of \$0.4 million in 2014 compared to income of \$0.9 million in 2013 and income of \$0.4 million in 2012. Fluctuations in other income are caused primarily by the impact of foreign currency exchange rate changes on cash advances to our foreign subsidiaries that are not hedged.

Our effective tax rate for fiscal 2014 was 22% compared to 36% in fiscal 2013 and 29% in fiscal 2012. The overall decrease in the effective tax rate between 2014 and 2013, as well as the increase between 2013 and 2012 primarily relates to the impact of the partially nondeductible goodwill impairment loss recognized in 2013 and an increase in the valuation allowance against deferred tax, as described below.

Our effective tax rate could be affected in future years by, among other factors, the mix of business between U.S. and foreign jurisdictions, our ability to take advantage of available tax credits and audits of our records by taxing authorities.

Through September 30, 2014, a valuation allowance of \$14.0 million has been established for certain deferred tax assets related to state tax credits, certain foreign operating losses and other foreign assets. For fiscal 2014, the total change in the valuation allowance was \$5.2 million, of which \$2.3 million was recorded as tax expense in our Consolidated Statement of Income in fiscal 2014. We will continue to assess the need for a valuation allowance on deferred tax assets and should circumstances change it is possible the valuation allowance, or a portion thereof, will be reversed.

Transportation Systems Segment

Years ended September 30,	2014	2013	2012
		(in millions)	
Transportation Systems Sales	\$ 599.7	\$ 529.5	\$ 522.2
Transportation Systems Operating Income	\$ 65.9	\$ 66.8	\$ 84.6

CTS sales increased 13% to \$599.7 million in 2014 compared to \$529.5 million in 2013. Businesses acquired by CTS in fiscal years 2014 and 2013 contributed sales of \$53.8 million in 2014 compared to \$7.8 million in 2013. In 2014, sales increased on expanded system development work in the U.K. and in the San Francisco Bay Area. Revenue also increased from a system development and services contract for a customer in Chicago. Revenue is being recognized for this Chicago contract based upon when amounts are billable to the customer and, in January 2014 we met the final criteria for system delivery resulting in a significant increase in monthly payments. Sales in 2014 and 2013 were also impacted by changes in estimated total costs on system development projects in Vancouver and Sydney. Since we use the cost-to-cost percentage of completion method of accounting for the development of these systems, increases in estimated total costs have an impact of reducing revenue and operating margin. In 2014, increases in cost estimates on the Vancouver contract reduced sales and operating income by \$18.4 million for 2014. In 2013, increases in cost estimates on the Sydney contract reduced sales and operating income by \$10.1 million. As a result, revenue and operating profits on the Vancouver development contract decreased in 2014 compared to 2013 and revenue and operating profits on the Sydney development contract increased in 2014 compared to 2013. In addition, during fiscal 2013, CTS recognized sales of approximately \$2.0 million as a result of a contract claim that was settled related to services that were provided to a European customer between December 2011 and the second quarter of fiscal 2013. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in an increase in sales of \$6.0 million for 2014 compared to 2013.

CTS sales increased 1% to \$529.5 million in 2013 compared to \$522.2 million in 2012. CTS generated higher sales on a contract for a suburban bus system near Chicago, and transit system contracts in Minneapolis, New York, and Washington D. C. NextBus, a business we acquired in January 2013 that provides real-time passenger information products and services to transit agencies contributed sales of \$7.8 million for the year. In addition, during fiscal 2013, CTS recognized sales of approximately \$2.0 million as a result of a contract claim that was settled related to services that were provided to a European customer between December 2011 and the second quarter of fiscal 2013. In 2013, CTS realized lower sales both from a contract to design and build a system in Sydney, and due to reduced work on a contract to design and build a system in Vancouver. In 2012, revenues were higher on the Vancouver and Sydney projects as we were producing a significant amount of the hardware for the systems, while in 2013 we were moving into in the latter stages of delivery for these systems. Also, during 2013, sales to train operating companies in the U.K. decreased. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$6.7 million for 2013 compared to 2012.

Table of Contents

CTS operating income decreased 1% in 2014 to \$65.9 million compared to \$66.8 million in 2013. Businesses acquired by CTS in fiscal years 2014 and 2013 contributed operating loss of \$2.5 million for 2014 compared to an operating loss of \$0.8 million in 2013. CTS operating income for 2014 decreased due to the changes in cost estimates on the Vancouver contract described above. The decrease in CTS operating income for 2014 was also impacted by the increased costs of providing services on our transportation contract in Chicago. For fiscal year 2014, the operating loss for this contract was \$28.8 million. The provision of services under this contract began just prior to the end of fiscal 2013. Revenue recognized on this contract is limited to billable amounts, which were significantly less than costs incurred to provide these services until the billable amounts increased upon system acceptance, which occurred effective January 1, 2014. Since January 1, 2014 revenue recognized on this contract has continued to be exceeded by its costs, but the contract is expected to be profitable in 2015 and in subsequent years. These decreases in operating income were partially offset by an increase in operating income on increased sales for contracts in the U.K. and also on in operating income on a contract in Sydney which was primarily due to the impact of the changes in estimates made in 2013 described above. We are also in a phase of the Sydney contract where we are continuing to install the system while transitioning to full operations and the costs incurred to provide services are greater than the billable revenues for those services. Profit margins are expected to improve as the Sydney system moves into full operations in the first half of 2015. The decrease in operating income for the year was partially offset by increased system usage bonuses on our contract in London and by higher operating income on higher sales of both products and services in the U.K. and certain other programs in the U.S. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in an increase in CTS operating income of \$6.1 million for 2014 compared to 2013.

CTS operating income decreased 21% in 2013 to \$66.8 million compared to \$84.6 million in 2012. During 2013 operating margins declined due to an increase in estimated costs to complete and implement systems in Sydney and Vancouver. The increased estimated costs for the Sydney contract primarily resulted from an increase in estimated costs to install hardware on the customer's transit system bus fleet, while the increased estimated costs on the Vancouver contract mainly related to expected additional system software development costs. Changes in estimated costs on these two contracts decreased operating income by approximately \$16.2 million in the fourth quarter of 2013, and decreased net income by approximately \$10.8 million. CTS operating margins were also affected by a decrease in work on U.K. development contracts in 2013. These decreases in operating income were partially offset by higher operating income on increased work on contracts in the U.S. previously described, as well as the sales recorded in the third quarter related to the European service contract claim settlement described above. In addition, operating income improved on a U.K. service contract due to higher annual system usage incentives. The operating loss from NextBus was \$0.8 million for 2013. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in CTS operating income of \$0.4 million for 2013 compared to 2012.

Amortization of purchased intangibles included in the CTS operating results totaled \$9.7 million, \$2.8 million, and \$1.7 million in 2014, 2013 and 2012, respectively. The increases over the three years are due to the acquisitions of ITMS in November 2013 and NextBus in January 2013.

In 2014 CTS incurred restructuring charges of \$0.8 million as a result of a planned reduction of employee headcount in the US by approximately 20. This restructuring was predominantly driven by the reduction in work on certain contracts that are in the process of moving from the design and build phase to the services phase.

Mission Support Services Segment

Years ended September 30,	2014	2013	2012
		(in millions)	
Mission Support Services Sales	\$ 398.1	\$ 468.7	\$ 491.4
Mission Support Services Operating Income (Loss)	\$ 7.8	\$ (36.1)	\$ 21.1

MSS sales decreased 15% to \$398.1 million in 2014 compared to \$468.7 million in 2013. Sales in 2014 were lower due in part to the U.S. government's shut down in October 2013 and reductions in spending by the U.S. government. The decrease in sales was also caused by the loss of a contract early in fiscal year 2014 due to a lower bid by a competitor, and lower Abraxas sales. These reductions were partially offset by growth in the Simulator Training business area due to the award of a new contract in early fiscal 2014. NEK Special Programs Group LLC (NEK), a Special Operation Forces training business acquired in December 2012 had sales of \$45.0 million in 2014 compared to sales of \$31.6 million in 2013.



Table of Contents

MSS sales decreased 5% to \$468.7 million in 2013 compared to \$491.4 million in 2012. Sales in 2013 were lower on certain contracts due to a decrease in activity, including a contract to provide deployment/redeployment services and from training contracts for the U.S. military, and lower Abraxas sales. The decrease in sales was also caused by the loss of contracts due to lower bids by competitors. These decreases in sales were partially offset by sales generated by NEK, a Special Operation Forces training business acquired in December 2012 that added sales of \$31.6 million for 2013. The current environment in defense services, including increased competition, an emphasis on small business awards, and the impact of spending cuts from sequestration, has led to contraction in MSS operations; however, this situation appears to be stabilizing and due to recent contract awards we do not expect further reductions in revenues in fiscal 2015.

MSS operating income increased to \$7.8 million in 2014 from an operating loss of \$36.1 million in 2013. Excluding the impact of the \$50.9 million goodwill impairment recorded in 2013 described below, MSS operating income decreased from 2013 to 2014 by 47%. Operating income in 2014 was impacted by the sales decreases described above and reduced profit margins on contracts due to competitive pressures driving down bid prices. MSS competitive environment has forced us to bid somewhat lower margins than in recent years in order to acquire positions on new contracts and retain positions on our existing contracts. Operating income also decreased as a result of a focused investment we are making to expand our footprint in the Special Operations Forces market, which totaled \$1.7 million for 2014. The NEK operating loss was \$1.0 million for 2014 compared to \$0.8 million in 2013.

MSS recorded an operating loss of \$36.1 million in 2013 compared to operating income of \$21.1 million in 2012. The change in the MSS operating income (loss) was primarily related to a \$50.9 million goodwill impairment recorded in the fourth quarter of fiscal 2013. Our annual impairment test is performed each year as of July 1, or when circumstances indicate that the carrying value may not be recoverable. The impacts of sequestration and other changes in the business environment did not cause significant impacts on MSS until late in 2013. During our strategic and financial planning process late in 2013, we made downward revisions in our estimates of future revenues and margins. As a result, in the fourth quarter of 2013 we estimated that there was a decline in the estimated fair value of MSS, which resulted in the recognition of an impairment of goodwill of \$50.9 million. Excluding the goodwill impairment, in 2013, the decrease in operating income resulted from increased personnel costs on a flight simulator training contract, operating losses at NEK and Abraxas and the sales decreases described above. The NEK operating loss was \$0.8 million for 2013, including acquisition-related costs of \$0.6 million and amortization of intangible assets of \$3.0 million. The Abraxas operating loss increased to \$2.6 million in 2013 from \$1.3 million in 2012 due to decreased activity and lower profit margins.

Amortization of purchased intangibles included in the MSS results amounted to \$10.4 million, \$12.5 million, and \$12.0 million in 2014, 2013 and 2012, respectively.

Table of ContentsDefense Systems Segment

Years ended September 30,	2014	2013 (in millions)	2012
<b><u>Defense Systems Sales</u></b>			
Training systems	\$ 346.8	\$ 306.3	\$ 336.5
Secure communications	53.8	56.7	52.9
	\$ 400.6	\$ 363.0	\$ 389.4
<b><u>Defense Systems Operating Income (Loss)</u></b>			
Training systems	\$ 31.2	\$ 30.1	\$ 39.7
Secure communications	(3.9)	(8.1)	(4.4)
Restructuring costs	(0.5)	(7.8)	
	\$ 26.8	\$ 14.2	\$ 35.3

*Training Systems*

Training systems sales increased 13% in 2014 to \$346.8 million from \$306.3 million in 2013. Businesses acquired by CDS in fiscal years 2014 and 2013 contributed training system sales of \$17.9 million for 2014 compared to \$3.7 million in 2013. Other than the impact of the businesses acquired in 2014 and 2013, the overall increase in sales is primarily from a new ground combat training system development contract in the Far East, from tactical engagement simulation system contracts and from simulator contracts, including a new contract to develop simulation trainers for the Littoral Combat Ships. These increases in sales were partially offset by lower sales of air combat training systems. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in an increase in training system sales of \$0.3 million for 2014 over 2013.

Training systems sales decreased 9% in 2013 to \$306.3 million compared to \$336.5 million in 2012. Sales were lower in 2013 from ground combat training systems in the U.S., U.K., and the Far East as well as for sales of virtual small-arms training systems. In addition, the favorable change in estimate recognized in 2012 on a ground combat training range contract discussed in the operating income section below impacted the change in sales between 2013 and 2012. These decreases in sales were partially offset by increased shipments of MILES (Multiple Integrated Laser Engagement Simulation) equipment to the U.S. government. Higher sales of air combat training systems also partially offset the overall decrease in Training System sales for the year. Revenue in 2013 from our LCS courseware contract, which was new in 2013, was \$4.4 million. Businesses acquired in 2013 contributed training system sales of \$3.7 million for 2013, and no businesses were acquired by CDS in 2012. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in an increase in training systems sales of \$1.1 million for 2013 over 2012.

Operating income for training systems increased 4% in 2014 to \$31.2 million compared to \$30.1 million in 2013. Businesses acquired by CDS in fiscal years 2014 and 2013 had operating losses of \$8.0 million for 2014, including a \$3.7 million charge for compensation expense related to amounts paid to Intific employees upon the close of the acquisition in February 2014. Businesses acquired by CDS in fiscal year 2013 had operating income of \$0.3 million in 2013. Excluding the impact of the businesses acquired in 2014 and 2013, training systems operating income increased by 32%. In 2014, training systems had higher operating income on increased sales from the ground combat training system, simulator and development contracts mentioned above. Profit margins on a number of training systems contracts improved in fiscal 2014 due to the restructuring activity in the third quarter of 2013, which reduced ongoing costs. Although air combat training system sales were lower in 2014 than in 2013, operating income on air combat training systems sales increased in 2014 primarily due to relatively high margin sales to a customer in the Far East in the fourth quarter of 2014. The average exchange rates between the prevailing currencies in our foreign operations

and the U.S. dollar resulted in a decrease in training systems operating income of \$0.2 million for 2014 compared to 2013.

Operating income for training systems decreased 24% in 2013 to \$30.1 million compared to \$39.7 million in 2012. The decrease in operating income resulted primarily from a change in estimate that had occurred during 2012 related to a ground combat training range contract. Prior to the third quarter of 2012 we had been working for more than a year under an arrangement without a firm contract price or scope of work and had been recognizing sales equal to costs. We reached agreement with the customer on a price and scope of work in the third quarter of 2012, resulting in higher sales and operating income of \$12.5 million for 2012 because of this favorable change in estimate. Operating margins also decreased in 2013 on the lower sales of ground combat training systems

Table of Contents

described above, particularly due to decreases in sales to customers in the Far East. These decreases in operating income in 2013 were partially offset by higher operating income on increased sales of air combat training systems. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in an increase in training systems operating income of \$0.2 million for 2013 over 2012.

***Secure communications***

Our secure communications products business supplies secure data links, search and rescue avionics, high power RF amplifiers, cyber security appliances, and asset tracking solutions for the U.S. military, government agencies, and allied nations.

Secure communications sales decreased 5% to \$53.8 million in 2014 from \$56.7 million in 2013. Sales were lower from asset tracking products and personal locator systems.

Secure communications sales increased 7% in 2013 to \$56.7 million compared to \$52.9 million in 2012. Sales were higher from personnel locator systems for 2013 but were lower from power amplifier and data link products.

Secure communications operating losses decreased to \$3.9 million in 2014 from \$8.1 million in 2013. The primary contributors to our secure communications operating losses were losses incurred by our cyber security appliance and asset tracking product lines. Cyber security appliance operating losses were relatively consistent between 2013 and 2014 while operating losses on asset tracking products decreased between 2013 and 2014 for two primary reasons. In 2014 we succeeded in cost cutting efforts on our asset tracking product line; also, in 2013 we incurred charges to cost of sales totaling \$2.8 million for inventoried costs in excess of estimated realizable value for our global asset tracking product line. In 2014 we wrote-down an additional \$0.6 million of our global asset tracking product inventory. These inventory write-downs relate primarily to global asset tracking products that were being manufactured in fiscal 2013 for anticipated contracts with the U.S. government for which the probability of contract award has diminished. In addition, in 2014 the secure communication operating loss was impacted by a research and development investment of \$1.8 million that we made in communications and cyber technologies.

Operating losses increased to \$8.1 million in 2013 from \$4.4 million in 2012. In 2013 we incurred charges to cost of sales totaling \$2.8 million for inventoried costs in excess of estimated realizable value for our global asset tracking product line, as described above. The increase in operating losses in 2013 was also caused by cost growth on a development contract for a data link system.

***Restructuring costs***

In 2013, our CDS business implemented a restructuring plan to reduce global employee headcount by approximately 230 in order to rebalance our resources with work levels that had declined due to delays in contract awards and contract funding. CDS incurred resulting restructuring charges of \$7.8 million in 2013 and \$0.5 million in 2014. The total costs of the restructuring plan are not expected to be significantly greater than the charges incurred to date unless market conditions worsen. The workforce realignment was reflective of the current mix of work and

anticipated activity levels going forward.

### **Adjusted EBITDA**

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) represents net income attributable to Cubic before interest, taxes, non-operating income, goodwill impairment charges, depreciation and amortization. We believe that the presentation of Adjusted EBITDA included in this report provides useful information to investors with which to analyze our operating trends and performance and ability to service and incur debt. Also, Adjusted EBITDA is a factor we use in measuring our performance and compensating certain of our executives. Further, we believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations in capital structures (affecting net interest expense), taxation, the age and book depreciation of property, plant and equipment (affecting relative depreciation expense), goodwill impairment charges and non-operating expenses which may vary for different companies for reasons unrelated to operating performance. In addition, we believe that Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA measure when reporting their results. Adjusted EBITDA is not a measurement of financial performance under U.S. generally accepted accounting principles (GAAP) and should not be considered as an alternative to net income as a measure of performance. In addition, other companies may define Adjusted EBITDA differently and, as a result, our measure of Adjusted EBITDA may not be directly comparable to Adjusted EBITDA of other companies. Furthermore, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

Table of Contents

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Adjusted EBITDA does not reflect our provision for income taxes, which may vary significantly from period to period; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally. You are cautioned not to place undue reliance on Adjusted EBITDA.

The following table reconciles Adjusted EBITDA to net income attributable to Cubic, which we consider to be the most directly comparable GAAP financial measure to Adjusted EBITDA:

	2014	Year Ended September 30, 2013	2012
	(in thousands)		
<b>Reconciliation:</b>			
Net income attributable to Cubic	\$ 69,491	\$ 25,086	\$ 97,427
Add:			
Provision for income taxes	19,831	14,502	40,332
Interest expense (income), net	2,688	1,851	(1,392)
Other expense (income), net	391	(887)	(366)
Noncontrolling interest in income of VIE	89	183	204
Depreciation and amortization	30,440	25,359	22,857
Impairment of goodwill		50,865	
<b>ADJUSTED EBITDA</b>	<b>\$ 122,930</b>	<b>\$ 116,959</b>	<b>\$ 159,062</b>

Liquidity and Capital Resources

Operating activities provided cash of \$114.8 million in 2014, compared to using cash of \$13.3 million in 2013 and \$54.7 million in 2012. In 2014, cash generated by earnings plus depreciation and amortization was supplemented by a decrease in inventories of \$20.6 million. In 2013, cash generated by earnings plus depreciation and amortization and the non-cash goodwill impairment charge was more than offset by increases in accounts receivable of \$19.0 million, long-term capitalized contract costs of \$42.1 million, inventories of \$19.9 million, and a decrease in

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accounts payable and other current liabilities of \$25.6 million, which contributed to the overall use of cash for the year. In 2013, net accounts receivable grew on certain large contracts that we worked on in 2013 including transportation contracts in Australia and the U.S. In 2012, cash generated by earnings plus depreciation and amortization was more than offset by increases in accounts receivable of \$123.0 million, long-term capitalized contract costs of \$26.9 million, and a net decrease in customer advances of \$55.8 million. The growth in accounts receivable in 2012 and reduction of customer advances related to several large contracts we worked on in 2012, including transportation systems contracts in Canada and Australia and defense system contracts in the U.S., Far East and Middle East.

Our contract terms with our customers can have a significant impact on our cash provided by (used in) operations. Contract terms, including payment terms on our long-term development contracts, are customized for each contract based upon negotiations with the respective customer. For some large long-term development contracts, we receive significant up-front cash payments from customers based upon the negotiated terms of these contracts. The customer advance balances on certain of these contracts decreased in 2012 as development work progressed, while in 2013 and 2014 net customer advances increased. The customized payment terms on long-term development projects also often include payment milestones based upon such items as the delivery of components of systems, meeting specific contractual requirements in the contracts, or other events. These milestone payments can vary significantly based upon the negotiated terms of the contracts. Changes in the amount of unbilled accounts receivable are reflective of the difference between when costs are incurred and when we are entitled to receive milestone payments.

Table of Contents

In 2014, all three segments contributed to positive operating cash flows, with CTS providing the greatest portion of the positive cash flows. In 2013 and 2012, MSS contributed positive operating cash flows, while CDS and CTS both generated negative operating cash flows.

We have classified certain unbilled accounts receivable balances as non-current because we do not expect to receive payment within one year from the balance sheet date. At September 30, 2014, this balance was \$15.9 million compared to \$19.0 million at September 30, 2013 and \$21.9 million at September 30, 2012.

Investing activities used cash of \$97.2 million in 2014 and \$76.8 million in 2013 and provided cash of \$11.6 million in 2012. In 2014, investing activities on our Statement of Cash Flows included \$72.2 million paid for the acquisition of ITMS, \$11.2 million paid for the acquisition of Intific, \$2.9 million in net sales of marketable securities and capital expenditures of \$16.6 million.

In 2013, investing activities on our Statement of Cash Flows included \$40.3 million of cash paid for the acquisition of NEK. In addition, we made contingent consideration payments of \$7.8 million in 2013 and \$2.4 million in 2014 related to the acquisition of NEK, which are classified as financing activities on our Statements of Cash Flows. In addition, investing activities included the acquisition of NextBus for \$20.2 million and \$3.3 million for the acquisition of two small defense systems businesses. We also invested \$4.1 million in marketable securities during 2013 and made capital expenditures of \$9.1 million.

In 2012, net cash provided by investing activities consisted of proceeds of \$25.8 million from maturities of short-term investments, partially offset by capital expenditures of \$14.2 million.

Financing activities used cash of \$9.8 million in 2014, provided cash of \$77.0 million in 2013, and used cash of \$79.6 million in 2012. In 2014, we repurchased \$1.2 million of common stock in connection with our stock-based compensation plan. In 2013, we sold \$100.0 million of senior unsecured notes, bearing interest at a rate of 3.35% and maturing on March 12, 2025. We made payments on long-term borrowings of \$0.6 million, \$8.5 million and \$4.5 million in 2014, 2013 and 2012, respectively. Dividends paid to shareholders amounted to \$6.4 million (24 cents per share) in 2014, 2013 and 2012. In 2012, we placed \$68.6 million of cash in a restricted bank account as collateral for a letter of credit facility we entered into in the U.K., which is described below.

We have a committed five-year revolving credit agreement (Revolving Credit Agreement) with a group of financial institutions in the amount of \$200 million, expiring in May 2017. Commitment fees associated with this financing arrangement are 0.25% of the unutilized balance per year. As of September 30, 2014, there were no borrowings under this agreement; however, there were letters of credit outstanding totaling \$8.1 million, which reduce the available line of credit to \$191.9 million.

We also have a secured letter of credit facility agreement (Secured Letter of Credit Facility) with a bank that has no expiration date and is cancellable by us at any time upon the completion of certain conditions to the satisfaction of the bank. At September 30, 2014 there were letters of credit outstanding under this agreement of \$61.6 million. Restricted cash at September 30, 2014 of \$69.1 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 \$62.6 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 this facility do not reduce the available line of credit under the Revolving Credit Agreement described above.

As of September 30, 2014, we had letters of credit and bank guarantees outstanding totaling \$75.2 million, including the letters of credit outstanding under the Revolving Credit Agreement and the Secured Letter of Credit Facility, which guarantee either our performance or customer advances under certain contracts. In addition, we had financial letters of credit outstanding totaling \$8.9 million as of September 30, 2014, which primarily guarantee our payment of certain self-insured liabilities.

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 \$2.6 million) to help meet the short-term working capital requirements of our subsidiaries in those countries. At September 30, 2014, no amounts were outstanding under these borrowing arrangements.

Our Revolving Credit Agreement and note purchase and private shelf agreement each contain a number of customary covenants, including requirements for Cubic to maintain certain interest coverage and leverage ratios and restrictions on Cubic's and certain of its subsidiaries' abilities to, among other things, incur additional debt, create liens, consolidate or merge with any other entity, or transfer or sell substantially all of their assets, in each case subject to certain exceptions and limitations. These agreements also contain customary events of default, including, without limitation: (a) failure by Cubic to pay principal or interest on the Notes when due;

Table of Contents

(b) failure by Cubic or certain of its subsidiaries to comply with the covenants in the agreements; (c) failure of the representations and warranties made by Cubic or certain of its subsidiaries to be correct in any material respect; (d) cross-defaults with other indebtedness of Cubic or certain of its subsidiaries resulting in the acceleration of the maturity thereof; (e) certain bankruptcy and insolvency events with respect to Cubic or certain of its subsidiaries; (f) failure by Cubic or certain of its subsidiaries to satisfy certain final judgments when due; and (g) a change in control of Cubic, in each case subject to certain exceptions and limitations. The occurrence of any event of default under these agreements may result in all of the indebtedness then outstanding becoming immediately due and payable.

The accumulated deficit in other comprehensive loss increased \$2.6 million in 2014 primarily due to an increase in the recorded liability for our pension plans of \$0.9 million (after applicable income taxes) and a net unrealized gain from cash flow hedges of \$0.5 million (after applicable income taxes). These adjustments resulted in a balance in accumulated other comprehensive loss of \$5.4 million at September 30, 2014 compared to \$2.8 million at September 30, 2013.

Our financial condition remains strong with net working capital of \$495.2 million and a current ratio of 2.8 to 1 at September 30, 2014. We expect that cash on hand, our revolving credit agreement and our ability to access the debt markets will be adequate to meet our working capital requirements for the foreseeable future. Our total debt to capital ratio at September 30, 2014 was 13%. In addition, our cash and cash equivalents, including restricted cash, totaled \$284.9 million at September 30, 2014 which exceeded our total debt by \$182.5 million. Our cash is invested primarily in highly liquid bank deposits and government instruments in the U.S., U.K., New Zealand and Australia.

As of September 30, 2014, \$179.5 million of the \$217.0 million of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries, primarily in the U.K., New Zealand and Australia. We also had \$69.1 million of restricted cash in the U.K. at September 30, 2014. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, we have the intent and ability to permanently reinvest \$238.1 million of these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

The following is a schedule of our contractual obligations outstanding as of September 30, 2014:

	Total	Less than 1 Year	1 - 3 years (in millions)	4 - 5 years	After 5 years
Long-term debt	\$ 102.4	\$ 0.6	\$ 1.1	\$ 0.7	\$ 100.0
Interest payments	29.0	3.5	7.0	6.8	11.7
Operating leases	34.5	10.6	14.0	6.7	3.2
Deferred compensation	11.1	1.6	2.3	0.8	6.4
	\$ 177.0	\$ 16.3	\$ 24.4	\$ 15.0	\$ 121.3

Table of Contents**Backlog**

September 30,	2014	(in millions)	2013
<b>Total backlog</b>			
Transportation Systems	\$ 1,994.6		\$ 1,526.4
Mission Support Services	616.0		626.7
Defense Systems:			
Training systems	530.7		457.8
Secure communications	38.9		35.7
Total Defense Systems	569.6		493.5
Total	\$ 3,180.2		\$ 2,646.6
<b>Funded backlog</b>			
Transportation Systems	\$ 1,994.6		\$ 1,526.4
Mission Support Services	170.9		221.0
Defense Systems:			
Training systems	530.7		457.8
Secure communications	38.9		35.7
Total Defense Systems	569.6		493.5
Total	\$ 2,735.1		\$ 2,240.9

As reflected in the table above, total backlog increased \$533.6 million and funded backlog increased \$494.2 million from September 30, 2013 to September 30, 2014. The increase in backlog in CTS and CDS was partially offset by a decrease in backlog for MSS. The increase in backlog for CTS was primarily driven by an addition to backlog of \$704.2 million related to a contract to operate and maintain a fare collection system in London, U.K. for seven years beginning in August 2015. Options to extend this contract for a further three years are not included in backlog until such options are exercised. Changes in exchange rates between the prevailing currency in our foreign operations and the U.S. dollar as of the end of fiscal 2014, decreased backlog by approximately \$19.8 million compared to September 30, 2013, primarily in our Transportation Systems Segment.

The difference between total backlog and funded backlog represents options under multiyear MSS service contracts. Funding for these contracts comes from annual operating budgets of the U.S. government and the options are normally exercised annually. Funded backlog includes unfilled firm orders for our products and services for which funding has been both authorized and appropriated by the customer (Congress, in the case of U.S. government agencies). Options for the purchase of additional systems or equipment are not included in backlog until exercised. In addition to the amounts identified above, we have been selected as a participant in or, in some cases, the sole contractor for several substantial ID/IQ contracts. ID/IQ contracts are not included in backlog until an order is received. In the past, many of the contracts we were awarded in MSS were long-term in nature, spanning periods of five to ten years. The DoD now awards shorter-term contracts for the services we provide and increasingly relies upon ID/IQ contracts which can result in a lower backlog and/or lower funded backlog due to the shorter-term nature of Task Orders issued under these ID/IQ awards. We also have several service contracts in our transportation business that include contingent revenue provisions tied to meeting certain performance criteria. These variable revenues are also not included in the amounts identified above.

**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

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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 will adopt this standard in the first quarter of fiscal year 2015. We are currently evaluating the impact of adopting this guidance.

Table of Contents

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. This ASU is effective for reporting periods beginning after December 15, 2014 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issue. This adoption is not expected to 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. 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. 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 an impact on our financial statements.

**Critical Accounting Policies, Estimates and Judgments**

Our consolidated financial statements are based on the application of GAAP, which require us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our consolidated financial statements. We believe the estimates set forth below may involve a higher degree of judgment and complexity in their application than our other accounting estimates and represent the critical accounting estimates used in the preparation of our consolidated financial statements. We believe our judgments related to these accounting estimates are appropriate. However, if different assumptions or conditions were to prevail, the results could be materially different from the amounts recorded.

*Revenue Recognition*

We generate revenue from the sale of products such as mass transit fare collection systems, air and ground combat training systems, and secure communications products. We provide services such as specialized military training exercises, including live, virtual and constructive training exercises and support, and we operate and maintain fare systems for mass transit customers. We classify sales as products or services in our Consolidated Statements of Income based on the attributes of the underlying contracts.

A significant portion of our business is derived from long-term development, production and system integration contracts. We consider the nature of these contracts, and the types of products and services provided, when we determine the proper accounting for a particular contract. Many of our long-term fixed-price contracts require us to deliver quantities of products over a long period of time or to perform a substantial level of development effort in relation to the total value of the contract. For long-term fixed-price contracts requiring substantial development effort, we generally record revenue on a percentage-of-completion basis using the cost-to-cost method to measure progress toward completion. Under the cost-to-cost method of accounting, we recognize revenue based on a ratio of the costs incurred to the estimated total costs at completion. For certain other long-term, fixed-price production contracts not requiring substantial development effort we use the units-of-delivery percentage-of-completion method as the basis to measure progress toward completing the contract and recognizing sales. The units-of-delivery measure recognizes revenues as deliveries are made to the customer generally using unit sales values in accordance with the contract terms. We estimate profit as the difference between total estimated revenue and total estimated cost of a contract and recognize that profit over the life of the contract based on deliveries.

Table of Contents

Generally, we recognize sales and profits earlier in a production cycle when we use the cost-to-cost method of percentage-of- completion accounting than when we use the units-of-delivery method. In addition, our profits and margins may vary materially depending on the types of long-term contracts undertaken, the costs incurred in their performance, the achievement of other performance objectives, and the stage of performance at which the right to receive fees, particularly under award and incentive fee contracts, is finally determined.

Award fees and incentives related to performance on contracts, which are generally awarded at the discretion of the customer, as well as penalties related to contract performance, are considered in estimating sales and profit rates. Estimates of award fees are based on actual awards and anticipated performance. Incentive provisions that increase or decrease earnings based solely on a single significant event are generally not recognized until the event occurs. Those incentives and penalties are recorded when there is sufficient information for us to assess anticipated performance.

Accounting for long-term contracts requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the scope and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. For contracts with the U.S. government, general and administrative costs are considered contract costs; however, for purposes of revenue measurement, general and administrative costs are not considered contract costs for any other customers. We have to make assumptions regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, estimated increases in wages and prices for materials, performance by our subcontractors, and the availability and timing of funding from our customer, among other variables. For contract change orders, claims, or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. Based upon our history, we believe we have the ability to make reasonable estimates for these items. We have accounting policies and controls in place to address these, as well as other contractual and business arrangements to properly account for long-term contracts, and we continue to monitor and improve such policies, controls, and arrangements. For other information on such policies, controls and arrangements, see our discussion in Item 9A of this Form 10-K.

Products and services provided under long-term, fixed-price contracts represented approximately 78% of our sales for 2014. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if our underlying circumstances were to change. For example, if underlying assumptions were to change such that our estimated profit rate at completion for all fixed-price contracts accounted for under the cost-to-cost percentage-of- completion method was higher or lower by one percentage point, our 2014 net earnings would have increased or decreased by approximately \$7.1 million. When adjustments in estimated contract revenues or estimated costs at completion are required, any changes from prior estimates are recognized by recording adjustments in the current period for the inception-to-date effect of the changes on current and prior periods using the cumulative catch-up method of accounting. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

Changes in estimates on contracts for which revenue is recognized using the cost-to-cost percentage-of-completion method increased operating income by approximately \$1.3 million in 2014, decreased operating income by approximately \$1.7 million in 2013, and increased operating income by approximately \$15.7 million in 2012. These adjustments increased net income by approximately \$3.5 million (\$0.13 per share) in 2014, decreased net income by approximately \$0.3 million (\$0.01 per share) in 2013, and increased net income by approximately \$10.7 million (\$0.40 per share) in 2012.

We occasionally enter into contracts that include multiple deliverables such as the construction or upgrade of a system and subsequent services related to the delivered system. In recent years we have seen an increase in the number of customer requests for proposal that include this type of contractual arrangement. For these arrangements revenue is allocated at the inception of the contract to the different contract elements based on

their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists for a deliverable, which is typically the case for our contracts, the guidance requires us to determine the best estimate of the selling price, which is the price at which we would sell the deliverable if it were sold on a standalone basis. In estimating the selling price of the deliverable on a standalone basis, we consider our overall pricing models and objectives, including the factors we contemplate in negotiating our contracts with our customers. The pricing models and objectives that we use are generally based upon a cost-plus margin approach, with the estimated margin based in part on qualitative factors such as perceived customer pricing sensitivity and competitive pressures. Once the contract value is allocated to the separate deliverables, revenue recognition guidance relevant to each contractual element is followed. For example, for the long-term



Table of Contents

construction portion of a contract we generally use the cost-to-cost percentage-of-completion method and for the services portion we generally recognize the service revenues on a straight-line basis over the contractual service period or based on measurable units of work performed or incentives earned. The judgment we apply in allocating the relative selling price to each deliverable can have a significant impact on the timing of recognizing revenues and operating income on a contract. The revenue recognized for each unit of accounting is classified as products or services sales in our Consolidated Statements of Income based upon the predominant attributes of the unit of accounting. If product and service deliverables are combined for revenue recognition purposes, revenue recognized is allocated to products or services in our Consolidated Statements of Income based upon a relative-selling-price method.

For certain of our multiple-element arrangements, the contract specifies that we will not be paid upon the delivery of certain units of accounting, but rather we will be paid when subsequent performance obligations are satisfied. Generally, in these cases the allocation of arrangement consideration to the up-front deliverables is limited, in some cases to zero, and revenue is reduced, in some cases to zero for the delivery of up-front units of accounting. In such situations, if the costs associated with the delivered item exceed the amount of allocable arrangement consideration, we defer the direct and incremental costs associated with the delivered item that are in excess of the allocated arrangement consideration as capitalized contract costs. We assess recoverability of these costs by comparing the recorded asset to the deferred revenue in excess of the transaction price allocated to the remaining deliverables in the arrangement. Capitalized contract costs are subsequently recognized in income in a manner that is consistent with revenue recognition pattern for the arrangement as a whole. If no pattern of revenue recognition can be reasonably predicted for the arrangement, the capitalized costs are amortized on a straight-line basis.

We provide services under contracts including outsourcing-type arrangements and operations and maintenance contracts. Revenue under our service contracts with the U.S. government, which is generally in our MSS segment, is recorded under the cost-to-cost percentage-of-completion method. Award fees and incentives related to performance on services contracts at MSS are generally accrued during the performance of the contract based on our historical experience with such awards.

Revenue under contracts for services other than those with the U.S. government and those associated with long-term development projects is recognized either as services are performed or when a contractually required event has occurred, depending on the contract. These types of service contracts are entered into primarily by our CTS segment and to a lesser extent by our CDS segment. Revenue under such contracts is generally recognized on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these services contracts are expensed as incurred. Earnings related to services contracts may fluctuate from period to period, particularly in the earlier phases of the contract. Certain of our transportation systems service contracts contain service level or system usage incentives, for which we recognize revenues when the incentive award is fixed or determinable. These contract incentives are generally based upon monthly service levels or monthly performance and become fixed or determinable on a monthly basis. However, one of our transportation systems service contracts contains annual system usage incentives which are based upon system usage compared to annual baseline amounts. For this contract the annual system usage incentives are not considered fixed or determinable until the end of the contract year for which the incentives are measured, which falls within the second quarter of our fiscal year. Often these fees are based on meeting certain contractually required service levels or based on system usage levels.

Approximately half of our total sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. government. Cost-based pricing is determined under the Federal Acquisition Regulation (FAR). The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. government contracts. For example, costs such as those related to charitable contributions, interest expense and certain advertising activities are unallowable and, therefore, not recoverable through sales. We closely monitor compliance with, and the consistent application of, our critical accounting policies related to contract accounting. Business segment personnel evaluate our contracts through periodic contract status and performance reviews. Corporate management and our internal auditors also monitor compliance with our revenue recognition policies and review contract status with segment personnel. Costs incurred and allocated to contracts are reviewed for compliance with U.S. government regulations by our personnel, and many of them are subject to audit by the Defense Contract Audit Agency. For other information on accounting policies we have in place for recognizing sales and profits, see our discussion under Revenue Recognition in Note 1 to the Consolidated Financial Statements.

*Income Taxes*

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Tax law and rate changes are reflected in income in the period such changes are enacted. We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. We include interest and penalties related to income taxes, including unrecognized tax benefits, within the income tax provision.

Table of Contents

Our income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While we believe we have appropriate support for the positions taken on our tax returns, we regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of its provision for income taxes. We continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known.

With the exception of \$10.5 million of accumulated earnings which the Company intends to repatriate, we do not provide for U.S. income taxes on the earnings of foreign subsidiaries which are considered indefinitely reinvested outside the U.S. Deferred income taxes, net of foreign tax credits, are provided for foreign earnings available for distribution. As of September 30, 2014, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately \$389.8 million. Annually we evaluate the funds required by our foreign subsidiaries for future operations and expansion and determine the amount of excess capital, if any, that is available for distribution. Whether or not we actually repatriate the excess capital in the form of a dividend, we would provide for U.S. taxes on the amount determined to be available for distribution. This evaluation is judgmental in nature and, therefore, the amount of U.S. taxes provided on undistributed earnings of our foreign subsidiaries is affected by these judgments.

*Purchased Intangibles*

We generally fund acquisitions using cash on hand. Assets acquired and liabilities assumed in connection with an acquisition are recorded at their fair values determined by management as of the date of acquisition. The excess of the transaction consideration over the fair value of the net assets acquired is recorded as goodwill. We amortize intangible assets acquired as part of business combinations over their estimated useful lives unless their useful lives are determined to be indefinite. For certain business combinations, we utilize independent valuations to assist us in estimating the fair value of purchased intangibles. Our purchased intangibles primarily relate to contracts and programs acquired and customer relationships, which are amortized over periods of 15 years or less. The determination of the value and useful life of purchased intangibles is judgmental in nature and, therefore, the amount of annual amortization expense we record is affected by these judgments. For example, if the weighted average amortization period for our purchased intangibles was one year less than we have determined, our 2014 amortization expense would have increased by approximately \$1.9 million.

*Valuation of Goodwill*

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. 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.

Goodwill balances by reporting unit are as follows:

September 30,	2014		2013 (in millions)		2012
Mission Support Services	\$	94.4	\$	94.4	\$ 118.4
Defense Systems		30.6		22.2	21.0
Transportation Systems		59.1		18.3	7.5
Total goodwill	\$	184.1	\$	134.9	\$ 146.9

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.

Table of Contents

For the first step of our fiscal 2014 impairment test, the discounted cash flows used in the fair value analyses were based on discrete financial forecasts developed by management for planning purposes. We used five year forecasts for our Mission Support Services and the Defense Systems reporting units, and we used a three year forecast for our Transportation Systems reporting unit. Cash flows beyond the discrete forecasts were estimated based on projected growth rates and financial ratios, influenced by an analysis of historical ratios and by calculating a terminal value at the end of five years for our Mission Support Services and Defense Systems reporting units, and three years for our Transportation Systems reporting unit. The future cash flows were discounted to present value using a discount rate of 11.0% for our Defense Systems reporting unit, 12.5% for our Mission Support Services reporting unit and 10.5% for our Transportation Systems reporting unit. The estimated fair values for our three reporting units exceeded their carrying values by over 20%.

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.

*Pension Costs*

The measurement of our pension obligations and costs is dependent on a variety of assumptions used by our actuaries. These assumptions include estimates of the present value of projected future pension payments to plan participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

The assumptions used in developing the required estimates include the following key factors:

- Discount rates
- Inflation
- Salary growth
- Expected return on plan assets
- Retirement rates
- Mortality rates

The discount rate represents the interest rate that is used to determine the present value of future cash flows currently expected to be required to settle pension obligations. We base the discount rate assumption on investment yields available at year-end on high quality corporate long-term bonds. Our inflation assumption is based on an evaluation of external market indicators. The salary growth assumptions reflect our long-term actual experience in relation to the inflation assumption. The expected return on plan assets reflects asset allocations, our historical experience,

our investment strategy and the views of investment managers and large pension sponsors. Mortality rates are based on published mortality tables. Retirement rates are based primarily on actual plan experience. The effects of actual results differing from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods.

Changes in the above assumptions can affect our financial statements, although the relatively small size of our defined benefit pension plans limits the impact any individual assumption changes would have on earnings. For example, if the assumed rate of return on pension assets was 25 basis points higher or lower than we have assumed, our 2014 net earnings would have increased or decreased by approximately \$0.5 million, assuming all other assumptions were held constant.

Holding all other assumptions constant, an increase or decrease of 25 basis points in the discount rate assumption for 2014 would increase or decrease net earnings for 2015 by approximately \$0.5 million, and would have decreased or increased the amount of the benefit obligation recorded at September 30, 2014, by approximately \$9.0 million.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Interest Rate Risk**

We invest in money market instruments and short-term marketable debt securities whose return is tied to short-term interest rates being offered at the time the investment is made. We maintain short-term borrowing arrangements in the U.S., Australia and New Zealand which are also tied to short-term rates (the U.S. prime rate, the Australia bank bill swap bid rate and the New Zealand base rate). We also have senior unsecured notes payable to insurance companies which have fixed coupon interest rates. See Note 8 to the Consolidated Financial Statements for more information.

Table of Contents

Interest income earned on our short-term investments is affected by changes in the general level of interest rates in the U.S., the U.K., Australia and New Zealand. These income streams are generally not hedged. Interest expense incurred under the short-term borrowing arrangements is affected by changes in the general level of interest rates in the U.S., Australia and New Zealand. The expense related to these cost streams is usually not hedged since it is either payable within three months and/or immediately callable by the lender at any time. Interest expense incurred under the long-term notes payable is not affected by changes in any interest rate because it is fixed. However, we may in the future use an interest rate swap to essentially convert this fixed rate into a floating rate for some or all of the long-term debt outstanding. The purpose of a swap would be to tie the interest expense risk related to these borrowings to the interest income risk on our short-term investments, thereby mitigating our net interest rate risk. We believe that we are not significantly exposed to interest rate risk at this point in time.

**Foreign Currency Exchange Risk**

In the ordinary course of business, we enter into firm sale and purchase commitments denominated in many foreign currencies. We have a policy to hedge those commitments greater than \$50,000 by using foreign currency exchange forward and option contracts that are denominated in currencies other than the functional currency of the subsidiary responsible for the commitment, typically the British pound, Canadian dollar, Singapore dollar, Euro, Swedish krona, New Zealand dollar and Australian dollar. These contracts are designed to be effective hedges regardless of the direction or magnitude of any foreign currency exchange rate change, because they result in an equal and opposite income or cost stream that offsets the change in the value of the underlying commitment. See Note 1 to the Consolidated Financial Statements for more information on our foreign currency translation and transaction accounting policies.

We also use balance sheet hedges to mitigate foreign exchange risk. This strategy involves incurring British pound denominated debt (See Interest Rate Risk above) and having the option of paying off the debt using U.S. dollar or British pound funds. We believe that our hedging activities limit our exposure to foreign currency exchange rate risk at this point in time.

Investments in our foreign subsidiaries in the U.K., Australia, New Zealand and Canada are not hedged because we consider them to be invested indefinitely. In addition, we generally have control over the timing and amount of earnings repatriation, if any, and expect to use this control to mitigate foreign currency exchange risk.

Table of Contents**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

## CUBIC CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)

	2014	Years Ended September 30,		2012
		2013		
Net sales:				
Products	\$ 583,937	\$ 562,310	\$ 677,328	
Services	814,415	799,097	726,756	
	1,398,352	1,361,407	1,404,084	
Costs and expenses:				
Products	424,682	425,793	466,178	
Services	657,853	629,520	593,962	
Selling, general and administrative expenses	181,672	165,230	164,189	
Research and development	17,959	24,445	28,722	
Amortization of purchased intangibles	22,602	16,680	14,828	
Restructuring costs	1,094	8,139		
Impairment of goodwill		50,865		
	1,305,862	1,320,672	1,267,879	
Operating income	92,490	40,735	136,205	
Other income (expenses):				
Interest and dividend income	1,396	1,576	2,994	
Interest expense	(4,084)	(3,427)	(1,602)	
Other income (expense), net	(391)	887	366	
Income before income taxes	89,411	39,771	137,963	
Income taxes	19,831	14,502	40,332	
Net income	69,580	25,269	97,631	
Less noncontrolling interest in income of VIE	89	183	204	
Net income attributable to Cubic	\$ 69,491	\$ 25,086	\$ 97,427	
Net income per share attributable to Cubic:				
Basic	\$ 2.59	\$ 0.94	\$ 3.64	
Diluted	2.59	0.94	3.64	
Weighted average shares used in per share calculations:				
Basic	26,787	26,736	26,736	
Diluted	26,845	26,760	26,736	



See accompanying notes.

Table of Contents

## CUBIC CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	2014	Years Ended September 30,		2012
		2013		
Net income	\$ 69,580	\$ 25,269		\$ 97,631
Other comprehensive income (loss):				
Adjustment to pension liability, net of tax	(1,085)	13,106		(5,585)
Foreign currency translation	(2,017)	974		10,877
Net unrealized gain (loss) on available-for-sale securities, net of tax		(2)		
Change in unrealized gains/losses from cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	748	2,977		(4,217)
Adjustment for net gains/losses realized and included in net income, net of tax	(215)	800		4,459
Total change in unrealized gains/losses realized from cash flow hedges, net of tax	533	3,777		242
Total other comprehensive income (loss)	(2,569)	17,855		5,534
Total comprehensive income	\$ 67,011	\$ 43,124		\$ 103,165

See accompanying notes.

Table of Contents

## CUBIC CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	2014	September 30,	2013
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 215,849	\$	203,892
Restricted cash	69,056		69,381
Marketable securities	1,196		4,055
<b>Accounts receivable:</b>			
Trade and other receivables	30,593		17,352
Long-term contracts	364,075		362,308
Allowance for doubtful accounts	(489)		(658)
	394,179		379,002
Recoverable income taxes	16,055		7,885
Inventories	38,775		59,746
Deferred income taxes	10,324		8,354
Prepaid expenses and other current assets	19,953		10,284
<b>Total current assets</b>	<b>765,387</b>		<b>742,599</b>
Long-term contract receivables	15,870		19,021
Long-term capitalized contract costs	76,209		68,963
Property, plant and equipment, net	64,149		56,305
Deferred income taxes	17,849		19,322
Goodwill	184,141		136,094
Purchased intangibles, net	63,618		57,542
Miscellaneous other assets	7,383		9,772
<b>Total assets</b>	<b>\$ 1,194,606</b>	<b>\$</b>	<b>1,109,618</b>

See accompanying notes.

Table of Contents

## CUBIC CORPORATION

## CONSOLIDATED BALANCE SHEETS continued

(in thousands)

	2014	September 30,	2013
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Trade accounts payable	\$ 31,344	\$	40,310
Customer advances	91,690		84,307
Accrued compensation	48,812		43,394
Other current liabilities	84,555		65,859
Income taxes payable	12,737		12,731
Deferred income taxes	474		
Current maturities of long-term debt	563		557
Total current liabilities	270,175		247,158
<b>Long-term debt</b>			
Long-term debt	101,827		102,363
Accrued pension liability	17,219		20,785
Deferred compensation	9,501		9,792
Income taxes payable	6,324		6,434
Deferred income taxes	1,152		
Other non-current liabilities	5,907		6,006
<b>Commitments and contingencies</b>			
<b>Shareholders' equity:</b>			
<b>Preferred stock, no par value:</b>			
Authorized 5,000 shares			
Issued and outstanding none			
<b>Common stock, no par value:</b>			
Authorized 50,000 shares			
35,734 issued and 26,789 outstanding at September 30, 2014;			
35,682 issued and 26,736 outstanding at September 30, 2013	20,669		15,825
Retained earnings	803,059		740,002
Accumulated other comprehensive loss	(5,372)		(2,803)
Treasury stock at cost - 8,945 shares	(36,078)		(36,078)
Shareholders' equity related to Cubic	782,278		716,946
Noncontrolling interest in variable interest entity	223		134
Total shareholders' equity	782,501		717,080
Total liabilities and shareholders' equity	\$ 1,194,606	\$	1,109,618

See accompanying notes.



Table of Contents

## CUBIC CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended September 30,		
	2014	2013	2012
<b>Operating Activities:</b>			
Net income	\$ 69,580	\$ 25,269	\$ 97,631
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	30,440	25,359	22,857
Stock-based compensation expense	5,625	3,251	
Inventory write-down	598	2,760	
Impairment of goodwill		50,865	
Deferred income taxes	2,684	(7,508)	(1,486)
Excess tax benefits from equity incentive plans	(310)		
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(4,300)	(18,991)	(122,984)
Inventories	20,590	(19,890)	173
Prepaid expenses and other current assets	(8,114)	3,867	7,432
Long-term capitalized contract costs	(7,246)	(42,088)	(26,875)
Accounts payable and other current liabilities	6,505	(25,637)	9,630
Customer advances	7,304	8,990	(55,769)
Income taxes	(9,768)	(19,114)	14,219
Other items, net	1,222	(409)	495
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>114,810</b>	<b>(13,276)</b>	<b>(54,677)</b>
<b>Investing Activities:</b>			
Acquisition of businesses, net of cash acquired	(83,456)	(63,691)	
Purchases of marketable securities	(1,196)	(4,050)	
Proceeds from sales or maturities of marketable securities	4,050		25,829
Purchases of property, plant and equipment	(16,620)	(9,052)	(14,226)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(97,222)</b>	<b>(76,793)</b>	<b>11,603</b>
<b>Financing Activities:</b>			
Proceeds from short-term borrowings	38,000	70,000	
Principal payments on short-term borrowings	(38,000)	(70,000)	
Proceeds from long-term borrowings		100,000	
Principal payments on long-term borrowings	(573)	(8,543)	(4,549)
Proceeds from issuance of common stock	113		
Purchase of common stock	(1,204)		
Excess tax benefits from equity incentive plans	310		
Contingent consideration payments related to acquisitions of businesses	(2,368)	(7,842)	
Net change in restricted cash	325	(158)	(68,584)

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Dividends paid to shareholders	(6,429)	(6,417)	(6,417)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(9,826)	77,040	(79,550)
Effect of exchange rates on cash	4,195	4,654	5,743
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,957	(8,375)	(116,881)
Cash and cash equivalents at the beginning of the year	203,892	212,267	329,148
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 215,849	\$ 203,892	\$ 212,267
Supplemental disclosure of non-cash investing and financing activities:			
Liability incurred to acquire NEK, net	\$	\$ 4,490	\$
Liability incurred to acquire Intific, net	\$ 1,173	\$	\$

See accompanying notes.

Table of Contents

## CUBIC CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(in thousands except per share amounts)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest in VIE	Number of Shares Outstanding
September 30, 2011	\$ 12,574	\$ 630,323	\$ (26,192)	\$ (36,078)	\$ (253)	26,736
Net income		97,427			204	
Other comprehensive income, net of tax			5,534			
Purchase of treasury stock						
Cash dividends paid \$ .24 per share of common stock		(6,417)				
September 30, 2012	12,574	721,333	(20,658)	(36,078)	(49)	26,736
Net income		25,086			183	
Other comprehensive income, net of tax			17,855			
Stock-based compensation	3,251					
Cash dividends paid \$ .24 per share of common stock		(6,417)				
September 30, 2013	15,825	740,002	(2,803)	(36,078)	134	26,736
Net income		69,491			89	
Other comprehensive loss, net of tax			(2,569)			
Stock issued under equity incentive plans	113	(5)				75
Purchase of common stock	(1,204)					(22)
Stock-based compensation	5,625					
Tax benefit from equity incentive plans	310					
Cash dividends paid \$ .24 per share of common stock		(6,429)				
September 30, 2014	\$ 20,669	\$ 803,059	\$ (5,372)	\$ (36,078)	\$ 223	26,789

See accompanying notes.



Table of Contents

CUBIC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of the Business: We design, develop and manufacture products which are mainly electronic in nature such as mass transit fare collection systems, air and ground combat training systems, and secure communications products. We provide services such as specialized military training exercises, including live, virtual and constructive training exercises and support, and we operate and maintain fare systems for mass transit customers. Our principal lines of business are transportation fare collection systems and services, defense services, and defense systems. Our principal customers for defense products and services are the U.S. and foreign governments. Our transportation fare collection systems and services are sold primarily to large local government agencies worldwide.

Principles of Consolidation: The consolidated financial statements include the accounts of Cubic Corporation, its majority-owned subsidiaries and its 50% owned variable interest entity, Transaction Systems Limited (TranSys). We consolidate variable interest entities (VIE) when we determine that Cubic is the primary beneficiary of the VIE. All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign Currency Transactions and Translation: Our reporting currency is the U.S. dollar. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and our Consolidated Statements of Income are translated at the average exchange rates in effect during the applicable periods. The resulting unrealized cumulative translation adjustments are recorded as a component of other comprehensive income (loss) in our Consolidated Statements of Comprehensive Income. Cash flows from our operations in foreign countries are translated at the average rate for the applicable period. The effect of exchange rates on cash balances held in foreign currencies are separately reported in our Consolidated Statements of Cash Flows.

Transactions denominated in currencies other than our or our subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to amounts recorded in our Consolidated Balance Sheets related to such transactions result in transaction gains and losses that are reflected in our Consolidated Statements of Income as either unrealized (based on the applicable period end translation) or realized (upon settlement of the transactions). Total transaction gains (losses), which are related primarily to advances to foreign subsidiaries amounted to \$(1.3) million, \$(0.8) million and \$0.7 million in 2014, 2013 and 2012, respectively.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the estimated total costs at completion of our long-term contracts, estimated loss contingencies, estimated self-insurance liabilities, estimated discounted future cash flows of our reporting units used for goodwill impairment testing and estimated future cash flows for our

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long-lived asset impairment testing, estimated discounted cash flows used for valuation of intangible assets in business combinations, and estimated rates of return and discount rates related to our defined benefit pension plans. Actual results could differ from our estimates.

Risks and Uncertainties: We are subject to the normal risks and uncertainties of performing large, multiyear, often fixed-price contracts. In addition, we are subject to audit of incurred costs related to many of our U.S. government contracts. These audits could produce different results than we have estimated; however, our experience has been that our costs are acceptable to the government.

Cash Equivalents: We consider highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Restricted Cash: Restricted cash represents cash that is restricted as to withdrawal usage for legal or contractual reasons. Restricted cash is classified either as current or non-current, depending upon the date of the lapse of the respective restriction.

Concentration of Credit Risk: We have established guidelines pursuant to which our cash and cash equivalents are diversified among various money market instruments and investment funds. These guidelines emphasize the preservation of capital by requiring minimum credit ratings assigned by established credit organizations. We achieve diversification by specifying maximum investments in each instrument type and issuer. The majority of these investments are not on deposit in federally insured accounts.

Marketable Securities: Marketable securities consist of exchange traded funds whose underlying assets consist of highly liquid debt instruments with short-term maturities and certificates of deposit with banks. Marketable securities are classified and accounted for as available-for-sale. These investments are recorded at fair value in the accompanying 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 Consolidated Balance Sheets based upon the nature of the securities and availability for use in current operations.

Table of Contents

Accounts Receivable: Receivables consist primarily of amounts due from U.S. and foreign governments for defense products and services and local government agencies for transportation systems. Due to the nature of our customers, we generally do not require collateral. We have limited exposure to credit risk as we have historically collected substantially all of our receivables from government agencies. We generally require no allowance for doubtful accounts for these customers.

Inventories: We state our inventories at the lower of cost or market. We determine cost using the first-in, first-out (FIFO) method, which approximates current replacement cost. We value our work in process at the actual production and engineering costs incurred to date, including applicable overhead. For contracts with the U.S. government our work in process also includes general and administrative costs. Any inventoried costs in excess of estimated realizable value are immediately charged to cost of sales. Where contracts include advances, performance-based payments and progress payments, we reflect the advances as an offset against any related inventory balances. We include qualifying contract costs allocable to units-of-delivery contracts as inventory. We also receive performance-based payments and progress payments associated with certain of these contracts based on the billing terms in the underlying contracts. 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 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.

Long-term capitalized contract costs: Long-term capitalized contract costs include 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 recognized in cost of sales based upon the ratio of revenue recorded during a period compared to the revenue expected to be recognized over the term of the contract.

Property, Plant and Equipment: We carry property, plant and equipment at cost. We provide depreciation in amounts sufficient to amortize the cost of the depreciable assets over their estimated useful lives. Generally, we use straight-line methods for depreciable real property over estimated useful lives or the term of the underlying lease for leasehold improvements. We use accelerated methods (declining balance and sum-of-the-years-digits) for machinery and equipment over their estimated useful lives.

Goodwill and Purchased Intangibles: We evaluate goodwill for potential impairment annually as of July 1, or when circumstances indicate that the carrying value may not be recoverable. The test is performed by comparing the fair value of each of our reporting units, which are consistent with our operating segments, to its carrying value, including recorded goodwill. If the carrying value exceeds the fair value, we measure impairment by comparing the implied fair value of goodwill to its carrying value, and any impairment determined would be recorded in the current period. Our purchased intangible assets are subject to amortization and we use a combination of straight-line and accelerated methods, based on the expected cash flows from the assets. See Note 7 for a discussion of the impairment of our goodwill in 2013.

Impairment of Long-Lived Assets: We generally evaluate the carrying values of long-lived assets other than goodwill for impairment only if events or changes in facts and circumstances indicate that carrying values may not be recoverable. If we determined there was any impairment, we would measure it by comparing the fair value of the related asset to its carrying value and record the difference in the current period. Fair value is generally determined by identifying estimated discounted cash flows to be generated by those assets. We have not recorded any impairment of long-lived assets for the years ended September 30, 2014, 2013 and 2012.

Recognizing assets acquired and liabilities assumed in a business combination: Acquired assets and assumed liabilities are recognized in a business combination on the basis of their fair values at the date of acquisition. We assess fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, using a variety of methods including income approaches such as present value techniques or cost approaches such as the estimation of current selling prices and replacement values. Fair value of the assets acquired and liabilities assumed, including intangible assets, and contingent payments, are measured based on the assumptions and estimations with regards to the variable factors such as the amount and timing of future cash flows for the asset or liability being measured, appropriate risk-adjusted discount rates, nonperformance risk, or other factors that market participants would consider. Upon acquisition, we determine the estimated economic lives of the acquired intangible assets for amortization purposes, which are based on the underlying expected cash flows of such assets. Adjustments to inventory are based on the fair market value of inventory and amortized into income based on the period in which the underlying inventory is sold. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Actual results may vary from projected results and assumptions used in the fair value assessments.

Table of Contents

Customer Advances: We receive advances, performance-based payments and progress payments from customers that may exceed revenues recognized on certain contracts, including contracts with agencies of the U.S. government. We classify such advances, other than those reflected as a reduction of receivables or inventories, as current liabilities.

Contingencies: We establish reserves for loss contingencies when, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, our defenses and our experience in similar cases or proceedings as well as our assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. We may increase or decrease our legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters.

Derivative Financial Instruments: All derivatives are recorded at fair value, however, the classification of gains and losses resulting from changes in the fair values of derivatives are dependent on the intended use of the derivative and its resulting designation. If a derivative is designated as a fair value hedge, then a change in the fair value of the derivative is offset against the change in the fair value of the underlying hedged item and only the ineffective portion of the hedge, if any, is recognized in cost of sales. If a derivative is designated as a cash flow hedge, then the effective portion of a change in the fair value of the derivative is recognized as a component of accumulated other comprehensive income until the underlying hedged item is recognized in cost of sales, or the forecasted transaction is no longer probable of occurring. If a derivative does not qualify as a highly effective hedge, a change in fair value is immediately recognized in earnings. We formally document hedging relationships for all derivative hedges and the underlying hedged items, as well as the risk management objectives and strategies for undertaking the hedge transactions.

Defined Benefit Pension Plans: Some of our employees are covered by defined benefit pension plans. The net periodic cost of our plans is determined using several actuarial assumptions, the most significant of which are the discount rate and the long-term rate of return on plan assets. We recognize on a plan-by-plan basis the funded status of our defined benefit pension plans as either an asset or liability on our balance sheets, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax, in shareholders' equity. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation of the plan.

Comprehensive Income: Other comprehensive income (loss), which is comprised of unrealized gains and losses on foreign currency translation adjustments, unrealized gains and losses on cash flow hedges, net of tax, unrealized gains and losses on available-for-sale securities, net of tax and pension liability adjustments, net of tax is included in our Consolidated Statement of Comprehensive Income as other comprehensive income (loss).

Revenue Recognition: We generate revenue from the sale of products such as mass transit fare collection systems, air and ground combat training systems, and secure communications products. We also generate revenue from services we provide such as specialized military training exercises, including live, virtual and constructive training exercises and support, and we operate and maintain fare systems for mass transit customers. We classify sales as products or services in our Consolidated Statements of Income based on the attributes of the underlying contracts.

We recognize sales and profits under our long-term fixed-price contracts which require a significant amount of development effort in relation to total contract value using the cost-to-cost percentage-of-completion method of accounting. We record sales and profits based on the ratio of contract costs incurred to estimated total contract costs at completion. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. For contracts with the U.S. federal government, general and administrative costs are included in contract costs;

however, for purposes of revenue measurement, general and administrative costs are not considered contract costs for any other customers. Costs are recognized as incurred for contracts accounted for under the cost- to-cost percentage-of-completion method.

For certain other long-term, fixed price production contracts not requiring substantial development effort we use the units-of-delivery percentage-of-completion method as the basis to measure progress toward completing the contract and recognizing sales. The units-of delivery measure recognizes revenues as deliveries are made to the customer generally using unit sales values in accordance with the contract terms. Costs of sales are recorded as deliveries are made. We estimate profit as the difference between total estimated revenue and total estimated cost of a contract and recognize that profit over the life of the contract based on deliveries.

For long-term fixed price contracts, we only include amounts representing contract change orders, claims or other items in the contract value when they can be reliably estimated and we consider realization probable. Changes in estimates of sales, costs and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. A significant change in one or more of these estimates could have a material effect on our consolidated financial position or results of operations.

Table of Contents

We record sales under cost-reimbursement-type contracts as we incur the costs. The Federal Acquisition Regulations provide guidance on the types of costs that we will be reimbursed in establishing the contract price. We consider incentives or penalties and awards applicable to performance on contracts in estimating sales and profits, and record them when there is sufficient information to assess anticipated contract performance. We do not recognize incentive provisions that increase or decrease earnings based solely on a single significant event until the event occurs.

We occasionally enter into contracts that include multiple deliverables such as the construction or upgrade of a system and subsequent services to operate and maintain the delivered system. For such contracts, arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative-selling-price method. Under the relative-selling-price method, the selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists for a deliverable, which is typically the case for our contracts, the guidance requires us to determine the best estimate of the selling price, which is the price at which we would sell the deliverable if it were sold on a standalone basis. In estimating the selling price of the deliverable on a standalone basis, we consider our overall pricing models and objectives, including the factors we contemplate in negotiating our contracts with our customers. The pricing models and objectives that we use are generally based upon a cost-plus margin approach, with the estimated margin based in part on qualitative factors such as perceived customer pricing sensitivity and competitive pressures.

Once the contract value is allocated to the separate deliverables under a multiple-element arrangement, revenue recognition guidance relevant to each contractual element is followed. For example, for the long-term construction portion of a contract we generally use the percentage-of completion method and for the services portion we generally recognize the service revenues on a straight-line basis over the contractual service period or based on measurable units of work performed or incentives earned.

For certain of our multiple-element arrangements, the contract specifies that we will not be paid upon the delivery of certain units of accounting, but rather we will be paid when subsequent performance obligations are satisfied. Generally, in these cases the allocation of arrangement consideration to the up-front deliverables is limited, in some cases to zero, and revenue is reduced, in some cases to zero for the delivery of up-front units of accounting. In such situations, if the costs associated with the delivered item exceed the amount of allocable arrangement consideration, we defer the direct and incremental costs associated with the delivered item that are in excess of the allocated arrangement consideration as capitalized contract costs. We assess recoverability of these costs by comparing the recorded asset to the deferred revenue in excess of the transaction price allocated to the remaining deliverables in the arrangement. Capitalized contract costs are subsequently recognized in income in a manner that is consistent with revenue recognition pattern for the arrangement as a whole. If no pattern of revenue recognition can be reasonably predicted for the arrangement, the capitalized costs are amortized on a straight-line basis.

Revenue under our service contracts with the U.S. government is recorded under the cost-to cost percentage-of-completion method. Award fees and incentives related to performance under these service contracts are accrued during the performance of the contract based on our historical experience and estimates of success with such awards.

Revenue under contracts for services other than those with the U.S. government and those associated with design, development, or production activities is recognized either as services are performed or when a contractually required event has occurred, depending on the contract. For such contracts that contain measurable units of work performed we recognize sales when the units of work are completed. Certain of our transportation systems service contracts contain service level or system usage incentives, for which we recognize revenues when the incentive award is fixed or determinable. These contract incentives are generally based upon monthly service levels or monthly performance and become fixed or determinable on a monthly basis. However, one of our transportation systems service contracts contains annual system usage incentives which are based upon system usage compared to annual baseline amounts. For this contract the annual system usage incentives are not considered fixed or determinable until the end of the contract year for which the incentives are measured, which falls within the second quarter

of our fiscal year. Revenue under such contracts that do not contain measurable units of work performed, which is generally the case for our service contracts, is recognized on a straight- line basis over the contractual service period, unless evidence suggests that the revenue is earned, or obligations fulfilled, in a different manner. Costs incurred under these services contracts are expensed as incurred.

We make provisions in the current period to fully recognize any anticipated losses on contracts. If we receive cash on a contract prior to revenue recognition or in excess of inventoried costs, we classify it as a customer advance on the balance sheet.

Research and Development (R&D) : We record the cost of company sponsored R&D activities as the expenses are incurred. The cost of engineering and product development activities incurred in connection with the performance of work on our contracts is included in cost of sales as they are directly related to contract performance.

Stock-Based Compensation: Restricted stock units awards (RSUs) are granted to eligible employees and directors and represent rights to receive shares of common stock at a future date if vesting occurs. RSUs granted to date have either time-based vesting or performance-based vesting. Compensation expense for all restricted stock unit awards is measured at fair value at the grant date and recognized based upon the number of RSUs that ultimately vest. We determine the fair value of RSUs based on the closing market price of our common stock on the grant date. The grant date of the performance-based RSUs takes place when the grant is authorized and the specific achievement goals are communicated.



Table of Contents

Compensation expense for time-based vesting awards is recorded on a straight-line basis over the requisite service period, adjusted by estimated forfeiture rates. Vesting of performance-based RSUs is tied to achievement of specific company goals over the measurement period, which is generally a three-year period from the date of the grant. For purposes of measuring compensation expense for performance-based RSUs, at each reporting date we estimate the number of shares for which vesting is deemed probable based on management's expectations regarding achievement of the relevant performance criteria, adjusted by estimated forfeiture rates. Compensation expense for the number of shares ultimately expected to vest is recognized on a straight-line basis over the requisite service period for the performance-based RSUs. The recognition of compensation expense associated with performance-based RSUs requires judgment in assessing the probability of meeting the performance goals. For performance-based RSUs, there may be significant expense recognition or reversal of recognized expense in periods in which there are changes in the assessed probability of meeting performance-based vesting criteria.

Income Taxes: Our provision for income taxes includes federal, state, local and foreign income taxes. We recognize tax credits, primarily for R&D, as a reduction of our provision for income taxes in the year in which they are available for tax purposes. We provide deferred income taxes on temporary differences between assets and liabilities for financial reporting and tax purposes as measured by enacted tax rates we expect to apply when the temporary differences are settled or realized. We establish valuation allowances for deferred tax assets when the amount of future taxable income we expect is not likely to support the use of the deduction or credit. We evaluate the capital requirements of our foreign subsidiaries and determine the amount of excess capital, if any, that is available for distribution. We provide for U.S. taxes on the amount we determine to be excess capital available for distribution. U.S. taxes are not provided on amounts we consider to be indefinitely reinvested.

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 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):

	2014	Year Ended September 30,		2012
		2013		
Net income attributable to Cubic	\$ 69,491	\$ 25,086	\$	97,427
Weighted average shares - basic	26,787	26,736		26,736
Effect of dilutive securities	58	24		
Weighted average shares - diluted	26,845	26,760		26,736
Net income per share attributable to Cubic, basic	\$ 2.59	\$ 0.94	\$	3.64
Effect of dilutive securities				
Net income per share attributable to Cubic, diluted	\$ 2.59	\$ 0.94	\$	3.64
Anti-dilutive employee share-based awards				

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 will adopt this standard in the first quarter of fiscal year 2015. We are currently evaluating the impact of adopting this guidance.

Table of Contents

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. This ASU is effective for reporting periods beginning after December 15, 2014 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issue. This adoption is not expected to 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. 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.

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.

*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 expands the portfolio of services and customer base of our Cubic Defense Systems (CDS) segment.

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For the year ended September 30, 2014, the amounts of Intific's sales and net loss after taxes included in our Consolidated Statement of Income were \$5.3 million and \$4.2 million, respectively. Included in Intific's operating results for the year ended September 30, 2014 are \$0.2 million of transaction and acquisition related costs, and \$3.7 million of compensation expense which was paid to Intific employees upon the close of the acquisition.

The acquisition date fair value of the consideration transferred was \$12.4 million. Through September 30, 2014, we have paid cash of approximately \$11.2 million to the seller and as of September 30, 2014 we have accrued a liability of \$1.2 million for the remaining cash to be paid.

Table of Contents

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 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.

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):

<b>Year Ended</b>		
<b>September 30,</b>		
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.

Table of Contents

For the year ended September 30, 2014, the amounts of ITMS sales and net loss after taxes included in our Consolidated Statement of Income were \$43.7 million and \$2.3 million, respectively. Included in ITMS operating results are \$0.5 million of transaction costs incurred during the year ended September 30, 2014.

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

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 approximately \$19.5 million of purchased intangibles 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.

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



Table of Contents*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 year ended September 30, 2014 the amount of AIS sales and net loss after taxes included in our Consolidated Statement of Income were \$8.8 million and \$0.8 million, respectively. For the year ended September 30, 2013 the amount of AIS sales and net income after taxes included in our Consolidated Statement of Income were \$2.0 million and \$0.1 million, respectively.

We paid cash of \$2.0 million from our existing cash resources, net of cash acquired, for the assets of AIS.

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

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 year ended September 30, 2014 the amount of PSMC sales and net income after taxes included in our Consolidated Statement of Income were \$3.8 million and \$0.1 million, respectively. For the year ended September 30, 2013 the amount of PSMC sales and net income after taxes included in our Consolidated Statement of Income were \$1.7 million and \$0.1 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):

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

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

*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 year ended September 30, 2014 the amount of NextBus sales and net loss after taxes included in our Consolidated Statement of Income were \$10.1 million and \$0.6 million, respectively. For the year ended September 30, 2013 the amount of NextBus sales and net loss after taxes included in our Consolidated Statement of Income were \$7.8 million and \$0.4 million, respectively. Included in the NextBus operating results are \$0.2 million in transaction related costs incurred during the year ended September 30, 2013.

Table of Contents

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 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 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 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 methods based on the expected cash flows from the assets, over a weighted average useful life of 5 years from the date of acquisition. The estimated amortization expense related to the intangible assets recorded in connection with our acquisition of NextBus for future periods is as follows (in millions):

<b>Year Ended</b>		
<b>September 30,</b>		
2015	\$	1.5
2016		1.4
2017		1.3
2018		1.2
2019		1.1
Thereafter		3.6

NEK

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On December 14, 2012, Cubic 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 year ended September 30, 2014 the amount of NEK's sales and net loss after taxes included in our Consolidated Statement of Income were \$45.0 million and \$0.6 million, respectively. For the year ended September 30, 2013 the amount of NEK's sales and net loss after taxes included in our Consolidated Statement of Income were \$31.6 million and \$0.5 million, respectively. NEK's net loss after tax in 2013 excludes any allocation of the goodwill impairment described in Note 7 that is recognized at the reporting unit level. Included in our operating results are \$0.6 million in transaction related costs incurred during the year ended September 30, 2013 related to the NEK acquisition.

Table of Contents

The acquisition-date fair value of consideration transferred is \$52.6 million, which has been paid to the seller in cash from our existing cash resources. Of the \$52.6 million of cash consideration that was paid to the Seller, \$2.4 million paid in fiscal 2014 and \$7.8 million paid in fiscal 2013 were contingent upon certain events that occurred between the acquisition date and September 30, 2014, including the novation of certain of the Seller's contracts to NEK.

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.

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

<b>Year Ended</b>		
<b>September 30,</b>		
2015	\$	2.9
2016		2.4
2017		1.9
2018		1.4
2019		0.8
Thereafter		2.8



Table of Contents*Pro forma information*

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

	<b>Years Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Net sales	\$ 1,411.0	\$ 1,460.6
Net income attributable to Cubic	69.2	31.2

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 3 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 investments 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.

At September 30, 2013, the estimated fair value of the liability for contingent consideration payable to the seller of NEK was \$3.5 million, which was equal to the maximum possible contingent payment. We paid the Seller \$3.5 million during fiscal 2014 upon the resolution of the related contingencies and the liability was reduced to zero. Prior to the payment of the contingent consideration we had estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. There was no change in the fair value of the contingent consideration liability between the date of the acquisition of NEK and September 30, 2014 other than for payments of the contingent consideration amount to the Seller; therefore, there has been no change in contingent consideration recorded in operations.



Table of Contents

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

	September 30, 2014				September 30, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents	\$ 56,333	\$	\$	\$ 56,333	\$ 125,512	\$	\$	\$ 125,512
Marketable securities	1,196			1,196	4,055			4,055
Current derivative assets		7,389		7,389		1,597		1,597
Noncurrent derivative assets		5,920		5,920		6,096		6,096
Total assets measured at fair value	57,529	13,309		70,838	129,567	7,693		137,260
<b>Liabilities</b>								
Current derivative liabilities		6,645		6,645		2,360		2,360
Noncurrent derivative liabilities		5,878		5,878		5,366		5,366
Contingent consideration to seller of NEK							3,485	3,485
Total liabilities measured at fair value	\$	\$ 12,523	\$	\$ 12,523	\$	\$ 7,726	\$ 3,485	\$ 11,211

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.

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):

September 30,	2014	2013
Fair value	\$ 99.6	\$ 95.8
Carrying value	102.4	102.9

Due to the impairment of goodwill for MSS reporting unit at July 1, 2013, the goodwill for MSS was measured at its estimated fair value at July 1, 2013. We estimated the fair value of the goodwill primarily based on the discounted projected cash flows of the underlying MSS operations and based upon market multiples from publicly traded comparable companies, which are Level 3 fair value measurement techniques. See Note 7 for a further discussion of the goodwill impairment. We did not have any significant non-financial assets or liabilities measured at fair value on a non-recurring basis in 2013 or 2014 except for the MSS goodwill at July 1, 2013 and the fair value of assets and liabilities acquired in business acquisitions.

## NOTE 4 ACCOUNTS RECEIVABLE

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The components of accounts receivable under long-term contracts are as follows (in thousands):

September 30,	2014	2013
<b>U.S. Government Contracts:</b>		
Amounts billed	\$ 41,588	\$ 51,529
Recoverable costs and accrued profits on progress completed not billed	66,657	60,435
	108,245	111,964
<b>Commercial Customers:</b>		
Amounts billed	80,283	47,454
Recoverable costs and accrued profits on progress completed not billed	191,417	221,911
	271,700	269,365
	379,945	381,329
Less unbilled amounts not currently due commercial customers	(15,870)	(19,021)
	\$ 364,075	\$ 362,308

Table of Contents

A portion of recoverable costs and accrued profits on progress completed is billable under progress or milestone payment provisions of the related contracts. The remainder of these amounts is billable upon delivery of products or furnishing of services, with an immaterial amount subject to retainage provisions of the contracts. It is anticipated that we will bill and collect substantially the entire unbilled portion of receivables identified as current assets under progress billing provisions of the contracts or upon completion of milestones and/or acceptance by the customers during fiscal 2015. 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 September 30, 2014 under transportation systems contracts in the U.S., Australia and the U.K.

## NOTE 5 INVENTORIES

Significant components of inventories are as follows (in thousands):

September 30,	2014	2013
Work in process and inventoried costs under long-term contracts	\$ 58,440	\$ 80,918
Materials and purchased parts	125	693
Customer advances	(19,790)	(21,865)
	\$ 38,775	\$ 59,746

At September 30, 2014, work in process and inventoried costs under long-term contracts includes approximately \$2.3 million in costs incurred outside the scope of work or in advance of a contract award, compared to \$5.8 million as of September 30, 2013. We believe it is probable that we will recover the costs inventoried at September 30, 2014, plus a profit margin, under contract change orders or awards within the next year.

Costs we incur for certain U.S. federal government contracts include general and administrative costs as allowed by government cost accounting standards. The amounts remaining in inventory at September 30, 2014 and 2013 were \$2.4 million and \$7.1 million, respectively.

## NOTE 6 PROPERTY, PLANT AND EQUIPMENT

Significant components of property, plant and equipment are as follows (in thousands):

September 30,	2014	2013
Land and land improvements	\$ 16,056	\$ 15,996
Buildings and improvements	49,347	45,854
Machinery and other equipment	90,781	95,216
Software	5,710	682
Leasehold improvements	11,191	9,714
Accumulated depreciation and amortization	(108,936)	(111,157)

\$	64,149	\$	56,305
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Our provisions for depreciation of plant and equipment and amortization of leasehold improvements amounted to \$7.8 million, \$8.7 million and \$8.0 million in 2014, 2013 and 2012, respectively. Generally, we use straight-line methods for depreciable real property over estimated useful lives ranging from 15 to 39 years or for leasehold improvements, the term of the underlying lease if shorter than the estimated useful lives. We use accelerated methods (declining balance and sum-of-the-years-digits) for machinery and equipment and software over estimated useful lives ranging from 5 to 10 years.

In 2014 and 2013 we capitalized internal costs of \$5.0 million and \$0.7 million, respectively, related to the development of software that is used to design products for our customers. This software was placed in service in late fiscal 2014. Amortization of this software totaled \$0.4 million in 2014.

Table of Contents

## NOTE 7 GOODWILL AND PURCHASED INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the two years ended September 30, 2014 are as follows (in thousands):

	Transportation Systems	Defense Systems	Mission Support Services	Total
Balances at October 1, 2012	\$ 7,517	\$ 20,983	\$ 118,433	\$ 146,933
Acquisitions (see Note 2)	10,837	2,466	26,782	40,085
Impairment of goodwill			(50,865)	(50,865)
Foreign currency exchange rate changes	(53)	(6)		(59)
Balances at September 30, 2013	18,301	23,443	94,350	136,094
Acquisitions (see Note 2)	40,792	7,365		48,157
Foreign currency exchange rate changes	74	(184)		(110)
Balances at September 30, 2014	\$ 59,167	\$ 30,624	\$ 94,350	\$ 184,141

We complete our annual goodwill impairment test each year as of July 1. The first step of the goodwill impairment test compares the fair value of our reporting units to their carrying values. We estimate the fair value of our reporting units primarily based on the discounted projected cash flows of the underlying operations and based upon market multiples from publicly traded comparable companies. For our 2014 impairment test, the estimated fair value of three all of our reporting units exceeded their respective carrying values. As such, there was no impairment of goodwill in 2014.

In 2013, slowed defense spending and margin compression due to competitive pressures on bid rates impacted operating results and tempered the projected cash flows of our MSS reporting unit, negatively impacting our estimate of its fair value at July 1, 2013. Step one of the impairment test indicated that the carrying value of our MSS reporting unit, including goodwill, exceeded its estimated fair value at July 1, 2013. Accordingly, in 2013 we performed the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The second step of the test requires the allocation of the reporting unit's fair value to its assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill as if the reporting unit was being acquired in a business combination. Based on the results of the step two analysis, we recorded a \$50.9 million goodwill impairment in 2013.

Purchased Intangible Assets: The table below summarizes our purchased intangible assets (in thousands):

	September 30, 2014			September 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	\$ 121,340	\$ (73,234)	\$ 48,106	\$ 97,424	\$ (54,712)	\$ 42,712
Other purchased intangibles	27,362	(11,850)	15,512	22,915	(8,085)	14,830
Total	\$ 148,702	\$ (85,084)	\$ 63,618	\$ 120,339	\$ (62,797)	\$ 57,542

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Total amortization expense for 2014, 2013 and 2012 was \$22.6 million, \$16.7 million and \$14.8 million, respectively.

Table of Contents

The table below shows our expected amortization of purchased intangibles as of September 30, 2014, for each of the next five years and thereafter (in thousands):

	Transportation Systems		Defense Systems		Mission Support Services		Total
2015	\$ 8,886	\$	2,129	\$	7,690	\$	18,705
2016	7,686		1,503		4,714		13,903
2017	6,566		841		2,452		9,859
2018	5,442		522		1,775		7,739
2019	3,048		249		1,184		4,481
Thereafter	3,750		53		5,128		8,931
	\$ 35,378	\$	5,297	\$	22,943	\$	63,618

## NOTE 8 FINANCING ARRANGEMENTS

Long-term debt consists of the following (in thousands):

September 30,	2014		2013	
Series A senior unsecured notes payable to a group of insurance companies, interest fixed at 3.35%	\$	50,000	\$	50,000
Series B senior unsecured notes payable to a group of insurance companies, interest fixed at 3.35%		50,000		50,000
Mortgage note from a U.K. financial institution, with quarterly installments of principal and interest at 6.48%		2,390		2,920
		102,390		102,920
Less current portion		(563)		(557)
	\$	101,827	\$	102,363

Maturities of long-term debt for each of the five years in the period ending September 30, 2019, are as follows: 2015 \$0.6 million; 2016 \$0.6 million; 2017 \$0.6 million; 2018 \$0.6 million; 2019 \$0.1 million.

Interest paid amounted to \$4.1 million, \$3.7 million and \$7.4 million in 2014, 2013 and 2012, respectively. Interest paid in 2013 and 2012 included payment of \$0.6 million and \$5.9 million of interest in connection with a legal settlement, respectively.

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, through March 2016 we may from time to time issue and sell, and the purchasers may in their sole discretion purchase, 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.

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 September 30, 2014, there were no borrowings under this agreement and there were letters of credit outstanding totaling \$8.1 million, which reduce the available line of credit to \$191.9 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 September 30, 2014 there were letters of credit outstanding under this agreement of \$61.6 million. Restricted cash at September 30, 2014 of \$69.1 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 \$62.6 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.



Table of Contents

As of September 30, 2014, we had letters of credit and bank guarantees outstanding totaling \$75.2 million, including the letters of credit outstanding under the Revolving Credit Agreement and the Secured Letter of Credit Facility, which guarantee either our performance or customer advances under certain contracts. In addition, we had financial letters of credit outstanding totaling \$8.9 million as of September 30, 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 \$2.6 million) to help meet the short-term working capital requirements of our subsidiaries in those countries. At September 30, 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 September 30, 2014 this agreement does not restrict such distributions to shareholders.

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 \$9.1 million and \$8.8 million as of September 30, 2014 and 2013, respectively.

Table of Contents

## NOTE 9 COMMITMENTS

We lease certain office, manufacturing and warehouse space, vehicles, and other office equipment under non-cancelable operating leases expiring in various years through 2027. These leases, some of which may be renewed for periods up to 10 years, generally require us to pay all maintenance, insurance and property taxes. Several leases are subject to periodic adjustment based on price indices or cost increases. Rental expense (net of sublease income of \$0.2 million in 2014, \$0.2 million in 2013 and \$0.4 million in 2012) for all operating leases amounted to \$12.0 million, \$12.6 million and \$10.2 million in 2014, 2013 and 2012, respectively. Future minimum payments, net of minimum sublease income, under non-cancelable operating leases with initial terms of one year or more consist of the following for the next five years and thereafter, as of September 30, 2014 (in thousands):

2015	\$	10,592
2016		8,074
2017		5,897
2018		4,232
2019		2,499
Thereafter		3,191
	\$	34,485

## NOTE 10 INCOME TAXES

Income (loss) before income taxes includes the following components (in thousands):

Years ended September 30,	2014	2013	2012
		(in thousands)	
United States	\$ (22,788)	\$ (31,640)	\$ 38,692
Foreign	112,199	71,411	99,271
Total	\$ 89,411	\$ 39,771	\$ 137,963

Significant components of the provision for income taxes are as follows:

Years ended September 30,	2014	2013	2012
		(in thousands)	
<b>Current:</b>			
Federal	\$ (8,049)	\$ 8,198	\$ 15,448
State	918	2,437	1,927
Foreign	25,705	18,581	21,005
Total current	18,574	29,216	38,380
<b>Deferred:</b>			
Federal	1,296	(14,182)	331
State	(1,232)	(2,720)	328
Foreign	1,193	2,188	1,293

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Total deferred		1,257		(14,714)		1,952
Provision for income taxes	\$	19,831	\$	14,502	\$	40,332

78

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Table of Contents

The reconciliation of income tax computed at the U.S. federal statutory tax rate to income tax expense is as follows:

Years ended September 30,	2014	2013 (in thousands)	2012
Tax expense at U.S. statutory rate	\$ 31,290	\$ 13,921	\$ 48,287
State income taxes, net of federal tax effect	111	120	1,364
Nondeductible expenses	1,319	1,609	286
Change in reserve for tax contingencies	(601)	(673)	(2,752)
Impact of goodwill impairment loss		10,046	
Change in deferred tax asset valuation allowance	921	4,044	
Tax effect from foreign earnings repatriation			2,773
Foreign earnings taxed at less than statutory rate	(12,783)	(7,521)	(7,847)
R&D credits generated in the current year	(584)	(3,202)	(906)
Reinstatement of federal research and development credit		(1,937)	
Manufacturing deduction		(1,333)	(630)
Other	158	(572)	(243)
Provision for income taxes	\$ 19,831	\$ 14,502	\$ 40,332

Table of Contents

Significant components of our deferred tax assets and liabilities are as follows:

September 30,	2014	2013
	(in thousands)	
Deferred tax assets:		
Accrued employee benefits	\$ 13,944	\$ 11,642
Long-term contracts and inventory valuation reductions	9,554	14,152
Allowances for loss contingencies	5,121	5,441
Deferred compensation	4,310	4,346
Property, plant and equipment	1,507	1,127
Intangible assets	2,324	477
Retirement benefits	4,729	5,678
State research and development credit carryforward	7,285	4,839
Net operating losses carryforwards	15,662	18,639
Other	585	2,048
Total gross deferred tax assets	65,021	68,389
Deferred tax asset valuation allowance	(14,024)	(8,801)
Total deferred tax assets	50,997	59,588
Deferred tax liabilities:		
Deferred revenue	(22,507)	(28,865)
State taxes	(6)	(995)
Other	(1,937)	(2,052)
Total deferred tax liabilities	(24,450)	(31,912)
Net deferred tax asset	\$ 26,547	\$ 27,676

The deferred tax assets and liabilities for fiscal 2014 and 2013 include amounts related to various acquisitions. The total change in deferred tax assets and liabilities in fiscal 2014 includes changes that are recorded to Other Comprehensive Income (OCI) and goodwill.

We calculate deferred tax assets and liabilities based on differences between financial reporting and tax bases of assets and liabilities, and measure them using the enacted tax rates and laws that we expect will be in effect when the differences reverse. Certain items within the 2013 presentation of the components of deferred tax assets and liabilities have been reclassified to conform to the current year presentation. The reclassifications primarily relate to \$0.7 million of differences related to accounting for long-term contracts and were reclassified from other deferred tax assets and liabilities to long-term contracts and inventory valuation reductions.

As of September 30, 2014, we had net operating loss carryforwards of approximately \$51.1 million for foreign and \$30.4 million for state, and unused state tax credits of \$13.8 million. In general, our foreign operating loss carryforwards and state tax credits are not subject to expiration. The state operating loss carryforwards will begin to expire in fiscal year 2026.

We are required to assess whether a valuation allowance should be recorded against our deferred tax assets by jurisdiction based on the consideration of all available evidence, with significant weight given to evidence that can be objectively verified and using a more likely than not realization standard. Through September 30, 2014, a valuation allowance of \$14.0 million has been established for certain deferred tax assets related to state tax credits, certain foreign operating losses and other foreign assets. For fiscal 2014, the total change in the valuation allowance was \$5.2 million, of which \$2.3 million was recorded as tax expense through the income statement in the current year.

With the exception of \$10.5 million of accumulated earnings which the Company intends to repatriate, we do not provide for U.S. income taxes on the earnings of foreign subsidiaries which are considered indefinitely reinvested outside the U.S. Deferred income taxes, net of foreign tax credits, are provided for foreign earnings available for repatriation. As of September 30, 2014, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately \$389.8 million. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income taxes and foreign withholding taxes, but would also be able to offset unrecognized foreign tax credit carryforwards, if any. It is not practicable for us to determine the total amount of unrecognized deferred U.S. income tax liability because of the complexities associated with its hypothetical calculation.

Table of Contents*Accounting for Uncertainty in Income Taxes*

During fiscal 2014 and 2013, our aggregate changes in our total gross amount of unrecognized tax benefits are summarized as follows:

Years ended September 30,	2014	(in thousands)	2013
Balance at October 1	\$	8,441	\$ 9,833
Increase (decrease) related to tax positions in prior years:			
Recognition of benefits from expiration of statutes		(973)	(575)
Settlements with taxing authorities		(728)	(2,332)
Other		(54)	824
Tax positions related to the current year		743	731
Currency translation adjustment		(123)	(40)
Balance at September 30	\$	7,306	\$ 8,441

At September 30, 2014, the amount of unrecognized tax benefits from permanent tax adjustments that, if recognized, would affect the effective tax rate was \$4.7 million. During the next 12 months, it is reasonably possible that resolution of reviews by taxing authorities, both domestic and foreign, could be reached with respect to approximately \$1.0 million of the unrecognized tax benefits depending on the timing of examinations or expiration of statute of limitations, either because the Company's tax positions are sustained or because the Company agrees to their disallowance and pays the related income tax. The amount of net interest and penalties recognized as a component of income tax expense during 2014, 2013 and 2012 was not material. Interest and penalties accrued at September 30, 2014 and 2013 amounted to \$1.6 million and \$2.2 million, respectively, bringing the total liability for uncertain tax issues to \$8.0 million and \$9.3 million, respectively, as of September 30, 2014 and 2013.

We are subject to ongoing audits from various taxing authorities in the jurisdictions in which we do business. As of September 30, 2014, the fiscal tax years open under the statute of limitations in significant jurisdictions include 2011-2014 in the U.S. and United Kingdom and 2009-2014 in New Zealand. We believe we have adequately provided for uncertain tax issues we have not yet resolved with federal, state and foreign tax authorities. Although not more likely than not, the most adverse resolution of these issues could result in additional charges to earnings in future periods. Based upon a consideration of all relevant facts and circumstances, we do not believe the ultimate resolution of uncertain tax issues for all open tax periods will have a material adverse effect upon our financial condition or results of operations.

Cash amounts paid for income taxes, net of refunds received, were \$27.3 million, \$42.1 million and \$25.4 million in 2014, 2013 and 2012, respectively.

## NOTE 11 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In order to manage our exposure to fluctuations in interest and foreign currency exchange rates we utilize derivative financial instruments such as forward starting swaps and foreign currency forwards. We do not use any derivative financial instruments for trading or other speculative purposes.

All derivatives are recorded at fair value, however, the classification of gains and losses resulting from changes in the fair values of derivatives are dependent on the intended use of the derivative and its resulting designation. If a derivative is designated as a fair value hedge, then a change in the fair value of the derivative is offset against the change in the fair value of the underlying hedged item and only the ineffective portion of the hedge, if any, is recognized in earnings. If a derivative is designated as a cash flow hedge, then the effective portion of a change in the fair value of the derivative is recognized as a component of accumulated other comprehensive income until the underlying hedged item is recognized in earnings, or the forecasted transaction is no longer probable of occurring. If a derivative does not qualify as a highly effective hedge, any change in fair value is immediately recognized in earnings. We formally document all hedging relationships for all derivative hedges and the underlying hedged items, as well as the risk management objectives and strategies for undertaking the hedge transactions. We classify the fair value of all derivative contracts as current or non-current assets or liabilities, depending on the realized and unrealized gain or loss position of the hedged contract at the balance sheet date, and the timing of future cash flows. The cash flows from derivatives treated as hedges are classified in the Consolidated Statements of Cash Flows in the same category as the item being hedged.



Table of Contents

The following table shows the notional principal amounts of our outstanding derivative instruments as of September 30, 2014 and 2013 (in thousands):

September 30,	Notional Principal	
	2014	2013
<b>Instruments designated as accounting hedges:</b>		
Foreign currency forwards	\$ 249,628	\$ 231,051
Forward starting swap		58,415
<b>Instruments not designated as accounting hedges:</b>		
Foreign currency forwards	\$ 136,955	\$ 130,687

Included in the amounts not designated as accounting hedges above at September 30, 2014 and 2013 are foreign currency forwards with notional principal amounts of \$132.1 million and \$128.1 million, respectively, that have been designed to manage exposure to foreign currency exchange risks, and for which the gains or losses of the changes in fair value of the forwards has approximately offset an equal and opposite amount of gains or losses related to the foreign currency exposure.

The notional principal amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of the Company's exposure to credit or market loss. Credit risk represents the Company's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current interest or currency exchange rates at each respective date. The Company's exposure to credit loss and market risk will vary over time as a function of interest and currency exchange rates. The amount of credit risk from derivative instruments and hedging activities was not material for the fiscal years ended September 30, 2014 and 2013. Although the table above reflects the notional principal amounts of the Company's forward starting swap and foreign exchange instruments, it does not reflect the gains or losses associated with the exposures and transactions that the forward starting swap and foreign exchange instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The Company generally enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. The Company presents its derivative assets and derivative liabilities at their gross fair values. The Company did not have any derivative instruments with credit-risk related contingent features that would require it to post collateral as of September 30, 2014 or 2013.

The table below presents the fair value of the Company's derivative financial instruments that qualify for hedge accounting as well as their classification on the consolidated balance sheets as of September 30, 2014 and 2013 (in thousands):

Balance Sheet Location	Fair Value	
	2014	September 30, 2013
<b>Asset derivatives:</b>		
Foreign currency forwards	\$ 7,389	\$ 1,597
Foreign currency forwards	5,920	4,957
Forward starting swap		1,139
	\$ 13,309	\$ 7,693

**Liability derivatives:**

Foreign currency forwards	Other current liabilities	\$	6,645	\$	2,360
Foreign currency forwards	Other noncurrent liabilities		5,878		5,366
Total		\$	12,523	\$	7,726

Table of Contents

The tables below present gains and losses recognized in OCI for the years ended September 30, 2014, 2013, and 2012 related to derivative financial instruments designated as cash flow hedges, as well as the amount of gains and losses reclassified into earnings during those periods (in thousands):

Years ended September 30,	2014		2013	
	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion
Derivative Type				
Foreign currency forwards	\$ 820	\$ 330	\$ 4,581	\$ (1,231)
Forward starting swap			1,230	
	\$ 820	\$ 330	\$ 5,811	\$ (1,231)

The amount of gains and losses from derivative instruments and hedging activities classified as not highly effective did not have a material impact on the results of operations for the years ended September 30, 2014, 2013, or 2012. The amount of estimated unrealized net losses from cash flow hedges which are expected to be reclassified to earnings in the next twelve months is \$0.5 million, net of income taxes.

*Foreign currency forwards*

In order to limit our exposure to foreign currency exchange rate risk we generally hedge those commitments greater than \$50,000 by using foreign currency exchange forward and option contracts that are denominated in currencies other than the functional currency of the subsidiary responsible for the commitment, typically the British pound, Canadian dollar, Singapore dollar, euro, Swedish krona, New Zealand dollar and Australian dollar. These contracts are designed to be effective hedges regardless of the direction or magnitude of any foreign currency exchange rate change, because they result in an equal and opposite income or cost stream that offsets the change in the value of the underlying commitment.

*Forward starting swap*

In July 2012 we entered into a forward-starting 10-year swap contract with a bank to reduce the interest rate variability exposure of the projected interest cash flows on a planned debt issuance to finance a contract in our CTS segment. The accrual period of the swap contract was designed to match the tenor of the planned debt issuance. Through the end of fiscal 2013, the forward starting swap was deemed to be a highly effective cash flow hedge, and changes in the fair value of the forward starting swap were recorded in other comprehensive income. In fiscal 2014, we determined that the planned issuance of debt was no longer probable; therefore, the forward starting swap was deemed to be ineffective. As such, in 2014 amounts previously reported in accumulated other comprehensive income related to this forward starting swap were reclassified into earnings, and subsequent changes in the fair value of the forward starting swap were recognized in earnings, within the other income (expense) line item. During 2014 the total net gain recognized on the forward starting swap was \$0.2 million, and on July 1, 2014, at the termination date of the forward starting swap, we settled the forward starting swap and received \$0.2 million from the counterparty.

## NOTE 12 PENSION, PROFIT SHARING AND OTHER BENEFIT PLANS

Deferred Compensation Plans

Deferred compensation includes amounts due under an arrangement in which participating members of management may elect to defer receiving payment for a portion of their compensation a minimum of five years, or until periods after their respective retirements. Our deferred compensation plans specify that we accrue interest on deferred compensation at the Prompt Payment Act interest rate as determined by the U.S. Department of the Treasury, until such time as it is paid in full. For the year ended September 30, 2014, the average interest rate used to accrue interest on our deferred compensation was 1.9%.

Defined Contribution Plans

We have profit sharing and other defined contribution retirement plans that provide benefits for most U.S. employees. Certain of these plans require the company to match a portion of eligible employee contributions up to specified limits. These plans also allow for additional company contributions at the discretion of the Board of Directors. In 2014, 2013 and 2012, more than half of our contributions to these plans were discretionary contributions. We also have a defined contribution plan for European employees that were formerly eligible for the European defined benefit plan described below. Under this plan, the company matches a portion of the eligible employee contributions up to limits specified in the plan. Company contributions to defined contribution plans aggregated \$19.6 million, \$19.7 million and \$18.6 million in 2014, 2013 and 2012, respectively.

Table of ContentsDefined Benefit Pension Plans

Certain employees in the U.S. are covered by a noncontributory defined benefit pension plan for which benefits were frozen as of December 31, 2006 (curtailment). The effect of the U.S. plan curtailment is that no new benefits have been accrued after that date. Approximately one-half of our European employees are covered by a contributory defined benefit pension plan for which benefits were frozen as of September 30, 2010. Although the effect of the European plan curtailment is that no new benefits will accrue after September 30, 2010, the plan is a final pay plan, which means that benefits will be adjusted for increases in the salaries of participants until their retirement or departure from the company. The European plan was amended in both 2014 and in 2013 to reduce the amount of participant compensation used in computing the pension liability for certain participants. We recognized decreases in our benefit obligation as a result of these plan amendments of \$1.7 million in 2014 and \$1.2 million in 2013. U.S. and European employees hired subsequent to the dates of the curtailment of the respective plans are not eligible for participation in the defined benefit plans.

Our funding policy for the defined benefit pension plans provides that contributions will be at least equal to the minimum amounts mandated by statutory requirements. Based on our known requirements for the U.S. and U.K. plans, as of September 30, 2014, we expect to make contributions of approximately \$3.6 million in 2015. September 30 is used as the measurement date for these plans.

The unrecognized amounts recorded in accumulated other comprehensive income (loss) will be subsequently recognized as net periodic pension cost, consistent with our historical accounting policy for amortizing those amounts. We will recognize actuarial gains and losses that arise in future periods and are not recognized as net periodic pension cost in those periods as increases or decreases in other comprehensive income (loss), net of tax, in the period they arise. We adjust actuarial gains and losses recognized in other comprehensive income (loss) as they are subsequently recognized as a component of net periodic pension cost. The unrecognized actuarial gain or loss included in accumulated other comprehensive income (loss) at September 30, 2014 and expected to be recognized in net pension cost during fiscal 2015 is a loss of \$0.7 million (\$0.5 million net of income tax). No plan assets are expected to be returned to us in 2015.

The projected benefit obligation, accumulated benefit obligation (ABO) and fair value of plan assets for the defined benefit pension plans in which the ABO was in excess of the fair value of plan assets were as follows (in thousands):

September 30,	2014	2013
Projected benefit obligation	\$ 224,201	\$ 209,118
Accumulated benefit obligation	224,201	202,916
Fair value of plan assets	206,982	188,337

Table of Contents

The following table sets forth changes in the projected benefit obligation and fair value of plan assets and the funded status for these defined benefit plans (in thousands):

September 30,	2014	2013
<b>Change in benefit obligations:</b>		
Net benefit obligation at the beginning of the year	\$ 209,118	\$ 215,706
Service cost	636	532
Interest cost	9,967	8,867
Actuarial loss (gain)	10,730	(5,726)
Plan amendments	(1,044)	(1,178)
Gross benefits paid	(6,229)	(8,576)
Foreign currency exchange rate changes	1,023	(507)
Net benefit obligation at the end of the year	224,201	209,118
<b>Change in plan assets:</b>		
Fair value of plan assets at the beginning of the year	188,337	169,323
Actual return on plan assets	21,127	24,707
Employer contributions	3,728	3,915
Gross benefits paid	(6,229)	(8,576)
Administrative expenses	(730)	(843)
Foreign currency exchange rate changes	749	(189)
Fair value of plan assets at the end of the year	206,982	188,337
Unfunded status of the plans	(17,219)	(20,781)
Unrecognized net actuarial loss	33,376	31,657
Net amount recognized	\$ 16,157	\$ 10,876
<b>Amounts recognized in Accumulated OCI</b>		
Liability adjustment to OCI	\$ (33,376)	\$ (31,657)
Deferred tax asset	9,925	9,291
Accumulated other comprehensive loss	\$ (23,451)	\$ (22,366)

Table of Contents

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

Years ended September 30,	2014	2013	2012
Service cost	\$ 636	\$ 532	\$ 508
Interest cost	9,967	8,867	9,565
Expected return on plan assets	(13,183)	(11,605)	(10,091)
Amortization of actuarial loss	802	1,798	1,593
Administrative expenses	152	76	82
Net pension cost	\$ (1,626)	\$ (332)	\$ 1,657

Years ended September 30,	2014	2013	2012
Weighted-average assumptions used to determine benefit obligation at September 30:			
Discount rate	4.2%	4.8%	4.3%
Rate of compensation increase	3.2%	4.4%	3.8%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30:			
Discount rate	4.8%	4.3%	5.2%
Expected return on plan assets	7.0%	7.0%	7.0%
Rate of compensation increase	4.4%	3.8%	4.3%

The long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. That assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

We have the responsibility to formulate the investment policies and strategies for the plans' assets. Our overall policies and strategies include: maintain the highest possible return commensurate with the level of assumed risk, and preserve benefit security for the plans' participants.

We do not direct the day-to-day operations and selection process of individual securities and investments and, accordingly, we have retained the professional services of investment management organizations to fulfill those tasks. The investment management organizations have investment discretion over the assets placed under their management. We provide each investment manager with specific investment guidelines by asset class.

The target ranges for each major category of the plans' assets at September 30, 2014 are as follows:

Asset Category	Allocation Range
Equity securities	20% to 55%
Debt securities	25% to 75%
Cash	0% to 55%
Real estate	0% to 10%

Our defined benefit pension plans invest in cash and cash equivalents, equity securities, fixed income securities, pooled separate accounts and common collective trusts. The following tables present the fair value of the assets of our defined benefit pension plans by asset category and their level within the fair value hierarchy (in thousands). See Note 3 for a description of each level within the fair value hierarchy. During 2014 our plans invested in a diversified growth fund that holds underlying investments in equities, fixed- income securities, commodities, and real estate.



Table of Contents

All assets classified as Level 2 or Level 3 in the table below are invested in pooled separate accounts or common collective trusts which do not have publicly quoted prices. The fair value of the pooled separate accounts and common collective trusts are determined based on the net asset value of the underlying investments. The fair value of the underlying investments held by the pooled separate accounts and common collective trusts, other than real estate investments, is generally based upon quoted prices in active markets. The fair value of the underlying investments comprised of real estate properties is determined through an appraisal process which uses valuation methodologies including comparisons to similar real estate and discounting of income streams. For investments in the pooled separate accounts and common collective trusts categorized as Level 2 below, there are no restrictions on the ability of our benefit plans to sell these investments.

	September 30, 2014				September 30, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 1,863	\$ 407	\$	\$ 2,270	\$ 2,361	\$ 475	\$	\$ 2,836
Equity:								
U.S. equity securities		43,351		43,351		54,870		54,870
Foreign equity securities		47,110		47,110		47,569		47,569
Fixed Income:								
U.S. fixed-income funds		49,479		49,479		33,849		33,849
U.K. fixed-income funds		25,813		25,813		12,804		12,804
Diversified growth fund		31,863		31,863		30,146		30,146
Real Estate			7,096	7,096			6,263	6,263
Total	\$ 1,863	\$ 198,023	\$ 7,096	\$ 206,982	\$ 2,361	\$ 179,713	\$ 6,263	\$ 188,337

The following table presents the changes in the fair value of plan assets categorized as Level 3 in the preceding table (in thousands):

	Real Estate
Balance as of October 1, 2012	\$ 5,614
Realized and unrealized gains, net	712
Purchases, sales and settlements, net	(63)
Balance as of September 30, 2013	6,263
Realized and unrealized gains, net	898
Purchases, sales and settlements, net	(65)
Balance as of September 30, 2014	\$ 7,096

The pension plans held no direct positions in Cubic Corporation common stock as of September 30, 2014 and 2013.

We expect to pay the following pension benefit payments, which reflect expected future service, as appropriate, (in thousands):

2015	\$ 7,784
2016	8,208
2017	8,482
2018	9,043

2019	9,590
2020-2024	52,964

NOTE 13 STOCKHOLDERS' EQUITY

Long-Term Equity Incentive Plan

On March 21, 2013, the Executive Compensation Committee of the Board of Directors (Compensation Committee) approved a long-term equity incentive award program. Through September 30, 2014, the Compensation Committee has granted 416,929 RSU's with time-based vesting and 314,656 RSU's with performance-based vesting under this program.

Table of Contents

Each RSU represents a contingent right to receive one share of our common stock. Dividend equivalent rights accrue with respect to the RSUs when and as dividends are paid on our common stock and vest proportionately with the RSUs to which they relate. Vested shares are delivered to the recipient following each vesting date.

The RSUs granted with time-based vesting generally vest in four equal installments on each of the four October 1 dates following the grant date, subject to the recipient's continued service through such vesting date.

The performance-based RSUs granted to participants vest over three-year performance periods based on Cubic's achievement of performance goals established by the Compensation Committee over the performance periods, subject to the recipient's continued service through the end of the respective performance periods. For the performance-based RSUs granted to date, the vesting will be contingent upon Cubic meeting one of three types of vesting criteria over the performance period. These three categories of vesting criteria consist of revenue growth targets, earnings targets, and return on equity targets. The level at which Cubic performs against scalable targets over the performance periods will determine the percentage of the RSUs that will ultimately vest.

Through September 30, 2014, Cubic has granted 731,585 restricted stock units of which 69,994 have vested. The grant date fair value of each restricted stock unit is the fair market value of one share of our common stock at the grant date. At September 30, 2014, the total number of unvested RSUs that are ultimately expected to vest, after consideration of expected forfeitures and estimated vesting of performance-based RSUs is 345,240.

The following table summarizes our RSU activity:

	Unvested Restricted Stock Units Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at October 1, 2012		\$
Granted	426,511	43.76
Vested		
Forfeited	(5,142)	43.76
Unvested at September 30, 2013	421,369	\$ 43.76
Granted	305,074	49.57
Vested	(69,994)	43.76
Forfeited	(13,500)	47.80
Unvested at September 30, 2014	642,949	\$ 46.43

As of September 30, 2014, approximately 3,746,426 shares remained available for future grants under our long-term equity incentive plan. On October 1, 2014, 105,886 restricted stock units vested.

## NOTE 14 STOCK BASED COMPENSATION

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We recorded non-cash compensation expense related to stock-based awards of \$5.6 million for the year ended September 30, 2014, which was comprised of the following (in thousands):

Cost of sales	\$	566
Selling, general and administrative		5,059
	\$	5,625

As of September 30, 2014, there was \$24.1 million of unrecognized compensation cost related to unvested RSUs. Based upon the expected forfeitures and the expected vesting of performance based RSUs, the aggregate fair value of RSUs expected to ultimately vest is \$16.2 million. This amount is expected to be recognized over a weighted-average period of 1.7 years.

Table of Contents

We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods on a cumulative basis in the period the estimated forfeiture rate changes for all stock-based awards when significant events occur. We consider our historical experience with employee turnover as the basis to arrive at our estimated forfeiture rate. The forfeiture rate was estimated to be 12.5% per year as of September 30, 2014. To the extent the actual forfeiture rate is different from what we have estimated, stock-based compensation related to these awards will be different from our expectations.

NOTE 15 LEGAL MATTERS

In November 2011, we received a claim from a public transit authority customer which alleged that the authority incurred a loss of transit revenue due to the inappropriate and illegal actions of one of our former employees, who has pled guilty to the charges. This individual was employed to work on a contract we acquired in a business combination in 2009 and had allegedly been committing these illegal acts from almost two years prior to our acquisition of the contract, until his arrest in May 2011. The transit system was designed and installed by a company unrelated to us. The transit authority sought recoupment from us of a total amount of \$4.5 million for alleged lost revenue, fees and damages. In March 2012, the county superior court entered a default judgment against our former employee and others for \$2.9 million based upon the estimated loss of revenue by the public transit authority customer. In 2012, we recorded an accrued cost of \$2.9 million within general and administrative expense in the transportation systems segment based upon the court's assessment of these losses. In July 2014 we entered into a settlement agreement with the customer for a cash payment of \$2.6 million plus an assignment of forty percent of any insurance proceeds we receive under relevant insurance policies. In June 2014 we reduced our accrued costs to \$2.6 million. We have submitted our claim to our insurance carriers but have not yet resolved the level of coverage. Any potential insurance proceeds, and any related assignment of a portion of the proceeds to the customer, will not be recognized in the financial statements until receipt of any such insurance proceeds is probable.

In October and December of 2013, and January of 2014, lawsuits were filed in the United States District Court for the Northern District of Illinois, Eastern Division against us and one of our transit customers alleging variously, among other things, breach of contract, violation of the Illinois Consumer Fraud Act, unjust enrichment and violation of the Electronic Funds Act. In January 2014 these cases were consolidated into a single case and the Plaintiffs are seeking to have the case certified as a class action. Plaintiffs variously claim, among other things, that: (i) they were wrongly charged for calling the call center that we operate for patrons of our transit customer, (ii) they were wrongly charged for a transfer and a second fare, (iii) they were not credited the cost of a transit card even after registration of the card, as is required under the terms of the cardholder agreement, and (iv) they were double charged for rides taken. We are undertaking the defense of the transit customer pursuant to our contractual obligations to that customer. We are investigating the matter and plan to vigorously defend this lawsuit. As this case is in its early stages, we cannot estimate the probability of loss or any range of estimate of possible loss.

Also in October 2013, a lawsuit was filed in the Circuit Court of Cook County, Illinois, County Department, Chancery Division against our same transit customer alleging conversion and unjust enrichment. This lawsuit was later amended and refiled in May 2014. The plaintiff alleges his bank debit card was charged two dollars and twenty-five cents for his ride on the transit system rather than the ride being charged to his transit fare card. This plaintiff is also seeking to have his case certified as a class action for all patrons whose bank cards were charged in the same manner. We are investigating the matter and we are undertaking the defense pursuant to our contractual obligations to our transit customer. We plan to vigorously defend this lawsuit. As this case is in its early stages, we cannot estimate the probability of loss or any range of estimate of possible loss.

In October 2014, a lawsuit was filed in the United States District Court, Northern District of Illinois against us and our same transit customer alleging infringement of various patents held by the plaintiff. We are investigating the matter and plan to vigorously defend the lawsuit. We are also undertaking defense of our customer in this matter pursuant to our contractual obligations to that customer. Due to the preliminary nature of this case, we cannot estimate the probability of loss or any range of estimate of possible loss.

We are not a party to any other material pending proceedings and we consider all other matters to be ordinary proceedings incidental to the business. We believe the outcome of these other proceedings will not have a materially adverse effect on our financial position, results of operations, or cash flows.

NOTE 16 BUSINESS SEGMENT INFORMATION

We have three primary business segments: Cubic Transportation Systems (CTS), Mission Support Services (MSS) and Cubic Defense Systems (CDS). CTS designs, produces, installs and services electronic revenue collection systems for mass transit projects, including railways and buses. MSS provides training, operations, intelligence, maintenance, technical and other services to the U.S. government and allied nations. CDS performs work under U.S. and foreign government contracts relating to electronic defense systems and equipment. CDS products include customized military range instrumentation, laser based training systems, virtual simulation systems, communications products including datalinks, power amplifiers, avionics systems, multi-band communication tracking devices, and cross domain hardware solutions to address multi-level security requirements.

Table of Contents

We evaluate performance and allocate resources based on total segment operating profit or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are immaterial and are eliminated in consolidation.

Our reportable segments are business units that offer different products and services and are each managed separately. Operating results for each segment are reported separately to senior corporate management to make decisions as to the allocation of corporate resources and to assess performance.

Table of Contents

Business segment financial data is as follows (in millions):

Years ended September 30,	2014	2013	2012
<b>Sales:</b>			
Transportation Systems	\$ 599.7	\$ 529.5	\$ 522.2
Mission Support Services	398.1	468.7	491.4
Defense Systems	400.6	363.0	389.4
Other		0.2	1.1
Total sales	\$ 1,398.4	\$ 1,361.4	\$ 1,404.1
<b>Operating income (loss):</b>			
Transportation Systems	\$ 65.9	\$ 66.8	\$ 84.6
Mission Support Services	7.8	(36.1)	21.1
Defense Systems	26.8	14.2	35.3
Unallocated corporate expenses and other	(8.0)	(4.2)	(4.8)
Total operating income	\$ 92.5	\$ 40.7	\$ 136.2
<b>Assets:</b>			
Transportation Systems	\$ 422.2	\$ 369.8	\$ 268.4
Mission Support Services	195.8	205.2	212.8
Defense Systems	252.4	228.9	211.2
Corporate and other	324.2	304.5	322.2
Total assets	\$ 1,194.6	\$ 1,108.4	\$ 1,014.6
<b>Depreciation and amortization:</b>			
Transportation Systems	\$ 11.5	\$ 5.0	\$ 3.7
Mission Support Services	10.7	13.0	12.5
Defense Systems	7.4	6.1	5.5
Corporate and other	0.8	1.3	1.2
Total depreciation and amortization	\$ 30.4	\$ 25.4	\$ 22.9
<b>Capital expenditures:</b>			
Transportation Systems	\$ 1.8	\$ 2.8	\$ 2.7
Mission Support Services		0.3	1.1
Defense Systems	13.2	4.6	8.9
Corporate and other	1.6	1.4	1.5
Total expenditures for long-lived assets	\$ 16.6	\$ 9.1	\$ 14.2



Table of Contents

Years ended September 30,	2014	2013	2012
<b>Geographic Information:</b>			
Sales (a):			
United States	\$ 749.9	\$ 741.7	\$ 742.2
United Kingdom	294.4	267.4	283.2
Canada	9.0	30.4	54.8
Australia	161.9	148.5	181.9
Middle East	42.0	35.4	38.0
Far East	76.6	78.2	56.9
Other	64.6	59.8	47.1
Total sales	\$ 1,398.4	\$ 1,361.4	\$ 1,404.1

(a) Sales are attributed to countries or regions based on the location of customers.

Long-lived assets, net:			
United States	\$ 49.8	\$ 43.9	\$ 42.4
United Kingdom	9.3	9.2	9.5
Other foreign countries	6.3	6.6	6.1
Total long-lived assets, net	\$ 65.4	\$ 59.7	\$ 58.0

MSS and CDS segment sales include \$651.5 million, \$691.8 million and \$699.4 million in 2014, 2013 and 2012, respectively, of sales to U.S. government agencies. CTS segment sales include \$213.2 million, \$193.4 million and \$184.7 million in 2014, 2013 and 2012, respectively, of sales under various contracts with our customer, Transport for London. No other customer accounts for 10% or more of our revenues for any periods presented.

Changes in estimates on contracts for which revenue is recognized using the cost-to-cost percentage-of-completion method increased operating income by approximately \$1.3 million in 2014, decreased operating income by approximately \$1.7 million in 2013 and increased operating income by approximately \$15.7 million in 2012. These adjustments increased net income by approximately \$3.5 million (\$0.13 per share) in 2014, decreased \$0.3 million (\$0.01 per share) in 2013 and increased net income by approximately \$10.7 million (\$0.40 per share) in 2012.

Certain of our transportation systems service contracts contain service level or system usage incentives, for which we recognize revenues when the incentive award is fixed or determinable. These contract incentives are generally based upon monthly service levels or monthly performance and become fixed or determinable on a monthly basis. However, one of our transportation systems service contracts contains annual system usage incentives which are based upon system usage compared to annual baseline amounts. For this contract the annual system usage incentives are not considered fixed or determinable until the end of the contract year for which the incentives are measured, which falls within the second quarter of our fiscal year. During the years ended September 30, 2014, 2013, and 2012, we recognized sales of \$12.2 million, \$13.2 million, and \$12.2 million, respectively related to annual system usage incentives on this transportation systems contract which resulted in additional operating income of the same amounts in these respective periods.

In 2014 we incurred restructuring charges of \$1.1 million primarily by our CTS business in September 2014 as a result of a planned reduction of employee headcount in the US by approximately 20. This restructuring was predominantly driven by the reduction in work on certain contracts that are in the process of moving from the design and build phase to the services phase.



Table of Contents

In 2013, we incurred restructuring charges of \$8.1 million by our CDS segment to reduce global employee headcount by approximately 230 in order to rebalance our resources with work levels that declined due to delays in contract awards and contract funding.

A summary of the activity relating to the restructuring liability and employee separation expenses, which is included within accrued compensation and other current liabilities within our Consolidated Balance Sheet, is as follows (in thousands):

Liability as of September 30, 2012	\$	
Accrued costs		8,139
Cash payments		(5,919)
Liability as of September 30, 2013	\$	2,220
Accrued costs		1,094
Cash payments		(2,538)
Liability as of September 30, 2014	\$	776

## NOTE 17 SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of our quarterly results of operations for the fiscal years ended September 30, 2014 and 2013:

Fiscal 2014	September 30	Three Months Ended			December 31	Year Ended September 30
		June 30	March 31	September 30		
		(in thousands, except per share data)				
Net sales	\$ 396,366	\$ 340,357	\$ 354,492	\$ 307,137	\$ 1,398,352	
Operating income	39,268	19,215	22,177	11,830	92,490	
Net income attributable to Cubic	32,805	12,206	16,092	8,388	69,491	
Net income per share, basic	1.22	0.46	0.60	0.31	2.59	
Net income per share, diluted	1.22	0.45	0.60	0.31	2.59	

Fiscal 2013	September 30	Three Months Ended			December 31	Year Ended September 30
		June 30	March 31	September 30		
		(in thousands, except per share data)				
Net sales	\$ 340,776	\$ 337,226	\$ 368,609	\$ 314,796	\$ 1,361,407	
Operating income (loss)	(44,055)	26,905	37,376	20,509	40,735	
Net income (loss) attributable to Cubic	(37,186)	18,381	29,650	14,241	25,086	
Net income (loss) per share, basic	(1.39)	0.69	1.11	0.53	0.94	
Net income (loss) per share, diluted	(1.39)	0.69	1.11	0.53	0.94	

Table of Contents

In the fourth quarter of 2013, we completed our annual goodwill impairment test and concluded that the carrying value of our MSS reporting unit, including goodwill, exceeded its estimated fair value. As a result, in the fourth quarter of 2013 we recorded a goodwill impairment charge of \$50.9 million (before applicable income taxes). There was no goodwill impairment charge in 2014. See Note 7 for a further discussion of the goodwill impairment.

Changes in estimates on contracts for which revenue is recognized using the cost-to-cost-percentage-of-completion method increased operating profit by approximately \$10.7 million in the three months ended September 30, 2014 and decreased operating profit by approximately \$9.9 million in the three months ended September 30, 2013. These adjustments increased net income by approximately \$7.6 million (\$0.28 per share) in the three months ended September 30, 2014 and decreased net income by approximately \$6.6 million (\$0.25 per share) in the three months ended and September 30, 2013.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Cubic Corporation

We have audited the accompanying consolidated balance sheets of Cubic Corporation as of September 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended September 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cubic Corporation at September 30, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cubic Corporation's internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), and our report dated November 26, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

November 26, 2014

Table of Contents

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**Item 9A. CONTROLS AND PROCEDURES**

*Evaluation of Controls and Procedures*

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Management, with participation by our CEO and CFO, has designed our disclosure controls and procedures to provide reasonable assurance of achieving desired objectives. As of September 30, 2014, we carried out an evaluation, under the supervision of and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the evaluation, as of September 30, 2014, our CEO and CFO have concluded that our disclosure controls and procedures were effective.

*Management's Report on Internal Control over Financial Reporting*

Internal control over financial reporting refers to the process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Exchange Act Rule 13a-15(f)). In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, under the supervision of and with the participation of our management, including our CEO and CFO, we conducted an assessment using the criteria in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (COSO). Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any

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evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of September 30, 2014.

The effectiveness of our internal control over financial reporting as of September 30, 2014 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which follows.

Management's assessment of and conclusion on the effectiveness of internal controls over financial reporting did not include the internal controls of the recent acquisition of Intelligent Transport Management Solutions Limited which we acquired in November 2013 and which was included in the 2014 consolidated financial statements of Cubic Corporation and consisted of \$80.7 million and \$73.3 million of total and net assets, respectively, as of September 30, 2014 and \$43.7 million and \$1.4 million of net sales and operating loss, respectively, for the year then ended.

Table of Contents

*Changes in Internal Control over Financial Reporting*

During the fiscal year ended September 30, 2014, we developed and implemented new control procedures to address previously identified material weaknesses in our internal control over financial reporting as of September 30, 2013. The material weaknesses in our internal control over financial reporting at September 30, 2013 were (i) In our process of assessing the appropriate accounting treatment for revenue and costs for certain of our contracts with customers of one of our significant wholly owned subsidiaries, we did not maintain a sufficient number of personnel with an appropriate level of knowledge and experience or ongoing training in GAAP to challenge our application of GAAP commensurate with the number and complexity of this subsidiary's contracts to prevent or detect material misstatements in revenue or cost of sales in a timely manner. (ii) Our policies for the review and approval of revenue recognition decisions required review and analysis by personnel with an appropriate level of GAAP knowledge and experience for contracts over certain materiality thresholds. For one of our significant wholly owned subsidiaries, these thresholds were not designed to ensure that sufficient review was being performed for revenue recognition decisions for this subsidiary that could have a material impact on our financial statements.

We have implemented new control procedures regarding our accounting for revenue and costs on our contracts with the wholly owned subsidiary referred to above. The new control procedures include the development of new revenue and cost analytical tools, more extensive review and analysis of contract terms, revenue recognition models, analyses, and related reports by personnel with an appropriate level of GAAP knowledge and experience. We have hired additional resources with more extensive experience and knowledge of GAAP, and we have increased the scope and extent of ongoing training and education for personnel involved in financial processes that impact revenue and cost recognition.

After completing our testing of the design and operating effectiveness of these new procedures, we concluded that we have remediated the previously identified material weaknesses as of September 30, 2014. Except as described above, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Cubic Corporation

We have audited Cubic Corporation's internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Cubic Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Intelligent Transport Management Solutions Limited (ITMS), which is included in the 2014 consolidated financial statements of Cubic Corporation and constituted \$80.7 million and \$73.3 million of total and net assets, respectively, as of September 30, 2014 and \$43.7 million and \$1.4 million of net sales and operating loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Cubic Corporation also did not include an evaluation of the internal control over financial reporting of ITMS.

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In our opinion, Cubic Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cubic Corporation as of September 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended September 30, 2014 and our report dated November 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

November 26, 2014

Table of Contents

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Information regarding directors and executive officers and corporate governance will be included in our definitive Proxy Statement to be filed with the SEC in connection with our 2014 Annual Meeting of Shareholders (the Proxy Statement), and is incorporated herein by reference.

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, and principal accounting officer. Such code of ethics appears on our web site at: <http://www.cubic.com/corp1/invest/governance.html>.

**Item 11. EXECUTIVE COMPENSATION.**

Information regarding executive compensation will be included in the Proxy Statement, and is incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters will be included in the Proxy Statement, and is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

Information regarding certain relationships and related transactions, and director independence will be included in the Proxy Statement, and is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

Information regarding principal accounting fees and services will be included in the Proxy Statement, and is incorporated herein by reference.



Table of Contents

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of this Report:

(1) The following consolidated financial statements of Cubic Corporation, as referenced in Item 8:

Consolidated Statements of Income  
Years ended September 30, 2014, 2013 and 2012

Consolidated Statements of Comprehensive Income  
Years ended September 30, 2014, 2013 and 2012

Consolidated Balance Sheets  
September 30, 2014 and 2013

Consolidated Statements of Cash Flows  
Years ended September 30, 2014, 2013 and 2012

Consolidated Statements of Changes in Shareholders' Equity  
Years ended September 30, 2014, 2013 and 2012

Notes to Consolidated Financial Statements  
September 30, 2014

(2) The following consolidated financial statement schedules of Cubic Corporation and subsidiaries:

None are required under the applicable accounting rules and regulations of the Securities and Exchange Commission.

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(b) Exhibits:

3.1 Amended and Restated Certificate of Incorporation. Incorporated by reference to Form 10-Q for the quarter ended June 30, 2006, file No. 001-08931, Exhibit 3.1.

3.2 Amended and Restated Bylaws. Incorporated by reference to Form 8-K filed April 22, 2014, file No. 001-08931, Exhibit 3.1.

4.1 Form of Common Stock Certificate. Incorporated by reference to Form 10-K filed for the fiscal year ended September 30, 2012, file No. 001-08931, Exhibit 4.1.

4.2 Registration Rights Agreement, dated as of February 25, 2013, by and among Cubic Corporation and certain of its shareholders. Incorporated by reference to Form 8-K filed February 25, 2013, file No. 001-08931, Exhibit 4.1

10.1\* 2005 Equity Incentive Plan. Incorporated by reference to Form 10-K filed for the fiscal year ended September 30, 2005, file No. 001-08931, Exhibit 10.1.

10.2\* Form of Time-Based Vesting Restricted Stock Unit Award Grant Notice and Award Agreement under the Cubic Corporation 2005 Equity Incentive Plan. Incorporated by reference to Form 10-Q for the quarter ended December 31, 2013, file No. 001-08931, Exhibit 10.1.

10.3\* Form of Performance-Based Vesting Restricted Stock Unit Award Grant Notice and Award Agreement under the Cubic Corporation 2005 Equity Incentive Plan. Incorporated by reference to Form 10-Q for the quarter ended December 31, 2013, file No. 001-08931, Exhibit 10.2.

10.4\* Form of Non-Employee Director Restricted Stock Unit Award Grant Notice and Award Agreement under the Cubic Corporation 2005 Equity Incentive Plan. Incorporated by reference to Form 10-Q for the quarter ended December 31, 2013, file No. 001-08931, Exhibit 10.3.

10.5\* Amended Transition Protection Plan attached hereto as Exhibit 10.2.

10.6 Second Amended and Restated Credit Agreement dated May 8, 2012. Incorporated by reference to Form 10-Q for the quarter ended June 30, 2012, file No. 001-08931, Exhibit 10.3.

10.7 Credit Agreement dated January 12, 2012. Incorporated by reference to Form 10-Q for the quarter ended March 31, 2012, file No. 001-08931, Exhibit 10.6.

10.8\* Amended and Restated Deferred Compensation Plan dated January 1, 2013. Incorporated by reference to Form 10-Q for the quarter ended December 31, 2012, file No. 001-08931, Exhibit 10.1.

10.9 Note Purchase and Private Shelf Agreement (including the forms of the notes issued thereunder), dated as of March 12, 2013, by and among Cubic Corporation, the Guarantors (as defined therein), Prudential Investment Management, Inc. and the other purchasers party thereto. Incorporated by reference to Form 8-K filed March 14, 2013, file No. 001-08931, Exhibit 10.1.

10.11\* Indemnity Agreement. Incorporated by reference to Form 8-K filed May 3, 2010, file No. 001-08931, Exhibit 10.1.

21.1 List of Subsidiaries.

23.1 Consent of Independent Registered Public Accounting Firm.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

101 Financial statements from the Cubic Corporation Annual Report on Form 10-K for the year ended September 30, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statement of Changes in Shareholders' Equity, and (vi) notes to Consolidated Financial Statements.

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\* Indicates management contract or compensatory plan or arrangement

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

(Registrant) CUBIC CORPORATION

11/24/14 /s/ Bradley H. Feldmann  
Date BRADLEY H. FELDMANN,  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

11/24/14 /s/ Bradley H. Feldmann  
Date BRADLEY H. FELDMANN,  
President and  
Chief Executive Officer, Director  
(Principal Executive Officer)

11/24/14 /s/ Walter C. Zable  
Date WALTER C. ZABLE,  
Executive Chairman of the Board of  
Directors

11/24/14 /s/ John D. Thomas  
Date JOHN D. THOMAS,  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

11/24/14 /s/ Mark A. Harrison  
Date MARK A. HARRISON,  
Senior Vice President and Corporate  
Controller  
(Principal Accounting Officer)

11/24/14 /s/ Bruce G. Blakley  
Date BRUCE G. BLAKLEY,  
Director

11/24/14 /s/ William W. Boyle  
Date WILLIAM W. BOYLE,  
Director

11/24/14 /s/ Edwin A. Guiles  
Date EDWIN A. GUILLES,  
Director

11/24/14 /s/ Steven J. Norris  
Date STEVEN J. NORRIS,  
Director

11/24/14 /s/ Robert S. Sullivan  
Date ROBERT S. SULLIVAN,  
Director

11/24/14 /s/ John H. Warner  
Date JOHN H. WARNER,  
Director