

CUBIC CORP /DE/  
Form 10-K/A  
May 12, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K/A**

Amendment No. 1

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

For the Fiscal Year Ended September 30, 2013

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.

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

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 16,839,117 shares of common stock held by non-affiliates of the registrant was: \$717,683,187 as of March 31, 2013, 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 April 28, 2014 including shares held by affiliates is: 26,788,525 (after deducting 8,945,300 shares held as treasury stock).

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's definitive Proxy Statement filed with the Securities and Exchange Commission on January 9, 2014 pursuant to Regulation 14A in connection with its 2013 Annual Meeting of Shareholders are incorporated by reference into Part III.

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**CUBIC CORPORATION**

ANNUAL REPORT ON FORM 10-K/A

For the Year Ended September 30, 2013

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**EXPLANATORY NOTE REGARDING RESTATEMENT**

On February 10, 2014, the Audit and Compliance Committee of the Board of Directors of Cubic Corporation ( Company, we, or us ), after consultation with Ernst & Young LLP, our independent registered public accounting firm, determined that our financial statements for the fiscal years ended September 30, 2013 and 2012, and each of the quarters of 2013 and 2012 can no longer be relied upon as being in compliance with U.S. generally accepted accounting principles (GAAP), and that we would restate such financial statements to make the necessary accounting corrections.

This Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the year ended September 30, 2013 is being filed to restate our previously filed consolidated financial statements and data (and related disclosures) for the fiscal years ended September 30, 2013 and 2012, and each of the quarters of 2013 and 2012, and includes certain immaterial corrections to our previously filed consolidated financial statements and data (and related disclosures) for periods prior to the fiscal year ended September 30, 2012.

Accordingly, this Form 10-K/A includes changes to (1) our consolidated balance sheets as of September 30, 2013 and 2012 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the fiscal years ended September 30, 2013, 2012 and 2011; (2) our selected financial data as of, and for our fiscal years ended, September 30, 2013, 2012, 2011, 2010 and 2009, in Item 6 of this Form 10-K/A; (3) our management's discussion and analysis of financial condition and results of operations as of and for our fiscal years ended September 30, 2013, 2012 and 2011, in Item 7 of this Form 10-K/A; (4) our unaudited quarterly financial information for each quarter in our fiscal years ended September 30, 2013 and 2012 in Note 18 Summary of Quarterly Results of Operations (Unaudited) of the Notes to Consolidated Financial Statements, in Item 8 of this Form 10-K/A; (5) our Risk Factors, in item 1A of this Form 10-K/A; and (6) our disclosures and conclusions regarding Controls and Procedures in Item 9A in this Form 10-K/A. The restatement resulted from our identification of certain errors in our recognition of revenue at a wholly owned subsidiary. See below and Note 2, Restatement of Consolidated Financial Statements of the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K/A for a detailed discussion of the errors and effect of the restatement.

This Form 10-K/A amends and restates in its entirety our Annual Report on Form 10-K for the year ended September 30, 2013. We are filing this Form 10-K/A concurrently with our Quarterly Report on Form 10-Q for the quarter ended December 31, 2013, which was delayed due to the restatement, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014. Financial information included in the reports on Form 10-K, Form 10-Q and Form 8-K filed by us for the fiscal years ended September 30, 2013 and 2012, and each of the quarters of 2013 and 2012, and all earnings press releases and similar communications issued by us for such periods, should not be relied upon and are superseded in their entirety by this Form 10-K/A.

The following tables present the summary impacts of the restatement adjustments on our previously reported consolidated retained earnings at September 30, 2010 and consolidated sales, operating income, net income and earnings per share for the years ended September 30, 2013, 2012 and 2011 (in thousands, except per share data):

Retained earnings at September 30, 2010 - As previously reported	\$	553,452
Adjustments		(1,687)
Retained earnings at September 30, 2010 - As restated	\$	551,765



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September 30,	2013	2012	2011
Sales (previously reported)	\$ 1,360,723	\$ 1,381,495	\$ 1,295,581
Adjustments	684	22,589	6,003
Sales (as restated)	\$ 1,361,407	\$ 1,404,084	\$ 1,301,584
Operating income (previously reported)	\$ 36,392	\$ 128,022	\$ 113,508
Adjustments	4,343	8,183	5,075
Operating income (as restated)	\$ 40,735	\$ 136,205	\$ 118,583
Net income (previously reported)	\$ 19,798	\$ 91,900	\$ 83,594
Adjustments	5,288	5,527	2,450
Net income (as restated)	\$ 25,086	\$ 97,427	\$ 86,044
Earnings per share (previously reported)	\$ 0.74	\$ 3.44	\$ 3.13
Adjustments	0.20	0.20	0.09
Earnings per share (as restated)	\$ 0.94	\$ 3.64	\$ 3.22

*Correction of Identified Errors*

On February 20, 2014, we announced that we would be restating certain previously issued audited consolidated financial statements and unaudited condensed consolidated financial statements primarily to correct two errors in the recognition of revenue.

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

In addition to the errors described above, we also made adjustments related to other individually immaterial errors including certain corrections that had been previously identified but not recorded because they were not material, individually or in the aggregate, to the Company's consolidated financial statements. These corrections included: certain accrued liabilities and reserves and miscellaneous reclassification entries; adjustments to various income tax and indirect tax accrual accounts; and adjustments to sales and cost of sales to correct cutoff on immaterial revenue recognition transactions. While none of these other adjustments were individually material, they are being made as part of the restatement process.

For more information regarding the restatement, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations, in Item 7 of this Form 10-K/A and Note 2, Restatement of Consolidated Financial Statements, and Note 18, Summary of Quarterly Results of Operations (Unaudited), of the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K/A.

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In connection with the restatement, management has assessed the effectiveness of our disclosure controls and procedures and has included revised disclosure in Item 9A of this Form 10-K/A, Controls and Procedures. Management identified material weaknesses in our internal control over financial reporting with respect to the identified revenue recognition errors related to one of our wholly owned subsidiaries as described under Management's Report on Internal Control over Financial Reporting in Item 9A of this Form 10-K/A. Solely as a result of these material weaknesses, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of September 30, 2013. Management has taken and is taking steps, as described under Management's Remediation Initiatives in Item 9A of this Form 10-K/A, to remediate the material weaknesses in our internal control over financial reporting. We believe that, as a result of management's in-depth review of its accounting processes, and the additional procedures management has implemented, there are no material inaccuracies or omissions of material fact in this Form 10-K/A and, to the best of our knowledge, we believe that the consolidated financial statements in this Form 10-K/A fairly present in all material aspects the financial condition, results of operations and cash flows of the Company in conformity with GAAP.



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Item 15 of this Form 10-K/A has been amended to contain the currently-dated certifications from our principal executive officer and principal financial officer, as required by Section 302 and 906 of the Sarbanes-Oxley Act of 2002. Ernst & Young LLP has dual dated its reports on the consolidated financial statements and internal control over financial reporting to the board of directors and stockholders with regard to the effects on the consolidated financial statements of the restatement as described in Note 2 of the consolidated financial statements and the material weaknesses described previously and updated their consent to the date of this filing.

**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 39% of our sales in fiscal year 2013. CTS specializes in the design, development, production, installation, maintenance and operation of automated fare payment and revenue management infrastructure and technologies for transit operators. 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 transit 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 61% of our sales in fiscal year 2013. MSS is a provider of live, virtual and constructive training services to all four branches of the U.S. military, including the special operations communities, 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, Communications datalinks, Cyber products, and Asset Tracking systems.

We have a broad customer base across our businesses, with approximately 61% of our fiscal year 2013 sales generated from the U.S. federal, state and local governments. Approximately 5% 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 the fiscal year 2013 sales were attributable to sales to foreign government agencies. In fiscal year 2013, 59% of our total sales were derived from services, with product sales accounting for the remaining 41%. Headquartered in San Diego, California, we had approximately 8,200 employees working on 5 continents and in 26 countries as of

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September 30, 2013.

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/A. 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).

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**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 17 to the Consolidated Financial Statements for the year ended September 30, 2013. 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/A.

**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 all in real time. We offer fare collection 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, 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 international government road transport agencies.

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 several central systems which in total process approximately 23 billion fare-related transactions per, 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 2013 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 integrate over 130 transport operators and 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 public transit systems, such as London (Oyster®), the San Francisco Bay Area (Clipper®) and the Los Angeles region (TAP®). In addition, the segment has 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. NextCity comprises a fully integrated solution offering innovative fare payment 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

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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, bus 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>
• Point-of-sale	• Multimodal payment and revenue management	• Central system and application support
• Farebox	• Bus	• Systems operation and maintenance
• Driver control units	• Bus Rapid Transit	• Field asset management services
• Gates	• Rail	• Passenger call centers
• Validators	• Light rail	• Card and payment media management
• Vendor	• Commuter rail	• Communications infrastructure management
• Back office encoders	• Heavy Rail	
• Depot computers	• Subway	• Financial clearing and settlement services
• ITS equipment	• Ferries	• Retail network management
	• Regional	• Web support services
	• Smart card-based	• Technology maintenance services for international government road transport agencies
	• 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	

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**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 \$3 billion annually. We project the long-term growth for this market to be driven primarily by 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 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 \$3 billion to approximately \$10 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 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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**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, 2013 and 2012 amounted to \$1.526 billion and \$1.656 billion, respectively. We expect that approximately \$523 million of the September 30, 2013 backlog will be converted into sales by September 30, 2014.

**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, 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 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 fare collection and computer services 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.

**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 approximately 19 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

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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. During the past year we have experienced a number of challenges in our markets, including increased price competition, contract awards for shorter performance periods, and see 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.



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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 Coalition Warfare Center (JCWC), 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 and instructional support services for the Chief of Naval Aviation Training 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 supported the Defense Threat Reduction Agency (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. Additionally, we provide comprehensive support to help plan, manage and execute DTRA's worldwide consequence management exercise program, which trains senior U.S. and allied civilian and military personnel, first responders and other users of DTRA products.

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.

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, 2013 was \$221 million compared to \$248 million at September 30, 2012. Total backlog, including unfunded customer orders and options under multiyear service contracts, was \$627 million at September 30, 2013 compared to \$737 million at September 30, 2012. We expect that approximately \$298 million of the September 30, 2013 total backlog will be converted into sales by September 30, 2014.

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**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 more than 35 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. These training systems 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 SATCOM and 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.

*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 fiscal year 2013, Cubic was awarded an \$18 million Low Rate Initial Production contract to extend this capability into an internal version of the P5 system for use on the F-35 Joint Strike Fighter (JSF). The F-35 JSF ACMI project is progressing towards full rate production in concert with the aircraft program. 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 (CMTC) 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 were awarded follow-on orders to our MILES Programs of Record within the US Army and US Marine Corps, receiving a \$16 million award for infantry-based MILES and a \$14 million award for combat vehicle MILES for the US Army, as well as a \$29 million award under the Marines ITESS II program. We also received several large orders in the Asia Pacific region, including a \$77 million contract to continue Operations & Maintenance support to an existing international customer on their training ranges. 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. While our main product suite in this area is the Engagement Skills Trainer for small arms training, Cubic also provides 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.

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*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.

*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 shipborne applications, unmanned aerial vehicles (UAV), remote video terminals and hand-held products. Capitalizing on a multi-year internal research and development (R&D) program, we won a competitive contract in fiscal year 2003 to develop and produce the Common Data Link Subsystem (CDLS) for the U.S. Navy, and won a follow-on order in fiscal year 2013 to continue our work on that program. 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. In fiscal year 2013, Cubic was awarded multiple orders to provide production units and spares for the MQ-8 program.

*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.

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*Asset Tracking*

In May 2010 Cubic acquired the assets of Impeva Labs and formed a new subsidiary called Cubic Global Tracking Solutions, Inc. (CGTS). CGTS global tracking technology is deployed with the DoD for tracking and monitoring DoD supply chain assets. The products employ satellite, GSM mobile communications and encrypted mesh network technologies. The company offers a Device Management Center that provides continuous, reliable, real-time monitoring and event notification without fixed infrastructure. CGTS was consolidated with the SC business unit at the beginning of fiscal year 2013.

**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, 2013 was \$494 million compared to \$417 million at September 30, 2012. We expect that approximately \$198 million of the September 30, 2013 backlog will be converted into sales by September 30, 2014.

**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 and Engility as well as other smaller companies. In many cases, we have also teamed with these same companies, in both prime and subcontractor roles, on specific bid opportunities. While we are generally smaller than our principle competitors, we believe our competitive advantages include an outstanding record of past performance, strong incumbent relationships, the ability to control operating costs and the ability to 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 2013. 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. 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. 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/A.

We are also well-positioned in large, relatively stable markets. According to Visiongain's 2013 report, the global military simulation and training market is expected to reach \$16 billion annually by 2023, growing at a 5.6% compound annual growth rate over the next ten years, with the U.S. market comprising approximately \$5.8 billion in 2013. 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.

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; secure and encrypted communications and asset tracking and location services. We believe that these technologies will continue to experience strong demand as the U.S. military maintains a smaller, more agile force structure



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**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 authorities 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 Warfighting Center (JWFC), now Joint Coalition Warfare Center (JCWC)	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.

### **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 \$24.4 million, \$28.7 million, and \$25.3 million in 2013, 2012 and 2011, 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 \$68.3 million in 2013 compared to \$81.2 million in 2012 and \$72.4 million in 2011; however, these costs are included in cost of sales as they are directly related to contract performance. In fiscal year 2013, we spent 1.8% 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.

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**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 Abraxas and NEK, we have expanded our reach within the military and national intelligence communities through the addition of intelligence, special operations, law enforcement and homeland security expertise.

**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 59% of our sales in fiscal year 2013, 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. 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 an overflow service center of patron call support and help desk for both the East and West Coasts of the U.S. We deliver a number of customer services from key service facilities for multiple transportation authorities worldwide.

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.

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 74% of the CTS segment's fiscal year 2013 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 working on providing new ticketing applications using cell phone technologies.

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CDS has delivered systems in more than 35 allied nations. In fiscal year 2013, approximately 41% of CDS sales were to allied foreign governments, including projects funded by the U.S. government pursuant to Foreign Military Sales and Foreign Military Financing arrangements. During fiscal year 2013, we 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 2013, approximately 17% of MSS sales were to international customers, 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.

**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. This is not necessarily a consistent pattern as it depends upon actual activities in any given year.

We employed approximately 8,200 persons at September 30, 2013.

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

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**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.*

As discussed in Note 2 to our consolidated financial statements included in Item 8 of this Form 10-K/A, we have 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.

As a result of these events, we have become subject to a number of additional risks and uncertainties, including substantial unanticipated costs for accounting and legal fees in connection with or related to the restatement and potential shareholder litigation. If litigation did occur, we may incur additional substantial defense costs regardless of the outcome of such litigation. Likewise, such events might cause a diversion of our management's time and attention. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs. In addition, 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.

*We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in additional material misstatements in our financial statements.*

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. As disclosed in Item 9A of this Form 10-K/A, management identified material weaknesses in our internal control over financial reporting based upon our identification of certain errors in our recognition of revenue at a wholly owned subsidiary. A material weakness is defined as a deficiency, or 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 a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - An Integrated Framework. We are actively engaged in developing a remediation plan designed to address these material weaknesses. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results, which could lead to substantial additional costs for accounting and legal fees and shareholder litigation.

*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. As part of this process, we are required to document and test our internal control over financial reporting; our management is required to assess and issue a report concerning our internal control over financial reporting; and our independent registered public accounting firm is required to attest to and report on the effectiveness of our internal control over financial reporting. Management's assessment of our internal control over financial reporting as of September 30, 2012, identified material weaknesses in our internal control over financial reporting related to accounting for revenue on certain types of contracts. A material weakness is defined as a deficiency, or 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. We previously concluded that we had remediated such material weaknesses as of September 30, 2013. However, as described in Controls and Procedures Management's Report on Internal Control Over Financial Reporting in Item 9A of this Form 10-K/A, management has identified additional material weaknesses in our internal control over financial reporting related to accounting for revenue on certain contracts for one of our wholly-owned subsidiaries. We are in the process of adding resources and have begun developing and implementing new processes and procedures to remediate the material weaknesses that existed in our internal control over financial reporting as of September 30, 2013. We will need to monitor and evaluate these procedures to ensure that they are 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 negative impacts on the trading price of our common stock.



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*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 2013. 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;
- 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 re-compete 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 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.

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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.

In 2013, 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. 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/A.

***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;
- control and potentially prohibit the export of our products;

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- 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. 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/A.

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

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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;
- the reduction of margins achievable under any contracts awarded to us;

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- 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, such as our contract with Transport for London, which will be required to be re-competed in 2015, could have a materially adverse impact on our results of operations.

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.



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***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;

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- 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 75% of our revenues in fiscal year 2013 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, 2013, our total backlog was \$2,646.6 million. 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.

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*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.

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***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.



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***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, 2013, there were no borrowings under the agreement; however, there were letters of credit outstanding under the agreement totaling \$23.5 million, which reduced the available line of credit to \$176.5 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, 2013, there were letters of credit outstanding under this agreement of \$54.4 million. In support of this facility, we placed \$68.9 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 agreed to issue and sell \$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. Notes with an aggregate principal amount of \$50.0 million were issued on March 12, 2013 and the remaining aggregate principal amount of \$50.0 million were issued on April 23, 2013. In addition, pursuant to the agreement, we may from time to time issue and sell, and the purchasers may in their sole discretion purchase, within the next three years, additional senior notes in aggregate principal amount of up to \$25.0 million that will have terms, including interest rate, as we and the purchasers may agree upon at the time of issuance. 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, 2013 this agreement does not restrict such distributions to shareholders.

*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.

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***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 procurement 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.***

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 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.

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***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 December 2012, we acquired the operating assets of NEK Special Programs Group, LLC, a special operation forces training business, including more than 200 operational and technical experts and in January 2013, we acquired Nextbus, Inc., a business that provides real-time passenger information systems and services to transit agencies. 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:

- 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.

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***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 revenues. For example, see Legal proceedings in Item 3 of this Form 10-K/A 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.*

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/A.



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**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.

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:

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- 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 April 28, 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:

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- 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 2013, 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.

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Such risks, estimates, assumptions and uncertainties include, among others: unanticipated issues related to the restatement of our financial statements; our ability to develop and implement new processes and procedures to remediate the material weaknesses that exist 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 58% of the square footage, including 503,000 square feet located in San Diego, California and 467,000 square feet located in Orlando, Florida. All owned and leased properties are considered in good condition and, with the exception of the Orlando facility, adequately utilized. The following table identifies significant properties by business segment:

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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
Brisbane, Australia	Leased
Chantilly, VA	Leased
Chicago, IL	Leased
Concord, CA	Leased
Emeryville, CA	Leased
Frankfurt, Germany	Leased
Greenford, London, England	Leased
Hamburg, Germany	Leased
Hyderabad, India	Leased
Inglewood, Australia	Leased
Kingswood, Australia	Leased
London, England	Leased
Malmö, Sweden	Leased
Mascot, Australia	Leased
Merthsham, Surrey, England	Leased
New York, NY	Leased
Norwalk, CA	Leased
Oakland, CA	Leased
Ontario, Canada	Leased
Perth, Australia	Leased
Salfords, Surrey, England	Owned
San Diego, CA	Leased and Owned
San Francisco, CA	Leased
Sydney, Australia	Leased
Tullahoma, TN	Leased and Owned
Vancouver, BC	Leased
Wollongong, Australia	Leased
<b>Mission Support Services:</b>	
Annapolis, MD	Leased
Colorado Springs, CO	Leased
Columbus, GA	Owned
El Paso, TX	Leased
Fayetteville, NC	Leased
Hampton, VA	Leased
Herndon, VA	Leased
Honolulu, HI	Leased
Kingstowne, VA	Leased
Leavenworth, KS	Leased
Olympia, WA	Leased
Orlando, FL	Leased
Prince George, VA	Leased
San Diego, CA	Leased
Shalimar, FL	Leased
Tampa, FL	Leased

**Defense Systems:**

Abu Dhabi UAE	Leased
Aitkenvale, Australia	Leased
Arlington, VA	Leased
Auckland, New Zealand	Leased
Canberra, Australia	Leased
Heisingor, Denmark	Leased
Herndon, VA	Leased
Mexico City, Mexico	Leased
Orlando, FL	Owned
Panama City, FL	Leased
San Diego, CA	Owned
Santa Clara, CA	Leased
Singapore, Asia	Leased
St. Petersburg, FL	Leased
Tijuana, Mexico	Leased
Vienna, VA	Leased
Yerven, Armenia	Leased



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**Item 3. LEGAL PROCEEDINGS.**

In November 2011, we received a claim from a public transit authority customer which alleges 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 claim currently seeks recoupment from us of a total amount of \$3.9 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 the quarter ended March 31, 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. We have not recorded expense for any amount in excess of the \$2.9 million through September 30, 2013 as no other amount of loss is deemed probable. Insurance may cover all, or a portion, of any losses we could ultimately incur for this matter. However, any potential insurance proceeds will not be recognized in the financial statements until receipt of any such proceeds is probable.

In October and December of 2013, and January of 2014, lawsuits were filed 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. Due to the preliminary nature of this case, 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. 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. Our Motion to Dismiss was granted on April 30, 2014 and the plaintiff has until May 27, 2014 to file an Amended Complaint. 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.

**Item 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

Table of Contents**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 2013		Fiscal 2012		Fiscal 2013	Fiscal 2012
	High	Low	High	Low		
First	\$ 50.67	\$ 46.25	\$ 48.25	\$ 37.16		
Second	48.40	41.74	51.05	42.85	\$ 0.12	\$ 0.12
Third	49.52	40.90	48.22	42.23		
Fourth	54.16	48.14	52.03	47.92	\$ 0.12	\$ 0.12

On April 28, 2014, the closing price of our common stock on the New York Stock Exchange was \$47.47. There were 695 shareholders of record of our common stock as of April 28, 2014.

**Item 6. SELECTED FINANCIAL DATA.**

## FINANCIAL HIGHLIGHTS AND SUMMARY OF CONSOLIDATED OPERATIONS

(amounts in thousands, except per share data)

The following selected statement of income data for the years ended September 30, 2013, 2012 and 2011 and balance sheet data as of September 30, 2013 and 2012 are derived from our consolidated financial statements appearing elsewhere in this Form 10-K/A. The following selected statement of income data for the years ended September 30, 2010 and 2009 and balance sheet data as of September 30, 2011, 2010 and 2009 are derived from our financial statements not appearing elsewhere in this Form 10-K/A. The following selected financial data have been restated to reflect adjustments that are further discussed in Note 2 to the consolidated financial statements included in Item 8 of this Form 10-K/A. These tables should be read in conjunction with Items 7 and 8 of this Form 10-K/A.



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	Years Ended September 30,				
	2013	2012	2011	2010	2009
	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)
<b>Results of Operations:</b>					
Sales	\$ 1,361,407	\$ 1,404,084	\$ 1,301,584	\$ 1,200,623	\$ 1,026,525
Cost of sales	1,055,313	1,060,140	983,269	943,189	795,385
Selling, general and administrative expenses	165,230	164,189	159,791	124,306	119,108
Interest expense	3,427	1,602	1,541	1,760	2,082
Income taxes	14,502	40,332	34,119	38,106	33,573
Net income attributable to Cubic (1)	25,086	97,427	86,044	72,667	64,097
<b>Per Share Data:</b>					
Net income per share, basic	\$ 0.94	\$ 3.64	\$ 3.22	\$ 2.72	\$ 2.40
Net income per share, diluted	0.94	3.64	3.22	2.72	2.40
Cash dividends	0.24	0.24	0.28	0.18	0.18
<b>Shares used in calculating net income per share:</b>					
Basic	26,736	26,736	26,736	26,735	26,731
Diluted	26,760	26,736	26,736	26,735	26,731
<b>Year-End Data:</b>					
Shareholders' equity related to Cubic	\$ 716,946	\$ 677,171	\$ 580,627	\$ 512,305	\$ 446,472
Equity per share, basic	26.82	25.33	21.72	19.16	16.70
Total assets	1,108,375	1,014,550	963,650	868,608	760,642
Long-term debt	102,920	11,503	15,918	20,494	25,124

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

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

**Restatement**

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to certain adjustments made to the previously reported consolidated financial statements for the years ended September 30, 2013, 2012 and 2011 (including interim periods therein) in connection with the restatement of our previously filed consolidated financial statements and data (and related disclosures) for the fiscal years ended September 30, 2013 and 2012, and each of the prior quarters of 2013 and 2012. For this reason the data set forth in this section may not be comparable to discussions and data in our previously filed Annual and Quarterly Reports.

The restatement results from our review of revenue recognition practices. See Explanatory Note Regarding Restatement immediately preceding Item 1 of this Form 10-K/A and Note 2, Restatement of Consolidated Financial Statements of the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K/A for a detailed discussion of the review and effect of the restatement.

**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, 2013, 39% of sales were derived from transportation systems and related services, while 61% were derived from defense systems and services. The U.S. government remains our largest customer, accounting for approximately 51% of sales in 2013, 50% of sales in 2012, and 56% of sales in 2011. In fiscal year 2013, 59% of our total sales were derived from services, with product sales accounting for the remaining 41%.

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 2013. International sales from Cubic Transportation Systems (CTS) amounted to 74% of total CTS sales for fiscal year 2013. International sales from Mission Support Services (MSS) comprised 17% of total MSS sales for fiscal year 2013. International sales from Cubic Defense System (CDS) amounted to 41% of total CDS sales for fiscal year 2013. 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.

We expect sales from domestic CTS contracts to increase as a percentage of total CTS sales in 2014, as we begin to realize revenues from a major contract with the Chicago Transit Authority. However, we expect international sales from CDS to increase in future periods due to the number of international opportunities we are currently pursuing.

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 \$24.4 million in 2013.

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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 Abraxas Corporation (Abraxas) in December 2010, certain assets of NEK Special Programs Group, LLC (which were placed in NEK Services, Inc.) (NEK) in December 2012 and NextBus, Inc. in January 2013. 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 addition, our defense business has an immaterial amount of exposure to overseas contingency operations.

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 are designing and manufacturing a new fare collection system for the Chicago Transit Authority and will receive monthly payments for the system over an approximate ten-year period expected to begin in the third quarter of fiscal 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 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 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.

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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 2013, revenues from services provided by CTS were \$282.8 million, or 53% of CTS sales in 2013.

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 Chicago, 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 2013, as we experienced negative cash flows from all three of these 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. Gross profit margins from services sales in CTS were 37% and 34% for fiscal years 2013 and 2012, respectively, and gross profit margin from product sales was 15% and 25% in 2013 and 2012, respectively. Thus, the trend toward more services revenues has helped to generate higher profit margins from the segment in recent years than in the past. 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 2013 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.

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 our contract for the new fare collection system for the Chicago Transit Authority, the contract specifies that we will not be paid until we enter 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, 2013, we had capitalized \$69.0 million 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 amortized into 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.

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In January 2013, we announced the acquisition of NextBus as well as certain contracts from its parent company, Webtech Wireless. The purchase consideration was approximately \$20.2 million. NextBus provides real-time passenger information systems using a software-as-a-service solution. The NextBus acquisition is part our NextCity vision and it expands CTS potential market beyond fare collection to information-based solutions.

For fiscal year 2013, NextBus had \$7.8 million of revenue and was slightly dilutive to our earnings per share, after consideration of costs for transaction integration, retention and the amortization of purchased intangibles.

On November 26, 2013 we acquired all of the outstanding capital stock of Intelligent Transport Management Solutions Limited (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 approximately \$70 million.

*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 more than 200,000 exercises and training events per year. 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 11% in 2013 and 2012 compared to 13% in 2011. 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, 88% of our revenues in fiscal year 2013 were as a prime contractor.

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 Lee, Virginia, 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 acquisition of Abraxas in fiscal year 2011, and NEK in December 2012, adds to the segment's specialized skills and further diversifies 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, and we expect NEK to provide a platform to expand MSS work both in the U.S. and to key foreign allies. We acquired select assets of NEK for approximately \$52.6 million in total consideration. As part of the acquisition, we hired more than 200 employees with substantial experience in the Special Forces community.

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For fiscal year 2013, NEK was slightly dilutive to our earnings per share after consideration of costs for transaction integration, retention, and the amortization of purchased intangibles. In fiscal year 2014, we anticipate that this acquisition should be accretive, and that NEK should contribute \$45.0 million to \$50.0 million in sales.

Cost reimbursable and time and materials contracts accounted for 59% of our sales in MSS for fiscal year 2013, 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 more than 35 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 \$148.5 million, or 41% of sales, in 2013 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 acquisitions made in 2010, and our additional investment in product development, we now supply asset visibility solutions for military and commercial supply chain logistics. This includes container tracking, yard management and shipment monitoring. In 2010, we also acquired cyber products that include a range of certified and accredited cross-domain transfer appliances that ensure secure and appropriate access to data and services from unclassified to top secret for defense, intelligence and homeland security customers. We have delivered training and simulation offerings to seven nations in the Asia-Pacific region and have positioned ourselves for certain anticipated contracts with the Australian Defense Forces. Through business acquisitions we made in 2013 we now 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 2013. 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.

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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.

Gross profit margins from CDS were higher in 2012 and 2011 than in previous periods primarily due to favorable profit margins from certain foreign contracts. The gross profit margin in fiscal 2013 was 32%, compared to 35% in 2012 and 33% in 2011. 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. We expect the gross profit margin to average 30% to 32% in the next several years. 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.

In January 2013, we were notified that we had been selected as a single source awardee on three ID/IQ contracts aggregating \$298.5 million from the U.S. Navy. We expect the period of performance to be over five years for these contracts, which involve developing virtual training related technology and curriculum for the U.S. Navy littoral combat ships.

**Comparison of fiscal years ended September 30, 2013 and 2012 and September 30, 2012 and 2011**

**Operating overview**

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. 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.

Sales increased 8% in fiscal 2012 over 2011, primarily due to sales growth of 21% and 3% in CTS and MSS, respectively, while CDS sales were essentially flat. Sales increased to \$1.404 billion in 2012, compared to \$1.302 billion in 2011, with all of the growth coming from existing businesses. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$1.6 million in 2012 from 2011. See the segment discussions below for further information about segment sales.

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 in the fourth quarter of 2013 due to lower training activity and continued pressure on bid prices. MSS bid rates have recently been 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 for 2013.

Operating income increased 15% to \$136.2 million in 2012 compared to \$118.6 million in 2011. CTS and CDS each contributed to the growth in operating income in 2012, while MSS operating income was down in 2012 from 2011. Growth in CTS sales was the primary reason for the increase in operating income, while CDS operating income grew primarily due to a decrease in our investment in cross domain and global asset tracking products in 2012 compared to 2011. The current competitive environment in the government services industry is driving MSS profit margins lower than in recent years, resulting in lower operating income. Operating results for MSS include an operating loss from Abraxas of \$1.3 million in 2012, including amortization of intangible assets of \$9.3 million, compared to a loss of \$3.5 million in 2011, which included amortization of intangible assets of \$8.2 million and acquisition costs of \$0.7 million. 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 \$0.7 million for 2012. See the segment discussions below for further information about segment operating income.

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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. Net income attributable to Cubic increased to \$97.4 million (\$3.64 per share) in 2012 from \$86.0 million (\$3.22 per share) in 2011. Higher net income year-over-year resulted primarily from the improvements in operating income, as described above.

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 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.

The gross margin from product sales was 31% in 2012, compared to 30% in 2011. Improved performance from our transportation systems business in 2012 in addition to the favorable change in estimate on the CDA training system contract described above primarily accounted for the increase. The gross margin from service sales was 18% in 2012 compared to 19% in 2011. Competitive pressures in the defense services business in 2012 contributed to the decrease in gross margin from 2011.

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. SG&A expenses increased to \$164.2 million or 12% of sales in 2012, compared to \$159.8 million or 12% of sales in 2011. The increase in SG&A expenses in 2012 reflects the overall growth of the business.

Company-sponsored R&D spending, related primarily to new transportation and defense technologies we are developing, 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. Company-sponsored R&D spending totaled \$28.7 million in 2012 compared to \$25.3 million in 2011. The increase in R&D expenditures in 2012 came from the transportation systems business, which increased R&D spending from \$4.0 million in 2011 to \$8.3 million in 2012. A significant portion of our product development spending is incurred in connection with the performance of work on our contracts. The amount of contract-required engineering and development activity in 2013 was approximately \$68.3 million compared to \$81.2 million in 2012 and \$72.2 million in 2011; 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 \$16.7 million in 2013 compared to \$14.8 million in 2012 and \$14.7 million in 2011. The increase in 2013 over 2012 and 2011 was primarily due to our acquisitions of NEK and NextBus in 2013.

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Interest and dividend income was \$1.6 million in 2013 compared to \$3.0 million in 2012 and \$2.6 million in 2011. 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.

Other income (expense) netted to income of \$0.9 million in 2013 compared to \$0.4 million in 2012 and \$0.9 million in 2011. 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. Interest expense was \$3.4 million in 2013 compared to \$1.6 million in 2012 and \$1.5 million in 2011. The increase in interest expense in 2013 was due to an increase in our long-term borrowings.

Our effective tax rate for fiscal 2013 was 36% compared to 29% in fiscal 2012 and 28% in fiscal 2011. The increase in the effective tax rate between 2013 and 2012 reflects the unfavorable impact related to the goodwill impairment loss, because a large portion of our goodwill is not deductible for tax purposes and an increase in the valuation allowance against deferred tax assets, as described below. The American Taxpayer Relief Act of 2012 was enacted into law during fiscal year 2013 and reinstated the U.S. R&D tax credit retroactively from January 1, 2012 through December 31, 2013. The effective tax rate for fiscal 2013 reflects a benefit of \$1.9 million related to fiscal 2012 resulting from the retroactive extension of the U.S. R&D tax credit. The annual effective tax rate for fiscal 2012 only reflected the U.S. R&D credit generated through December 31, 2011, the date on which the credit expired.

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As of September 30, 2013, we evaluated our net deferred income tax assets, including an assessment of the cumulative income or loss over the prior three-year and future periods by each jurisdiction, to determine if a valuation allowance is required. With respect to Australia, a significant negative factor in our assessment at September 30, 2013 was the determination that our Australian operations had a three-year historical cumulative loss as of the end of the year. After considering our recent history of losses and future sources of taxable income in the near-term, we recorded a valuation allowance on our net deferred tax assets related to Australia, with a corresponding charge to our income tax provision, of approximately \$4.0 million in the quarter ended September 30, 2013. We will continue to assess the need for a valuation allowance on deferred tax assets by evaluating both positive and negative evidence that may exist.

Our effective tax rate increased in 2012 over 2011, primarily because of the expiration of the U.S. R&D tax credit on December 31, 2011 and additional tax of \$2.8 million related to the repatriation of foreign earnings. In addition, fiscal 2012 reflected a benefit of \$2.5 million due to the reversal of uncertain tax positions relating to statute expirations and settlements with tax authorities compared to \$1.2 million in fiscal 2011. In addition, the fiscal 2011 effective tax rate reflected a tax benefit of \$1.4 million related to fiscal 2010 resulting from the retroactive extension of the U.S. R&D tax credit.

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.

Transportation Systems Segment

Years ended September 30,	2013		2012		2011	
	(As Restated)		(in millions) (As Restated)		(As Restated)	
Transportation Systems Sales	\$	529.5	\$	522.2	\$	433.1
Transportation Systems Operating Income	\$	66.8	\$	84.6	\$	72.0

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, B.C. Canada. 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 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.

CTS sales increased 21% to \$522.2 million in 2012 compared to \$433.1 million in 2011. The overall increase in sales was primarily from work on our contracts in Sydney and Vancouver. In addition, sales were somewhat higher from our contracts in the U.K. Partially offsetting these increases were lower sales from design and build projects in the U.S. that were completed in 2011. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$2.6 million for 2012 compared to 2011.

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 stems 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 relates to expected additional system software development costs. Changes in estimated costs on these two contracts decreased operating profit by approximately \$16.2 million in the fourth quarter of 2013, and decreased net income by approximately \$10.8 million (\$0.41 per share). 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 \$0.4 million for 2013 including acquisition-related costs of \$0.2 million and amortization of intangible assets of \$1.2 million. 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.

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CTS operating income improved to \$84.6 million in 2012 from \$72.0 million in 2011, an increase of 18%. Improvements in operating income resulted from higher sales in Canada and the U.K. as mentioned above. In addition, profit margins improved from a service contract in California, where we received higher revenues based on increased system usage. Lower sales in the U.S. from the contracts that were completed in 2011 partially offset the growth in operating income, in addition to cost growth of \$5.3 million on contracts in the U.S. and Europe. We also increased R&D spending in 2012 to \$8.3 million, compared to \$4.0 million in 2011, which limited growth in operating income. We are working on next generation transportation technologies that we believe will enhance our leading position in the industry. 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 \$1.0 million for 2012 compared to 2011.

Mission Support Services Segment

Years ended September 30,	2013		2012		2011	
	(As Restated)		(in millions) (As Restated)		(As Restated)	
Mission Support Services Sales	\$	468.7	\$	491.4	\$	476.5
Mission Support Services Operating Income (Loss)	\$	(36.1)	\$	21.1	\$	23.9

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. MSS sales would have decreased 11% without the acquisition of NEK. 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 and may continue to do so in the near term.

MSS sales increased 3% to \$491.4 million in 2012 compared to \$476.5 million in 2011. Sales were higher from Abraxas in 2012, both due to growth of the business and because we acquired the business during the first quarter of 2011 and thus did not realize a full year of sales that year. Sales were also higher from our contract at the Joint Readiness Training Center (JRTC) in Fort Polk, Louisiana and from our defense modernization business in Eastern Europe. The loss of training work for flight simulators, and at the U.S. Army Quartermaster Center and School, partially offset these sales increases.

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. In addition, 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.

MSS operating income decreased 12% to \$21.1 million in 2012 from \$23.9 million in 2011. The loss of the contracts mentioned above contributed to lower operating income in 2012. The operating loss from Abraxas improved to \$1.3 million in 2012, including amortization of intangible assets of \$9.3 million, compared to \$3.5 million in 2011, which included amortization of intangible assets of \$8.2 million and acquisition costs of \$0.7 million.

Amortization of purchased intangibles included in the MSS results amounted to \$12.5 million, \$12.0 million, and \$11.7 million in 2013, 2012 and 2011, respectively. The increases over the three years are due to the acquisitions of NEK in December 2012 and Abraxas in December 2010.

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Years ended September 30,	2013	2012	2011
	(As Restated)	(in millions) (As Restated)	(As Restated)
<b><u>Defense Systems Sales</u></b>			
Training systems	\$ 306.3	\$ 336.5	\$ 337.9
Secure communications	56.7	52.9	52.8
	\$ 363.0	\$ 389.4	\$ 390.7
<b><u>Defense Systems Operating Income (Loss)</u></b>			
Training systems	\$ 30.1	\$ 39.7	\$ 39.0
Secure communications	(8.1)	(4.4)	(9.2)
Restructuring costs	(7.8)		
	\$ 14.2	\$ 35.3	\$ 29.8

*Training Systems*

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 from our new LCS courseware contract was \$4.4 million in 2013. On July 1, 2013 we acquired certain assets of Advanced Interactive Systems and folded these operations into a new Defense Systems subsidiary, Cubic Range Design Solutions (CRDS). CRDS supplies live fire specialized range facilities, virtual simulation products, engineering design and project management services for counter-terrorism, law enforcement and military forces. CRDS contributed sales of \$2.0 million for 2013. 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.

Training systems sales decreased less than 1% in 2012 to \$336.5 million from \$337.9 million in 2011. The delivery of air combat training systems to a U.S. government customer in 2011 had resulted in significantly higher sales than in 2012. In addition, sales from a ground combat training system contract in the Far East were lower in 2012 than in 2011 and shipment of MILES equipment to the U.S. government decreased in 2012 compared to 2011. Partially offsetting these decreases were higher sales of our small arms training systems and higher sales from two ground combat training range contracts in Europe. 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 \$1.0 million for 2012 over 2011.

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 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.



Operating income for training systems was \$39.7 million in 2012 and \$39.0 million in 2011. Operating income in 2012 included the impact of the \$12.5 million favorable change in estimate described above. Offsetting this increase were lower operating profits on lower sales of air combat training systems, a ground combat training system in the Far East and MILES equipment. In addition, we incurred higher than previously expected costs in developing an instrumented training system for the U.S. Marine Corps 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 operating income of \$0.3 million for 2012 compared to 2011.

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*Secure communications*

During 2013, certain CDS product lines that were previously classified in an Other category have been reclassified into the Secure communications category. Prior year amounts have been reclassified to conform to the current year presentation.

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 sales increased slightly to \$52.9 million in 2012 from \$52.8 million in 2011. Sales of personnel locator systems and power amplifiers decreased in 2012, while sales of data links increased.

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. This inventory write-down related to global 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. The increase in operating losses in 2013 was also caused by cost growth on a development contract for a data link system.

Secure communications operating losses decreased to \$4.4 million in 2012 from \$9.2 million in 2011. In 2010, CDS added two new product lines through acquisitions of Impeva Labs and Safe Harbor Holdings that develop global asset tracking and cross domain products. During 2011, we increased our investment in the development and marketing of these products, resulting in an operating loss for these two product lines. In 2012, we reduced operating and development costs for these product lines, but again incurred an operating loss.

*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 have declined due to recent delays in contract awards and contract funding. CDS incurred resulting restructuring charges of \$7.8 million. 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. We anticipate that operating margins will improve for CDS in fiscal 2014 with the leaner cost structure.

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

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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;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

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- 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:

	2013	Year Ended September 30, 2012	2011
	(As Restated)	(in thousands) (As Restated)	(As Restated)
<b>Reconciliation:</b>			
Net income attributable to Cubic	\$ 25,086	\$ 97,427	\$ 86,044
Add:			
Provision for income taxes	14,502	40,332	34,119
Interest expense (income), net	1,851	(1,392)	(1,027)
Other expense (income), net	(887)	(366)	(863)
Noncontrolling interest in income of VIE	183	204	310
Depreciation and amortization	25,359	22,857	22,341
Impairment of goodwill	50,865		
<b>ADJUSTED EBITDA</b>	<b>\$ 116,959</b>	<b>\$ 159,062</b>	<b>\$ 140,924</b>

Liquidity and Capital Resources

Operating activities used cash of \$13.3 million in 2013, compared to using cash of \$54.7 million in 2012 and providing cash of \$129.1 million in 2011. In 2013, cash generated by earnings was more than offset by increases in accounts receivable of \$19.0 million, long-term capitalized construction costs of \$48.6 million, inventories of \$19.9 million, and a decrease in accounts payable and other current liabilities of \$25.6 million, which contributed to the overall use of cash for the year. 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 net income was more than offset by increases in accounts receivable of \$123.0 million, long-term capitalized construction 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. In 2011,

cash generated by earnings, decreases in accounts receivable of \$2.0 million and inventories of \$4.2 million, and increases in net customer advances of \$32.7 million contributed to the positive results.

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 certain large long-term development contracts, we had received significant up-front cash payments from customers based upon the negotiated terms of these contracts. The customer advance balances on these contracts decreased in 2012 and 2013 as development work progressed. 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. In 2012 and 2013, the growth in the unbilled accounts receivable was based upon when we are entitled to receive milestone payments.

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In 2013 and 2012, MSS contributed positive operating cash flows, while CDS and CTS both generated negative operating cash flows. In 2011, all three segments contributed to positive operating cash flow, with CTS providing the greatest portion of the positive 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, 2013, this balance was \$19.0 million compared to \$21.9 million at September 30, 2012 and \$23.6 million at September 30, 2011.

Investing activities used cash of \$76.8 million in 2013, provided cash of \$11.6 million in 2012, and used cash of \$77.3 million in 2011. 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 payments of \$7.8 million related to the acquisition of NEK for contingent consideration, which is classified as a financing activity on our Statement of Cash Flows. In addition, our investing activities include 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.

In 2011, cash used in investing activities included \$126.0 million for the acquisition of Abraxas, \$0.7 million for a small defense systems acquisition made during the year, and an additional payment of \$0.2 million for a small defense systems acquisition made in 2010. In addition, in 2011, we received proceeds from the sale or maturities of short-term investments of \$58.3 million and made capital expenditures of \$8.7 million

Financing activities provided cash of \$77.0 million in 2013, and used cash of \$79.6 million in 2012 and \$12.0 million in 2011. 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 \$8.5 million, \$4.5 million and \$4.6 million in 2013, 2012 and 2011, respectively. Dividends paid to shareholders amounted to \$6.4 million (24 cents per share) in both 2013 and 2012, and \$7.5 million (28 cents per share) in 2011. 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 0.20% of the unutilized balance per year. As of September 30, 2013, there were no borrowings under this agreement; however, there were letters of credit outstanding totaling \$23.5 million, which reduce the available line of credit to \$176.5 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, 2013 there were letters of credit outstanding under this agreement of \$54.4 million. Of our total restricted cash of \$69.4 million at September 30, 2013, \$68.9 million of this amount 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, 2013, we had letters of credit and bank guarantees outstanding totaling \$89.6 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 \$12.4 million as of September 30, 2013, 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 \$2.9 million) to help meet the short-term working capital requirements of our subsidiaries in those countries. At September 30, 2013, 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; (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.

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We intend to obtain financing in the future for the new fare collection system we have built for the Chicago Transit Authority, for which we have incurred capitalized costs totaling \$69.0 million prior to receiving payments under the contract. In order to mitigate the risk of changes in interest rates prior to obtaining this financing, we have entered into a forward starting swap to reduce interest rate variability exposure for the projected interest rate cash flows. See Note 12 to the Consolidated Financial Statements in Item 8 of this Form 10-K/A for further information.

The accumulated deficit in other comprehensive loss decreased \$17.9 million in 2013 primarily due to a decrease in the recorded liability for our pension plans of \$13.5 million (after applicable income taxes) and a net unrealized gain from cash flow hedges of \$3.8 million (after applicable income taxes). These adjustments resulted in a balance in accumulated other comprehensive loss of \$2.8 million at September 30, 2013 compared to \$20.7 million at September 30, 2012.

The net deferred tax asset balance was \$27.7 million and \$24.3 million at September 30, 2013 and 2012 respectively. The increase in the net deferred tax asset during 2013 was the result of the reduction in the deferred tax liability related to the book and tax basis difference of intangible assets as a result of recording the goodwill impairment. We expect to generate sufficient taxable income in the future such that the net deferred tax asset will be realized.

Our financial condition remains strong with net working capital of \$496.7 million and a current ratio of 3.0 to 1 at September 30, 2013. 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. In addition to short-term borrowing arrangements we have in New Zealand and Australia, we have a committed five-year credit facility from a group of financial institutions in the U.S., aggregating \$200 million. This agreement will expire in May 2017. As of September 30, 2013, \$23.5 million of this capacity was used for letters of credit, leaving an additional \$176.5 million available. Our total debt to capital ratio at September 30, 2013 was 15%. In addition, our cash and cash equivalents, including restricted cash, totaled \$273.3 million at September 30, 2013 which exceeded our total debt by \$170.4 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, 2013, \$177.7 million of the \$207.9 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 \$69.4 million of restricted cash in the U.K. at September 30, 2013. 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 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, 2013:

	Total	Less than 1 Year	1 - 3 years (in millions)	4 - 5 years	After 5 years
Long-term debt	\$ 102.9	\$ 0.6	\$ 1.1	\$ 1.1	\$ 100.1
Interest payments	32.3	3.5	6.9	6.8	15.1
Operating leases	43.0	12.4	16.8	10.7	3.1
Deferred compensation	10.7	0.9	0.8	0.3	8.7
	\$ 188.9	\$ 17.4	\$ 25.6	\$ 18.9	\$ 127.0



**Quarterly Results** — Quarters ended December 31, 2012 and 2011 (first fiscal quarter)

**Consolidated Overview**

Sales for the quarter ended December 31, 2012 were \$314.8 million compared to \$319.9 million in the quarter ended December 31, 2011 and \$282.3 million in the quarter ended December 31, 2010. These amounts represented a quarter-over-quarter decrease of 2% in the first quarter of fiscal 2013 and an increase of 13% in the first quarter of fiscal 2012. CTS sales decreased 6% in 2013 after having increased 45% in 2012. CDS sales decreased 4% and 11% in 2013 and 2012, respectively. MSS sales increased 5% and 9% in 2013 and 2012, respectively. The sales generated by the operations of NEK, which was acquired on December 14, 2012, were not significant for the first quarter of fiscal 2013. See the segment discussions following for further analysis of segment sales.

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Operating income was \$20.5 million in the first quarter of fiscal 2013 compared to \$29.9 million in the first quarter of fiscal 2012 and \$25.4 million in the first quarter of fiscal 2011. CTS operating income decreased 24% in 2013 after having increased 43% in 2012. MSS operating income decreased 7% and 12% in 2013 and 2012, respectively. CDS operating income decreased 75% in 2013 and 24% in 2012. NEK's operating loss for the first quarter of 2013 was \$0.5 million, which included transaction costs of \$0.4 million. Corporate and other costs for the first quarter of 2013 were \$0.4 million compared to \$0.6 million in 2012 and \$1.6 million in 2011. See the segment discussions following for further analysis of segment operating income.

Adjusted EBITDA for the first quarter of fiscal 2013 was \$25.2 million, compared to \$35.8 million in the first quarter of fiscal 2012 and \$29.3 million in the first quarter of fiscal 2011. The decrease in the first quarter of fiscal 2013 was primarily due to lower operating income in all three segments. The increase in the first quarter of fiscal 2012 was primarily due to higher operating income in CTS, partially offset by lower operating income from the other two segments. See below for a reconciliation of this non-GAAP metric to net income and see the explanation above for why we believe it to be an important measure of performance.

Net income attributable to Cubic for the first quarter of fiscal 2013 was \$14.2 million, or 53 cents per share, compared to \$22.3 million, or 83 cents per share in 2012 and \$18.0 million, or 67 cents per share in 2011. Net income decreased in 2013 from 2012 due primarily to a decrease in operating income, a decrease in other income and an increase in interest expense. These decreases were partially offset by lower income tax expense due to the decrease in income before income taxes, although the effective tax rate in the first quarter of fiscal 2013 was slightly higher, as described below. Included in other income was a net foreign currency exchange gain of \$0.1 million in the first quarter of fiscal 2013 compared to a gain of \$1.2 million in the first quarter of fiscal 2012. In the first quarter of fiscal 2013, we recorded \$0.6 million of interest expense related to a judgment against us, which required us to pay such amount of interest to the court on behalf of a party that had filed claims against us. Net income in the first quarter of fiscal 2012 increased over 2011 primarily due to higher operating income and also due to higher interest and dividend income and higher other income. These increases were partially offset by higher income tax expense due to the increase in income before taxes.

Our gross margin percentages on products and services did not change significantly between the first quarter of 2012 and 2013. However, product sales decreased \$19.5 million, or 13%, while services sales increased by \$14.4 million, or 9% between the first quarter of 2012 and 2013. Product sales increased \$22.0 million, or 17%, while services sales increased by \$15.6 million, or 10% between first quarter of 2011 and 2012. The lower gross margin percentage on services sales contributed to gross profits that were \$1.1 million lower in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012. The decrease in our gross margin percentage on product sales in the first quarter of 2012 over 2011 was primarily due to cost growth on two CTS design and build contracts, one in North America and one in Europe, totaling \$2.2 million and a lower gross margin from CDS contacts in the Far East and Europe.

SG&A expenses increased in the first quarter of 2013 to \$40.9 million compared to \$35.2 million in 2012 and \$38.1 million in 2011. As a percentage of sales, SG&A expenses were 13% for the first quarter of 2013 compared to 11% in 2012 and 14% in 2011. SG&A expenses in the first quarter of fiscal 2013 increased in all business segments over 2012 primarily due to higher selling and marketing costs, and increased information technology costs. In addition, during the first quarter of 2013 we incurred \$1.1 million of professional services costs in connection with the restatement of our consolidated financial statements for the year ended September 30, 2012 and previous periods. Also, in the first quarter of 2013 SG&A expenses were reduced by \$1.4 million related to proceeds from an insurance claim for losses that we incurred over the period from fiscal 2010 to fiscal 2012. In addition, SG&A expenses for NEK were \$0.5 million for the first quarter of 2013. SG&A expenses in the first quarter of 2011 included \$0.7 million of costs related to the Abraxas acquisition.

Company funded R&D expenditures, which mainly relate to new defense technologies we are developing, increased to \$5.8 million for the first quarter of 2013 compared to \$4.9 million in 2012 and \$6.3 million in 2011. Amortization of purchased intangibles decreased in the first quarter of 2013 to \$3.6 million compared to \$4.0 million in the first quarter of 2012 and \$2.0 million in the first quarter of 2011. These fluctuations

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primarily reflect changes in the amortization expense for certain intangible assets related to our acquisition of Abraxas in December 2010 that are being amortized using accelerated amortization methods. The decrease in amortization expense in the first quarter of fiscal 2013 was partially offset by the amortization of intangible assets recorded in connection with our acquisition of NEK in December 2012, which totaled \$0.2 million in the first quarter of fiscal 2013.

Based on the tax law that was in effect at the end of the first quarter of fiscal 2013, we estimated our annual effective tax rate would be approximately 30%, which is reflected in the tax provision for the first quarter of 2013.

The American Taxpayer Relief Act of 2012, which reinstated the U.S. R&D tax credit retroactively from January 1, 2012 through December 31, 2013, was not enacted into law until the second quarter of fiscal 2013. Therefore, the expected tax benefit resulting from such reinstatement for fiscal 2013 will not be reflected in our estimated annual effective tax rate for fiscal 2013 until the second fiscal quarter. Additionally, we expect to record a discrete tax benefit of approximately \$1.7 million in the second quarter of fiscal 2013 related to the reinstatement of the U.S. R&D tax credit for fiscal 2012. After consideration of both of these items, we estimated our annual effective income tax rate for fiscal 2013 would be approximately 26%. The effective rate for fiscal 2013 could be affected by, among other factors, the mix of business between the U.S. and foreign jurisdictions, our ability to take advantage of available tax credits and audits of our records by taxing authorities.

Table of Contents**Transportation Systems Segment (CTS)**

	2012	Three Months Ended December 31,		2010
	(As Restated)	2011	(in millions)	(As Restated)
	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Transportation Systems Segment Sales	\$ 121.2	\$ 128.5	\$ 88.6	\$ 88.6
Transportation Systems Segment Operating Income	\$ 15.2	\$ 20.0	\$ 14.0	\$ 14.0

CTS sales decreased 6% in the first quarter of 2013 to \$121.2 million compared to \$128.5 million in 2012, which represented a 45% increase over 2011 first quarter sales of \$88.6 million. The primary reason for the decrease in sales was due to reduced work on a contract to design and build a system in Vancouver. In the first quarter of fiscal 2012, revenues were higher on the project as we were producing a significant amount of the hardware for the system, while in the first quarter of fiscal 2013 we were in the latter stages of the system delivery. This decrease was partially offset by higher sales in the first quarter of fiscal 2013 from a contract to design and build a system in Sydney. In addition to Vancouver, sales were higher in the first quarter of fiscal 2012 compared to 2011 due to work on the contract in Sydney, and our contracts in the U.K. Partially offsetting these increases in 2012 were lower sales from design and build projects in the U.S. compared to the first quarter of 2011. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in an increase in sales of \$2.7 million when comparing exchange rates in the first quarter of 2013 to the first quarter of 2012. Such exchange rates resulted in an increase in sales of \$0.7 million in the first quarter of 2012 compared to the first quarter of 2011.

Operating income from CTS decreased 24% in the first quarter of fiscal 2013 to \$15.2 million, compared to \$20.0 million in 2012, which represented a 43% increase over 2011 first quarter operating income of \$14.0 million. In the first quarter of fiscal 2013 we incurred costs related to our contract in Sydney to transition portions of the system into full operations, for which revenues were not sufficient to cover our costs of servicing the system. This situation should improve as the systems complete the transition phase and move into full operations. In addition, we realized lower margins on certain projects in the U.K. during the first quarter of 2013 than we had earned on similar projects in the first quarter of 2012. These decreases in operating income were partially offset by sales of certain higher margin fare system products in North America. Higher sales from Vancouver and U.K. contracts, in addition to improved margins from a service contract in North America contributed to the increase in 2012 operating income. Partially offsetting these increases was cost growth of \$2.2 million related to contracts in the U.S. and Europe. In addition, profit margins were lower in 2012 than in 2011 because the growth in sales came largely from new contracts that are at an early stage of development, realizing lower margins than our other, more mature, contracts. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in an increase in operating income of \$0.3 million when comparing exchange rates in the first quarter of 2013 to the first quarter of 2012. Such exchange rates did not have a material impact on operating income when comparing exchange rates in the first quarter of 2012 to the first quarter of 2011.

Table of Contents**Mission Support Services Segment (MSS)**

	2012	Three Months Ended December 31,		2010
	(As Restated)	2011 (in millions) (As Restated)	(As Restated)	
Mission Support Services Segment Sales	\$ 113.4	\$ 107.5	\$ 98.8	
Mission Support Services Segment Operating Income	\$ 4.2	\$ 4.5	\$ 5.1	

Sales from MSS increased 5% to \$113.4 million in the first quarter of 2013, from \$107.5 million in 2012, after increasing 9% in 2012 from \$98.8 million in the first quarter of 2011. Sales growth in the first quarter of 2013 was driven by an increase in activity at the Joint Readiness Training Center (JRTC) in Fort Polk, Louisiana and by higher Abraxas sales. These increases were partially offset by lower sales due the loss of a contract in 2012 for flight simulator training work, because of a lower bid by a competitor. The sales generated by the operations of the newly acquired NEK business were not significant for the quarter. The acquisition of Abraxas added \$19.2 million to sales for the first quarter of fiscal 2012 compared to only \$1.3 million in the first quarter of fiscal 2011, the quarter in which we acquired Abraxas. Sales growth in 2012 was also driven by increased activity in support of instruction and maintenance of flight simulators. Partially offsetting these sales improvements was a decrease in activity during the first quarter of 2012 at the Joint Readiness Training Center (JRTC) in Fort Polk, Louisiana, from a contract at the U.S. Army's Quartermaster Center and School, and from other training and education contracts.

MSS operating income decreased 7% to \$4.2 million in the first quarter of fiscal 2013 from \$4.5 million in the first quarter of 2012, and decreased 12% in 2012 compared to \$5.1 million in 2011. The loss of the training work for flight simulators described above had a negative impact on operating income for the first quarter of fiscal 2013, and cost growth on a training contract in Europe also contributed to the decrease in margins. In addition, NEK had an operating loss of \$0.5 million in the first quarter of fiscal 2013 primarily due to the incurrence of \$0.4 million of acquisition-related costs. These decreases in operating profits were partially offset by increased margins on increased Abraxas sales. Lower sales from certain higher margin training and education contracts contributed to the decrease in operating income for the first three months of fiscal 2012. Abraxas incurred an operating loss of \$0.8 million for the first quarter of 2012, which included \$2.6 million of amortization of intangible assets. Abraxas incurred an operating loss of \$0.8 million in the first quarter of 2011, mainly from acquisition related costs. The amortization expense for MSS intangible assets was \$2.9 million in the first quarter of fiscal 2013, \$3.3 million in the first quarter of fiscal 2012 and \$1.2 million in the first quarter of fiscal year 2011.

**Defense Systems Segment (CDS)**

	2012	Three Months Ended December 31,		2010
	(As Restated)	2011 (in millions) (As Restated)	(As Restated)	
<b><u>Defense Systems Segment Sales</u></b>				
Training systems	\$ 64.4	\$ 65.1	\$ 81.3	
Secure communications	15.6	18.6	13.2	
	\$ 80.0	\$ 83.7	\$ 94.5	
<b><u>Defense Systems Segment Operating Income</u></b>				
Training systems	\$ 2.8	\$ 4.8	\$ 10.4	

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Secure communications		(1.3)		1.2		(2.5)
	\$	1.5	\$	6.0	\$	7.9

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**Training Systems**

Training systems sales decreased 1% in the first quarter of 2013 to \$64.4 million compared to \$65.1 million in the first quarter of 2012, after having decreased 20% in 2012 from \$81.3 million in the first quarter of 2011. Increased sales of air combat training systems in the first quarter of fiscal 2013 were nearly offset by decreased sales of small arms training systems in the Middle East and to the U.S. government. Ground combat training sales in the U.S. and the Far East were lower for the first quarter of fiscal 2012 compared to 2011. Partially offsetting these decreases in the first quarter of 2012 were higher air combat training sales to a customer in the Far East and higher ground combat training sales on a contract with a customer in Europe. In the first quarter of both 2011 and 2012 we recorded revenues equal to costs on this ground combat training contract because we were working under a contractual arrangement without a firm contract price or scope of work. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in an increase in sales of \$0.6 million when comparing exchange rates in the first quarter of 2013 to the first quarter of 2012. Such exchange rates resulted in an increase in sales of \$0.1 million for the first quarter of 2012 compared to the first quarter of 2011.

Operating income decreased 42% for the first quarter of fiscal 2013 to \$2.8 million, compared to \$4.8 million in the first quarter of 2012, after having decreased 54% in 2012 from \$10.4 million in the first quarter of 2011. The decreases in operating income in the first quarter of fiscal 2013 were the result of decreased sales of the relatively high margin small arms training systems. Also, although total sales of air combat training systems increased in the first quarter of fiscal 2013, sales of higher margin air combat training systems to a customer in the Far East decreased, which decreased overall margins from air combat training systems. Lower sales in 2012 of ground combat training systems in the U.S. and Far East primarily caused the decrease in operating income from the first quarter of 2011, in addition to a lower profit margin from contracts in the Far East and Europe. The lower margin was partially caused by the ground combat training system contract where we recorded sales equal to costs, as described above. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar did not have a material impact on operating income when comparing exchange rates in the first quarter of 2013 to the first quarter of 2012 and when comparing exchange rates in the first quarter of 2012 to the first quarter of 2011.

**Secure Communications**

Secure communications sales decreased 16% in the first quarter of 2013 to \$15.6 million from \$18.6 million in the first quarter of 2012, after having increased 41% in 2012 from \$13.2 million in the first quarter of 2011. The operating loss was \$1.3 million in the first quarter of 2013 compared to an operating profit of \$1.2 million in 2012, and an operating loss of \$2.5 million in 2011. Decreased profitability on lower data link sales, including the impact of a \$1.2 million cost increase on a U.S. government contract, contributed to the decrease in operating income in the first quarter of fiscal 2013. Sales and operating profits were also lower from power amplifiers and personnel locator systems in 2013. In the first quarter of 2012, higher profit margins on higher sales of personnel locator systems and data link products contributed to improved operating income. In addition, increased sales of global asset tracking products decreased the operating losses that resulted from our continued investment in the development and marketing of this product line.

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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:

	2012	Three Months Ended December 31, 2011	2010
	(As Restated)	(in thousands) (As Restated)	(As Restated)
<b>Reconciliation:</b>			
Net income attributable to Cubic	\$ 14,241	\$ 22,264	\$ 18,038
Add:			
Provision for income taxes	5,869	8,956	6,457
Interest expense (income), net	428	(402)	(437)
Other expense (income), net	(102)	(923)	1,208
Noncontrolling interest in income of VIE	73	45	121
Depreciation and amortization	4,718	5,832	3,868
<b>ADJUSTED EBITDA</b>	<b>\$ 25,227</b>	<b>\$ 35,772</b>	<b>\$ 29,255</b>

Liquidity and Capital Resources

Operating activities used cash of \$26.1 million for the first quarter of 2013. Operating activities used cash of \$38.4 million in the first quarter of 2012 and provided cash of \$15.0 million in the first quarter of 2011. Increases in accounts receivable and long-term capitalized contract costs and decreases in accounts payable and other current liabilities contributed to the use of cash in 2013. All three segments contributed to the use of cash from operating activities. Increases in accounts receivable and decreases in accounts payable, other current liabilities and customer advances resulted in the use of cash in 2012, with all three segments contributing to the use of cash. A significant portion of the cash used in 2012 was in the transportation segment for expenditures related to large contracts in Australia and Canada.

Investing activities for the first three months of fiscal 2013 included \$33.1 million of cash paid related to the acquisition of NEK and capital expenditures of \$1.4 million.

Financing activities for the first three months of fiscal 2013 included scheduled payments on our long-term debt of \$4.1 million. The first half of fiscal 2013 also included \$25.0 million of proceeds from short-term borrowings on our revolving line of credit.

We have a Revolving Credit Agreement with a group of financial institutions in the amount of \$200.0 million that expires in May 2017. The available line of credit on the Revolving Credit Agreement is reduced by any letters of credit issued under the agreement. As of December 31, 2012, there were borrowings of \$25.0 million under this agreement, of which \$5.0 million was repaid in February 2013. Our borrowings under the Revolving Credit Agreement bear interest at a variable rate (1.6% at December 31, 2012). In addition, there were letters of credit outstanding under the Revolving Credit Agreement totaling \$42.4 million, which reduce the available line of credit to \$132.6 million.



We also have a 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 December 31, 2012 there were letters of credit outstanding under this agreement of \$63.4 million. In support of the Secured Letter of Credit Facility, we placed \$68.8 million of our cash on deposit in the U.K. as collateral in a restricted account with the bank providing the facility. We are required to leave the cash in the restricted account so long as the bank continues to maintain associated letters of credit under the facility. The maximum amount of letters of credit currently allowed by the facility is \$66.8 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 available under the Revolving Credit Agreement.

As of December 31, 2012, \$165.1 million of the \$174.1 million of our cash, cash equivalents, and short-term investments was held by our foreign subsidiaries. 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, our intent is to permanently reinvest 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.

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Our financial condition remained strong with working capital of \$396.7 million and a current ratio of 2.4 to 1 at December 31, 2012. We expect that cash on hand, cash flows from operations, and our unused lines of credit will be adequate to meet our liquidity requirements for the foreseeable future.

**Quarterly Results** Three- and six-month periods ended March 31, 2013 and 2012

**Consolidated Overview**

Sales for the quarter ended March 31, 2013 increased 7% to \$368.6 million from \$343.8 million in the quarter ended March 31, 2012. Sales in the second quarter of fiscal year 2012 decreased 2% from 2011 sales of \$350.2 million. CDS sales and CTS sales increased 28% and 5%, respectively, in fiscal 2013 compared to the second quarter of 2012, while MSS sales decreased 4%. Sales from CTS also increased in the second quarter of 2012, while MSS and CDS sales decreased. Abraxas added sales of \$17.0 million to MSS sales in the second quarter of 2012, compared to \$14.2 million in the second quarter of 2011. Abraxas was acquired in the first quarter of fiscal 2011.

For the first six months of fiscal year 2013, sales increased to \$683.4 million compared to \$663.7 million in 2012, an increase of 3%. Sales for the first half of 2012 were 5% higher than sales of \$632.5 million in the first half of 2011. CDS sales increased 12% in 2013 compared to the first six months of 2012, while CTS and MSS sales remained relatively consistent for these periods. The sales generated by businesses we acquired during 2013 totaled \$10.6 million and \$11.1 million for the three- and six-month periods ended March 31, 2013, respectively. Sales from CTS and MSS increased in the first half of 2012, while CDS sales decreased. The acquisition of Abraxas added \$36.2 million to MSS sales for the six-month period of 2012 compared to \$15.5 million in 2011. See the segment discussions following for further analysis of segment sales.

Operating income was \$37.4 million in the second quarter of 2013 compared to \$35.9 million in the second quarter of 2012, an increase of 4%. Operating income for the second quarter of 2012 was 16% lower than operating income of \$42.7 million in the second quarter of 2011. CTS operating income increased 32% in the second quarter of 2013, while MSS operating income decreased 22% and CDS operating income decreased 100% compared to the second quarter of 2012. CDS operating income for the second quarter included \$6.1 million of restructuring costs related to severance pay and benefits. Businesses we acquired in 2013 generated operating losses of \$0.6 million for the quarter, including \$0.2 of transaction-related costs. For the second quarter of 2012, operating income decreased in all three segments compared to the second quarter of 2011. Unallocated corporate and other costs for the second quarter of 2013 were \$1.5 million compared to \$1.6 million in 2012 and \$1.9 million in 2011.

Operating income for the first six months of 2013 decreased 12% to \$57.9 million from \$65.9 million in 2012. Operating income for the first half of 2012 was 3% lower than operating income of \$68.1 million in the first half of 2011. CDS and MSS operating income decreased 88% and 14%, respectively, in 2013 compared to the first six months of 2012, while CTS operating income increased 8%. CDS operating results for the six-month period included the restructuring charge mentioned above. Businesses we acquired in 2013 generated operating losses of \$0.8 million for the six months ended March 31, 2013, including \$0.6 million of transaction-related costs. Operating income decreased from CDS and MSS in the first half of 2012, while CTS operating income increased slightly from 2011. Unallocated corporate and other expenses for the first six months of the fiscal year were \$1.9 million for 2013, \$2.2 million for 2012 and \$3.5 million for 2011. See the segment discussions following for further analysis of segment operating income.

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Adjusted EBITDA for the second quarter of fiscal 2013 was \$44.3 million, compared to \$41.4 million in the second quarter of fiscal 2012 and \$48.9 million in the second quarter of fiscal 2011. For the first six months of the fiscal year, Adjusted EBITDA decreased to \$69.5 million in 2013 compared to \$77.2 million in 2012 and \$78.2 million in 2011. The changes in Adjusted EBITDA for the quarter and six-month period ended March 31, 2013 are primarily related to the changes in operating income for the corresponding periods. See below for a reconciliation of this non-GAAP metric to net income and see the explanation above for why we believe it to be an important measure of performance.

Net income attributable to Cubic for the second quarter of fiscal 2013 increased to \$29.7 million, or \$1.11 per share, compared to \$25.9 million, or 97 cents per share in 2012 and \$30.2 million, or \$1.13 per share in 2011. Net income in 2013 increased for the quarter due to an increase in operating income, and a decrease in income tax expense, which was impacted by the decrease in the effective income tax rate, as described below. The impact of these items was partially offset by a decrease in interest and dividend income and an increase in interest expense. Net income decreased for the second quarter of 2012 due to a decrease in operating income, primarily from CDS.

For the first six months of 2013, net income attributable to Cubic decreased to \$43.9 million, or \$1.64 per share, from \$48.1 million, or \$1.80 per share in 2012 and \$48.3 million, or \$1.81 per share in 2011. The decrease in net income in 2013 for the six-month period was primarily due to a decrease in operating income, partially offset by a decrease in income tax expense. In the first quarter of fiscal 2013, we recorded \$0.6 million of interest expense related to a judgment against us, which required us to pay such amount of interest to the court on behalf of a party that had filed claims against us. Also, interest and dividend income decreased for the six-month period based upon the decrease in our average cash balances over the first six months of 2013. Included in other income was a net foreign currency exchange loss of \$0.2 million in the first six months of 2013 compared to a gain of \$1.5 million in 2012 and a loss of \$1.6 million in 2011, before applicable income taxes. Net income decreased for the first six months of 2012 due to a decrease in operating income, primarily from CDS. The effective tax rate for the first half of 2012 increased from 2011, also resulting in lower net income in the first six months of 2012 compared to 2011.

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Our gross margin percentages on product sales decreased to 29% in the second quarter of 2013 from 32% in 2012, which had increased from 31% in 2011. For the first six months of fiscal year 2013, gross margin percentages on product sales decreased to 28% from 29% in 2012 and 32% in 2011. The decrease in gross margin percentages in 2013 were primarily due to decreases in CDS sales of air and ground combat training systems to customers in the Far East. The decrease in gross margin percentages on product sales in 2012 were primarily due to the growth in sales from new CTS design and build contracts that were in an early stage of development and were realizing lower margins than our other, more mature, CTS contracts and due to cost growth on two CTS design and build contracts, one in North America and one in Europe, totaling \$2.8 million for the first half of 2012.

Our gross margin percentages on service sales increased to 24% in the second quarter of 2013 from 22% in 2012 and 2011. For the first six months of fiscal year 2013, gross margin percentages on service sales increased to 22% from 21% in 2012 and 20% in 2011. The increase in the gross margin percentages on services sales for the three- and six-month periods ended March 31, 2013 is the result of the increase in CTS service sales as a percentage of our total service sales. CTS service sales have a higher gross margin percentage than service sales from our other segments.

SG&A expenses decreased in the second quarter of 2013 to \$41.3 million compared to \$43.0 million in 2012 and \$38.5 million in 2011. For the six-month period of 2013, SG&A increased to \$82.3 million compared to 78.3 million in 2012 and \$76.7 million in 2011. As a percentage of sales, SG&A expenses were 11% for the second quarter of 2013 compared to 13% in 2012 and 11% in 2011. For the six-month period SG&A expenses were 12% in all three years. The higher SG&A expense in the second quarter of 2012 was primarily due to a \$2.9 million provision for a legal claim that was accrued for in that period. Selling and marketing costs in the second quarter of 2013 were slightly lower than in 2012; however, selling and marketing costs for the six-month period ended March 31, 2013 were higher than in 2012. In the second quarter of 2013 we incurred expenses of \$0.7 million in preparation for a secondary offering of currently outstanding shares for certain of our shareholders. During the first quarter of 2013 we incurred \$1.1 million of professional services costs in connection with the restatement of our consolidated financial statements for the year ended September 30, 2012 and previous periods. Also, in the first quarter of 2013 SG&A expenses were reduced by \$1.4 million related to proceeds from an insurance claim for losses that we incurred over the period from fiscal 2010 to fiscal 2012. SG&A expenses in businesses that we acquired in 2013 were \$1.1 million for the second quarter and \$1.6 million for the first six months of 2013.

Company funded R&D expenditures, which mainly relate to new defense technologies we are developing, were \$7.1 million for the second quarter of 2013 compared to \$8.1 million in 2012 and \$5.3 million in 2011, and were \$12.9 million for the six-month period in 2013 compared to \$13.0 million in 2012 and \$11.5 million in 2011. Amortization of purchased intangibles increased for the second quarter of 2013 to \$4.3 million compared to \$3.7 million in 2012, which had decreased from \$4.3 million in 2011. The increase in 2013 was due to the amortization of intangible assets related to businesses purchased during 2013. Amortization of purchased intangibles for the first six months of 2013 increased to \$7.8 million from \$7.7 million in 2012 and \$6.4 million in 2011.

The American Taxpayer Relief Act of 2012, which reinstated the U.S. R&D tax credit retroactively from January 1, 2012 through December 31, 2013, was enacted into law during the second quarter of fiscal 2013. Therefore, the tax benefit resulting from the reinstatement for fiscal 2013 was reflected in our estimated annual effective tax rate for fiscal 2013 in the second fiscal quarter. Additionally, we recorded a discrete tax benefit of approximately \$1.9 million in the second quarter of fiscal 2013 related to the reinstatement of the U.S. R&D tax credit for fiscal 2012. After consideration of both of these items, we estimated our annual effective income tax rate for fiscal 2013 would be approximately 25%. The effective rate for fiscal 2013 could be affected by, among other factors, the mix of business between the U.S. and foreign jurisdictions, our ability to take advantage of available tax credits and audits of our records by taxing authorities.

Table of Contents**Transportation Systems Segment (CTS)**

	Six Months Ended March 31,			Three Months Ended March 31,		
	2013	2012	2011	2013	2012	2011
	(As Restated)	(in millions) (As Restated)	(As Restated)	(As Restated)	(in millions) (As Restated)	(As Restated)
Transportation Systems Segment Sales	\$ 263.6	\$ 263.8	\$ 201.2	\$ 142.4	\$ 135.3	\$ 112.6
Transportation Systems Segment Operating Income	\$ 50.5	\$ 46.7	\$ 42.7	\$ 35.3	\$ 26.7	\$ 28.7

CTS sales increased 5% in the second quarter of 2013 to \$142.4 million compared to \$135.3 million in 2012, which represented a 20% increase over 2011 second quarter sales of \$112.6 million. For the six-month period, sales remained relatively consistent at \$263.6 million in 2013 compared to \$263.8 million in 2012, which had increased 31% over 2011 sales of \$201.2 million for such period. During the quarter and six months ended March 31, 2013, CTS generated higher sales from contracts in the U.K., including higher annual system usage incentives on a significant U.K. contract that were recognized in the second quarter, as well as higher sales on a contract for a suburban bus system near Chicago. NextBus, a business we acquired in January 2013 that provides real-time passenger information products and services to transit agencies, contributed sales of \$1.5 million for the quarter. For the quarter and six-month period 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. Sales for the quarter and the six-month period ended March 31, 2012, were higher than in 2011 due to work on the contracts in Sydney and Vancouver, and our contracts in the U.K. Partially offsetting these increases were lower sales from design and build projects in the U.S. compared to the second quarter and six-month period of 2011. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$1.6 million for the second quarter of 2013 and an increase in sales of \$1.1 million for the six-month period, compared to the same periods in 2012. In 2012, such exchange rates resulted in an increase in sales of \$0.9 million for the second quarter of 2012 and \$1.6 million for the six-month period, compared to 2011.

CTS operating income increased 32% in the second quarter of 2013 to \$35.3 million compared to \$26.7 million in 2012, which represented a 7% decrease from 2011 second quarter operating income of \$28.7 million. For the six-month period, operating income increased 8% in 2013 to \$50.5 million from \$46.7 million in 2012, which had increased 9% over 2011 first half operating income of \$42.7 million. The increases in operating income for the quarter and six-month period of 2013 were primarily due to higher sales from our contracts the U.K., including higher annual system usage incentives from the U.K. contract described above. In addition, sales increased during the quarter and six-month period on certain higher-margin products and services that we provide in Australia. In recent quarters, including the first quarter of 2013 we were incurring costs related to our contract in Sydney to transition portions of the systems into operations, for which revenues were not sufficient to cover our costs of servicing the system. This situation began to improve in the second quarter of 2013 as portions of the systems were moving through the transition phase towards operations. The operating loss from NextBus was \$0.3 million in the second quarter of 2013, including costs of the acquisition totaling \$0.2 million. The improvement in 2012 operating income came from higher profit margins on a service contract in North America and from increased operating income on higher sales from the Vancouver contract. Partially offsetting these improvements was the \$2.9 million claim provision mentioned above and cost growth on contracts in the U.S. and Europe that reduced operating income by \$2.8 million for the six-month period of 2012. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in operating income of \$0.2 million for the second quarter of 2013 and an increase in operating income of \$0.1 million for the six-month period, compared to the same periods in 2012. In 2012, such exchange rates resulted in a decrease in operating income of \$0.2 million for the second quarter and the six-month period compared to 2011.

**Mission Support Services Segment (MSS)**

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	Six Months Ended			Three Months Ended		
	2013	March 31, 2012	2011	2013	March 31, 2012	2011
	(As Restated)	(in millions) (As Restated)	(As Restated)	(As Restated)	(in millions) (As Restated)	(As Restated)
Mission Support Services Segment Sales	\$ 235.6	\$ 234.4	\$ 231.9	\$ 122.2	\$ 126.9	\$ 133.1
Mission Support Services Segment Operating Income	\$ 7.8	\$ 9.1	\$ 10.2	\$ 3.6	\$ 4.6	\$ 5.1

MSS sales decreased 4% in the second quarter of 2013 to \$122.2 million compared to \$126.9 million in 2012, which had decreased 5% from 2011 sales of \$133.1 million. Sales increased 1% for the six-month period to \$235.6 million in 2013 from \$234.4 million in 2012, after increasing 1% from sales of \$231.9 million in 2011. Sales in the quarter and six-month period in 2013 were lower from certain contracts, including at the Joint Readiness Training Center (JRTC) in Fort Polk, Louisiana due to lower activity. 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 for the quarter and were more than offset for the six-month period by increases in sales on certain Abraxas contracts, and by sales generated by NEK, a Special Operation Forces training business acquired in December 2012 that generated sales of \$9.1 million and \$9.6 million in the three- and six-month periods ended March 31, 2013, respectively. Sales growth for the six-month period of 2012 was driven by the acquisition of Abraxas in December 2010, which added \$36.2 million to sales in 2012 compared to \$15.5 million in 2011. Abraxas sales for the second quarter of 2012 were \$2.8 million higher than in the second quarter of 2011. Sales decreased for the 2012 second quarter and six-month period from training and education contracts due to the migration of certain contracts to small businesses where we are now in a subcontractor role. In addition, earlier in 2012 we lost a contract in a competitive bid situation, for support of simulation trainers that we had performed for several years.

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MSS operating income decreased 22% in the second quarter of 2013 to \$3.6 million compared to \$4.6 million in 2012, which represented a 10% decrease from 2011 second quarter operating income of \$5.1 million. For the six-month period, operating income decreased 14% in 2013 to \$7.8 million from \$9.1 million in 2012, which had decreased 11% from 2011 first half operating income of \$10.2 million. The decreased operating income in 2013 primarily resulted from increased personnel costs on a flight simulator training contract and the loss of contracts described above. In addition, NEK had an operating loss of \$0.3 million for the quarter and \$0.5 million for the six-month period ended March 31, 2013, including acquisition-related costs of \$0.4 million. Lower sales from certain higher margin training and education contracts contributed to the decrease in operating income for the quarter and six-month period in 2012 compared to 2011. The competitive environment in the government services industry is driving profit margins somewhat lower than in recent years, especially on contracts where we must compete for task orders on a regular basis.

Table of Contents**Defense Systems Segment (CDS)**

	Six Months Ended March 31,			Three Months Ended March 31,		
	2013	2012	2011	2013	2012	2011
	(As Restated)	(in millions) (As Restated)	(As Restated)	(As Restated)	(in millions) (As Restated)	(As Restated)
<b><u>Defense Systems Segment</u></b>						
<b><u>Sales</u></b>						
Training systems	\$ 152.7	\$ 136.0	\$ 172.9	\$ 88.3	\$ 70.9	\$ 91.6
Secure communications	31.2	29.0	25.7	15.6	10.4	12.5
	\$ 183.9	\$ 165.0	\$ 198.6	\$ 103.9	\$ 81.3	\$ 104.1
<b><u>Defense Systems Segment</u></b>						
<b><u>Operating Income</u></b>						
Training systems	\$ 9.5	\$ 12.8	\$ 24.2	\$ 6.7	\$ 7.9	\$ 13.8
Secure communications	(1.9)	(0.5)	(5.5)	(0.6)	(1.7)	(3.0)
Restructuring costs	(6.1)			(6.1)		
	\$ 1.5	\$ 12.3	\$ 18.7	\$ 6.2	\$ 10.8	

**Training Systems**

Training systems sales increased 25% in the second quarter of 2013 to \$88.3 million compared to \$70.9 million in 2012, which had decreased 23% from 2011 sales of \$91.6 million. Sales increased 12% for the six-month period to \$152.7 million in 2013 from \$136.0 million in 2012, after decreasing 21% from sales of \$172.9 million in 2011. Sales increased in the second quarter and the first half of fiscal 2013 from air combat training systems and increased shipments of MILES (Multiple Integrated Laser Engagement Simulation) equipment to the U.S. government. These increases were partially offset by lower ground combat training system sales in the Far East in the second quarter and six months ended March 31, 2013. In addition, the increase in sales for the six-month period were partially offset by lower sales in the first quarter of 2013 from air combat training systems in the Far East, and a ground combat training system contract in the U.K. Ground combat training sales in the U.S. and the Far East were lower in 2012 than in 2011 for the quarter and the six-month periods. In addition, we continued to record revenues equal to costs on a ground combat training system in Europe in 2012 because we were working under a contract without a firm contract price or scope of work. Partially offsetting these decreases in the quarter and six-month period of 2012 were higher sales from new ground combat training systems contracts. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in an increase in sales of \$0.2 million for the second quarter of 2013 and \$0.7 million for the six-month period, compared to the same periods in 2012. In 2012, such exchange rates resulted in an increase in sales of \$1.0 million for the second quarter of 2012 and \$1.1 million for the six-month period, compared to 2011.

Operating income decreased 15% in the second quarter to \$6.7 million in 2013 compared to \$7.9 million in 2012, which was 43% lower than second quarter of 2011 operating income of \$13.8 million. For the six-month period of 2013, operating income decreased 25% to \$9.5 million from \$12.8 million in 2012, after decreasing 48% in the first half of 2012 from \$24.2 million in 2011. Although the increased sales of air combat training systems in the U.S. increased operating income for the quarter and six-month period ended March 31, 2013, these increases were more than offset by decreases in operating income on decreased sales of ground combat training systems in the Far East. Also, for the six months ended March 31, 2013, although total sales of air combat training systems were higher, the operating margin for air combat training systems sales was lower than in 2012 because sales of higher margin air combat training systems to a customer in the Far East decreased in the first quarter of 2013. Operating margins on a ground combat training systems service contract in the U. K. improved for the quarter and six months ended March 31, 2013 due to decreasing costs as the contract matures. Lower sales in 2012 of higher margin air and ground combat training systems to customers in the Far East, and lower sales of ground combat training systems in the U.S. were the primary cause of the decreased profitability in the second quarter and first half of 2012. Operating income in 2012 was also impacted by the ground combat training system contract in Europe where we recorded sales equal to costs, as described above. The average exchange rates between the prevailing currency in



our foreign operations and the U.S. dollar did not have a material impact on operating income when comparing exchange rates for the second quarter and the six-month period of 2013 to the second quarter and the six-month period of 2012. In 2012, such exchange rates resulted in an increase in operating income of \$0.3 million for the second quarter and six-month period, compared to 2011.

**Secure Communications**

Secure communications sales increased 50% in the second quarter of 2013 to \$15.6 million compared to \$10.4 million in the second quarter of 2012, after having decreased 17% in 2012 from \$12.5 million in the second quarter of 2011. Sales increased 8% for the six-month period to \$31.2 million in 2013 from \$29.0 million in 2012, which represented a 13% increase from sales of \$25.7 million in 2011. Operating losses decreased to \$0.6 million in the second quarter of 2013 from \$1.7 million in 2012, after decreasing from \$3.0 million in 2011. Operating losses for the six-month period increased to \$1.9 million in 2013 from \$0.5 million in 2012, after decreasing from \$5.5 million in 2011.

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Sales were higher from personnel locator systems for the quarter and six-month period of 2013 but were lower from datalink and power amplifier products. Increased operating income for the second quarter on higher personnel locator system sales was partially offset by the lower operating income on lower sales of datalinks. For the six-month period of 2013, the higher operating income on higher personnel locator system sales was more than offset by lower margins on datalink sales. These decreased datalink margins for the six months were caused by lower sales as well as cost growth, particularly from the impact of cost increases of \$1.2 million in the first quarter of fiscal 2013 on a U.S. government contract. The higher operating loss in the second quarter and first half of 2011 resulted primarily from a larger investment in the development of global asset tracking products.

**Restructuring costs**

In March 2013, our CDS business implemented a restructuring plan to reduce global employee headcount by approximately 150 in order to rebalance our resources with work levels that have declined due to recent delays in contract awards and contract funding. CDS incurred a resulting restructuring charge of \$6.1 million in the second quarter of fiscal 2013. The workforce realignment was reflective of the current mix of work and anticipated activity levels going forward. We anticipate that operating margins will improve for CDS over the course of the 2013 fiscal year and in 2014 with the leaner cost structure.

The following table presents a rollforward of our restructuring liability as of March 31, 2013, which is included within accrued compensation and other current liabilities within our Condensed Consolidated Balance Sheets (in millions):

	<b>Restructuring Liability Employee Separation</b>	
Liability as of December 31, 2012	\$	
Accrued costs		6.1
Cash payments		(0.5)
Liability as of March 31, 2013	\$	5.6

Certain restructuring costs are based upon estimates. Actual amounts paid may ultimately differ from these estimates. If additional costs are incurred or recognized amounts exceed costs, such changes in estimates will be recognized when incurred.

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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:

	Six Months Ended March 31,			Three Months Ended March 31,		
	2013	2012	2011	2013	2012	2011
	(As Restated)	(in thousands) (As Restated)	(As Restated)	(As Restated)	(in thousands) (As Restated)	(As Restated)
<b>Reconciliation:</b>						
Net income attributable to Cubic	\$ 43,891	\$ 48,120	\$ 48,262	\$ 29,650	\$ 25,856	\$ 30,224
Add:						
Provision for income taxes	13,145	19,714	18,323	7,276	10,758	11,866
Interest expense (income), net	773	(1,022)	(418)	345	(620)	19
Other expense (income), net	(49)	(1,045)	1,694	53	(122)	486
Noncontrolling interest in income of VIE	125	96	205	52	51	84
Depreciation and amortization	11,597	11,297	10,086	6,879	5,465	6,218
<b>ADJUSTED EBITDA</b>	<b>\$ 69,482</b>	<b>\$ 77,160</b>	<b>\$ 78,152</b>	<b>\$ 44,255</b>	<b>\$ 41,388</b>	<b>\$ 48,897</b>

Liquidity and Capital Resources

Operating activities used cash of \$56.0 million and \$39.9 million for the six months ended March 31, 2013 and 2012, respectively, and provided cash of \$42.6 million in the six months ended March 31, 2011. In 2013, increases in accounts receivable and long-term capitalized contract costs and decreases in accounts payable, customer advances and other current liabilities contributed to the use of cash. The growth in accounts receivable and reduction of customer advances related to several large on-going contracts we worked on in 2013, including transportation systems contracts in Canada and Australia and defense system contracts in the U.S. and Middle East. Negative cash flows on these contracts at this stage of their completion was in accordance with contract terms. Contract terms, including payment terms on our long-term development contracts, are customized for each contract based upon negotiations with the respective customer. For certain large long-term development contracts, we had received significant up-front cash payments from customers based upon the negotiated terms of these contracts. The customer advance balances on these contracts decreased in 2013 as development work progressed. 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. In 2013, the growth in the unbilled accounts receivable was based upon when we are entitled to receive milestone payments. CDS and CTS segments contributed to the use of cash from operating activities in 2013, while MSS provided cash from operating activities. Increases in accounts receivable and inventories and decreases in other current liabilities and customer advances contributed to the use of cash in 2012. Use of cash by CTS and CDA was partially offset by positive cash flows from MSS. A significant portion of the cash used was in the transportation segment for expenditures related to large contracts in Australia and Canada where we must meet certain milestones before being paid by the customer.

Investing activities for the six-month period in 2013 included \$33.1 million of cash paid related to the acquisition of NEK, \$20.7 million of cash paid related to the acquisition of NextBus and capital expenditures of \$3.9 million. Financing activities for the six-month period consisted of scheduled payments on our long-term debt of \$8.3 million, \$25.0 million of net proceeds from short-term borrowings on our revolving line of credit, and \$50.0 million of proceeds from a note purchase and private shelf agreement described below.

Changes in exchange rates between foreign currencies, especially the British Pound and the U.S. dollar, resulted in a decrease of \$14.0 million to our cash balance as of March 31, 2013 compared to September 30, 2012, and a decrease to Accumulated Other Comprehensive Income of \$14.0 million during the six-month period. Although this does not directly impact liquidity, if these exchange rates continue to change, there will be an impact on our sales and operating income, as noted in the CTS section above.

We have a Revolving Credit Agreement with a group of financial institutions in the amount of \$200.0 million that expires in May 2017. The available line of credit on the Revolving Credit Agreement is reduced by any letters of credit issued under the agreement. As of March 31, 2013, there were borrowings of \$25.0 million under this agreement. Our borrowings under the Revolving Credit Agreement bear interest at a variable rate (1.6% at March 31, 2013). In addition, there were letters of credit outstanding under the Revolving Credit Agreement totaling \$43.6 million, which reduce the available line of credit to \$131.4 million.

We also have a 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 March 31, 2013, there were letters of credit outstanding under this agreement of \$60.5 million. In support of the Secured Letter of Credit Facility, we placed \$68.8 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 Secured Letter of Credit Facility do not reduce the available line of credit available under the Revolving Credit Agreement.

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On March 12, 2013, we entered into a note purchase and private shelf agreement pursuant to which we agreed to issue \$100.0 million of senior unsecured notes, bearing interest at a rate of 3.35% and maturing on March 12, 2025. Notes with an aggregate principal amount of \$50.0 million were purchased on March 12, 2013 and notes with the remaining aggregate principal amount of \$50.0 million were purchased on April 23, 2013. In addition, pursuant to the agreement, we may from time to time issue and sell, and the purchasers may in their sole discretion purchase, within the next three years, additional senior notes in aggregate principal amount of up to \$25.0 million that will have terms, including interest rate, as we and the purchasers may agree upon at the time of issuance.

As of March 31, 2013, \$145.1 million of the \$148.6 million of our cash and cash equivalents was held by our foreign subsidiaries. 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, our intent is to permanently reinvest 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.

Our financial condition remained strong with working capital of \$430.8 million and a current ratio of 2.7 to 1 at March 31, 2013. We expect that cash on hand, cash flows from operations, and our unused lines of credit will be adequate to meet our liquidity requirements for the foreseeable future.

Quarterly Results Three- and nine-month periods ended June 30, 2013 and 2012

Consolidated Overview

Sales for the quarter ended June 30, 2013 decreased 9% to \$337.2 million from \$371.1 million in the quarter ended June 30, 2012. Sales in the second quarter of fiscal year 2012 increased 15% over 2011 sales of \$322.9 million. CDS sales in the third quarter of 2013 decreased 35% compared to the third quarter of 2012, while CTS sales and MSS sales increased 6% and 1%, respectively. Sales from CTS in 2012 increased 14% for the quarter over 2011. CDS sales increased 42% for the third quarter of 2012 over 2011, while MSS sales decreased 3% for the quarter.

For the first nine months of fiscal year 2013, sales decreased by 1% to \$1.021 billion compared to \$1.035 billion in 2012. Sales for the first nine months of 2012 were 8% higher than sales of \$955.4 million in the nine-month period of 2011. CDS sales decreased 8% in 2013 compared to the first nine months of 2012, while CTS and MSS sales increased 2% and 1%, respectively. Sales generated by businesses we acquired during 2013 totaled \$14.6 million and \$25.7 million for the three- and nine-month periods ended June 30, 2013, respectively. Sales from CTS in 2012 increased 25% for the nine-month period over 2011. CDS sales increased 1% for the nine-month period in 2012 while MSS sales decreased slightly. The acquisition of Abraxas added \$56.6 million to MSS sales for the nine-month period in 2012 compared to \$30.5 million in 2011. See the segment discussions following for further analysis of segment sales.

Operating income was \$26.9 million in the third quarter of 2013 compared to \$39.6 million in the third quarter of 2012, a decrease of 32%. Operating income for the third quarter of 2012 was 45% higher than operating income of \$27.3 million in the third quarter of 2011. CDS operating income decreased 59% in the third quarter of 2013, while MSS operating income decreased 39% and CTS operating income decreased 5% compared to the third quarter of 2012. Businesses we acquired in 2013 generated operating losses of \$0.9 million for the quarter, including \$0.1 of transaction-related costs. In the third quarter of 2012, operating income was higher primarily due to a favorable change in estimate on a

CDS ground combat training range contract. Operating income from CTS increased for the third quarter of 2012 over 2011, but decreased from the MSS segment. Unallocated corporate and other costs for the third quarter of 2013 were \$1.8 million compared to \$1.1 million in 2012 and \$1.3 million in 2011.

Operating income for the nine-month period of 2013 decreased 20% to \$84.8 million from \$105.5 million in 2012. Operating income for the first three quarters of 2012 was 11% higher than operating income of \$95.4 million in the first three quarters of 2011. CDS and MSS operating income in the first nine months of 2013 decreased 72% and 24%, respectively, compared to the first nine months of 2012, while CTS operating income increased 4%. CDS operating results for the nine-month period included restructuring charges of \$6.2 million, of which \$6.1 million was recognized in the second quarter of fiscal 2013. Businesses we acquired in 2013 generated operating losses of \$1.7 million for the nine months ended June 30, 2013, including \$0.8 million of transaction-related costs. Operating income increased from CTS and CDS in the first nine months of 2012 compared to 2011, but decreased from MSS for such period. Unallocated corporate and other expenses for the first nine months of the fiscal year were \$3.7 million for 2013, \$3.3 million for 2012 and \$4.8 million in 2011. See the segment discussions following for further analysis of segment operating income.

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Adjusted EBITDA for the third quarter of fiscal 2013 was \$33.3 million compared to \$45.4 million in the third quarter of fiscal 2012 and \$33.5 million in the third quarter of fiscal 2011. For the first nine months of the fiscal year, Adjusted EBITDA decreased to \$102.8 million in 2013 compared to \$122.6 million in 2012 and \$111.6 million in 2011. The changes in Adjusted EBITDA for the quarters and nine-month periods were primarily related to the changes in operating income for the corresponding periods. See below for a reconciliation of this non-GAAP metric to net income and see the explanation above for why we believe it to be an important measure of performance.

Net income attributable to Cubic for the third quarter of fiscal 2013 decreased to \$18.4 million, or 69 cents per share, compared to \$27.4 million, or \$1.02 per share, in 2012 and \$21.6 million, or 81 cents per share, in 2011. Net income decreased for the third quarter of 2013 primarily due to a decrease in operating income and an increase in interest expense, partially offset by a decrease in income tax expense. Net income increased in the third quarter of 2012 over 2011 primarily due to the increase in operating income.

For the first nine months of 2013, net income attributable to Cubic decreased to \$62.3 million, or \$2.33 per share, from \$75.5 million, or \$2.82 per share, in 2012 and \$69.9 million, or \$2.61 per share, in 2011. The decrease in net income for the nine-month period of 2013 compared to 2012 was primarily due to a decrease in operating income, as well as an increase in interest expense and other expense, and a decrease in interest and dividend income. The impact of these items on net income was partially offset by a decrease in income tax expense. Interest and dividend income decreased for the nine-month period of 2013 based upon the decrease in our average cash balance over the period. Net income increased for the first nine months of 2012 over 2011 primarily due to the increase in operating income and also due to foreign currency exchange gains in 2012 compared to a loss in 2011. The impact of the increases in operating income and other income on net income in 2012 were partially offset by the increase in income tax expense described below. Included in other income was a net foreign currency exchange loss of \$1.2 million in the first nine months of 2013 compared to a gain of \$0.9 million in 2012 and a loss of \$0.8 million in 2011, before applicable income taxes.

Our gross margin percentages on product sales decreased to 29% in the third quarter of 2013 from 37% in 2012 and 29% in 2011. For the first nine months of fiscal year 2013, gross margin percentages on product sales decreased to 28% from 32% in 2012 and 31% in 2011. The higher gross margin percentages in 2012, particularly in the third quarter, were primarily due to a change in estimate that occurred during the third quarter of 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 the quarter and nine-month periods because of this favorable change in estimate in the third quarter of 2012.

Our gross margin percentages on service sales were 22% in the third quarter of 2013 compared to 13% in 2012 and 20% in 2011. For the first nine months of fiscal year 2013, gross margin percentages on service sales were 22% compared to 19% in 2012 and 20% in 2011. The higher gross margin percentages in the three- and nine-month periods ended June 30, 2013 and June 30, 2011 as compared to the three- and nine-month periods ended June 30, 2012 is primarily due to higher CTS service sales as a percentage of our total sales in 2013 and 2011 as compared to 2012. Our MSS segment makes up the majority of our consolidated service sales, but CTS service sales have a higher gross margin percentage than service sales from our MSS segment. In addition, in the three- and nine- month periods ended June 30, 2013 our CDS segment had significantly higher service sales than in comparable periods in 2012 or 2011. CDS segment service sales also generally realize higher gross margins than our MSS segment service sales.

SG&A expenses increased in the third quarter of 2013 to \$44.1 million compared to \$42.8 million in 2012 and \$38.0 million in 2011. For the nine-month period, SG&A increased to \$126.4 million compared to \$121.0 million in 2012 and \$114.6 million in 2011. As a percentage of sales, SG&A expenses were 13% for the third quarter and 12% for the nine-month period of fiscal 2013 compared to 12% for both third quarters and nine-month periods of 2012 and 2011. The increase in SG&A expenses in the third quarter was primarily due to \$1.5 million of stock-based compensation expense recorded during the quarter related to our long-term equity incentive award program which began in March 2013. For the

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nine-month period ended June 30, 2013, the increase in SG&A expenses primarily related to stock-based compensation of \$1.5 million recorded during 2013 as well as \$1.1 million of professional services costs 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 for the first nine months of 2013, in the first quarter of 2013 SG&A expenses were reduced by \$1.4 million related to proceeds from an insurance claim for losses that we incurred over the period from fiscal 2010 to fiscal 2012. SG&A expenses in businesses that we acquired in 2013 were \$1.6 million for the third quarter and \$3.2 million for the first nine months of 2013. The primary reason for the increase in 2012 SG&A expenses over 2011 was a \$2.9 million provision made for a legal claim in the transportation segment during the second quarter.

Company funded R&D expenditures, which relate to new defense and transportation technologies we are developing, were \$6.4 million for the third quarter of 2013 compared to \$8.4 million in 2012 and \$6.3 million in 2011, and were \$19.3 million for the nine-month period in 2013 compared to \$21.4 million in 2012 and \$17.8 million in 2011. Amortization of purchased intangibles increased for the third quarter of 2013 to \$4.4 million compared to \$3.7 million in 2012 and \$4.3 million in 2011 due to the amortization of intangible assets related to businesses purchased during 2013. Amortization of purchased intangibles for the first nine months of 2013 increased to \$12.2 million from \$11.4 million in 2012 and \$10.6 million in 2011.



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The American Taxpayer Relief Act of 2012, which reinstated the U.S. R&D tax credit retroactively from January 1, 2012 through December 31, 2013, was enacted into law during the second quarter of fiscal 2013. Therefore, the tax benefit resulting from the reinstatement for fiscal 2013 was reflected in our estimated annual effective tax rate for fiscal 2013 beginning in the second fiscal quarter. Additionally, we recorded a discrete tax benefit of approximately \$1.7 million through the third quarter of fiscal 2013 related to the reinstatement of the U.S. R&D tax credit for fiscal 2012. After consideration of both of these items, we estimated our annual effective income tax rate for fiscal 2013 would be approximately 26%. The effective rate for fiscal 2013 could be affected by, among other factors, the mix of business between the U.S. and foreign jurisdictions, our ability to take advantage of available tax credits and audits of our records by taxing authorities. The projected effective rate for fiscal 2012 of 30% was higher than the 2011 projected rate effective rate of 28% primarily due to the expiration of the U.S. R&D credit on December 31, 2011. In addition, our projected effective income tax rate for 2011 had benefitted from the retroactive reinstatement of the U.S. R&D credit, which reduced the tax provision by \$1.4 million in that period.

**Transportation Systems Segment (CTS)**

	Nine Months Ended			Three Months Ended		
	2013	June 30, 2012	2011	2013	June 30, 2012	2011
	(As Restated)	(in millions) (As Restated)	(As Restated)	(As Restated)	(in millions) (As Restated)	(As Restated)
Transportation Systems Segment Sales	\$ 398.4	\$ 390.7	\$ 312.4	\$ 134.8	\$ 126.9	\$ 111.2
Transportation Systems Segment Operating Income	\$ 69.5	\$ 66.7	\$ 59.3	\$ 19.0	\$ 20.0	\$ 16.6

CTS sales increased 6% in the third quarter of 2013 to \$134.8 million compared to \$126.9 million in 2012, which represented a 14% increase over 2011 third quarter sales of \$111.2 million. For the nine-month period, sales increased 2% to \$398.4 million from \$390.7 million in 2012, which had increased 25% over 2011 sales in the first nine months of \$312.4 million. During the quarter and nine months ended June 30, 2013 CTS generated higher sales on a contract for a suburban bus system near Chicago, and transit system contracts in Minneapolis, and New York. NextBus, a business we acquired in January 2013 that provides real-time passenger information products and services to transit agencies contributed sales of \$3.1 million for the third quarter of 2013 and \$4.6 million for the nine-month period ended June 30, 2013. In addition, during the third quarter of fiscal 2013, CTS recognized sales of approximately \$2.0 million as a result of a contract claim that was settled during the quarter related to services that were provided to a European customer between December 2011 and the second quarter of fiscal 2013. For the quarter and nine-month period 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 the quarter and nine months ended June 30, 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 in the latter stages of delivery for these systems. During the quarter and nine months ended June 30, 2013, sales also decreased on system development contracts in the U.K. Sales for the quarter and the nine-month period ended June 30, 2012 were higher from work on contracts in Australia, the contract in Vancouver and our contracts in the U.K. Partially offsetting these increases were lower sales from design and build projects in the U.S. compared to the third quarter and nine-month period of 2011. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$3.3 million for the third quarter of 2013 and \$2.2 million for the nine-month period, compared to the same periods in 2012. In 2012, such exchange rates resulted in a decrease in sales of \$3.4 million for the third quarter of 2012 and \$1.8 million for the nine-month period, compared to 2011.

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CTS operating income decreased 5% in the third quarter of 2013 to \$19.0 million compared to \$19.9 million in 2012, which represented a 20% increase over 2011 third quarter operating income of \$16.6 million. For the nine-month period operating income increased 4% to \$69.5 million in 2013 from \$66.7 million in 2012, which had increased 12% over 2011 nine-month operating income of \$59.3 million. During the quarter and nine months ended June 30, 2013, operating margins declined from 2012 due to a decrease in work on U.K. development contracts, and because of an increase in estimated costs to complete and implement a system on our contract in Sydney. These decreases in operating income in 2013 were partially offset for the quarter and were more than offset during the nine-month period by higher operating income on increased work on contracts in the U.S. described above, as well as the sales recorded in the third quarter related to the European service contract claim settlement described above. In addition, operating income for the nine-month period improved in 2013 due to higher annual system usage incentives on a U.K. service contract. The operating loss from NextBus was \$0.2 million for the third quarter of 2013 and \$0.5 million for the nine-month period ended June 30, 2013, including acquisition-related costs of \$0.2 million. In 2012, higher sales and operating income from Vancouver and U.K. contracts, in addition to improved margins from a service contract in the U.S. contributed to the increases over 2011 for the quarter and nine-month periods. The nine month results for 2012 were impacted by a \$2.9 million provision we recorded in the second quarter related to a claim against us, for which we are seeking insurance reimbursement. Any potential insurance recovery is treated as a contingent gain until we are assured of receiving the insurance proceeds. In addition, operating income for the three- and nine-month periods in 2012 was impacted by cost growth on contracts in the U.S. and Europe that reduced operating income by \$2.0 million for the third quarter and \$4.8 million for the nine-month period. We also increased our R&D expenditures in 2012 to \$6.8 million for the first nine months compared to \$2.9 million for the first nine months of 2011. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in operating income of \$0.6 million for the third quarter of 2013 and \$0.5 million for the nine-month period, compared to the same periods in 2012. In 2012, such exchange rates resulted in a decrease in operating income of \$0.6 million for the third quarter of 2012 and \$0.8 million for the nine-month period, compared to 2011.

Mission Support Services Segment (MSS)

	2013		Nine Months Ended June 30, 2012 (in millions) (As Restated)		2011		2013		Three Months Ended June 30, 2012 (in millions) (As Restated)		2011	
	(As Restated)		(As Restated)		(As Restated)		(As Restated)		(As Restated)		(As Restated)	
Mission Support Services Segment Sales	\$	359.4	\$	356.8	\$	357.8	\$	123.8	\$	122.4	\$	125.9
Mission Support Services Segment Operating Income	\$	11.4	\$	15.0	\$	18.2	\$	3.6	\$	5.9	\$	8.0

MSS sales increased 1% in the third quarter of 2013 to \$123.8 million compared to \$122.4 million in 2012, which decreased 3% from 2011 sales of \$125.9 million. Sales increased 1% for the nine-month period to \$359.4 million in 2013 from \$356.8 million in 2012, which was down slightly from sales of \$357.8 million in 2011. Sales in the quarter and nine-month period of 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. The decrease in sales was also caused by the loss of contracts due to lower bids by competitors. These decreases in sales were more than offset for the quarter and nine-month periods by sales generated by NEK, a Special Operation Forces training business acquired in December 2012 that added sales of \$11.4 million and \$21.1 million in the three- and nine-month periods ended June 30, 2013, respectively. Results for the nine-month period in 2012 included sales contributed by Abraxas, acquired in December 2010, amounting to \$56.6 million compared to \$30.5 million for the nine-month period in 2011. Abraxas sales for the third quarter of 2012 were \$5.4 million higher than in the third quarter of 2011. Sales decreased for the quarter and nine-month period in 2012 from training and education contracts due to the migration of certain contracts to small businesses where we are now in a subcontractor role. In addition, early in fiscal 2012 we lost a contract in a competitive bid situation, for support of simulation trainers that we had performed for several years.

MSS operating income decreased 39% in the third quarter of 2013 to \$3.6 million compared to \$5.9 million in 2012, which represented a 26% decrease from 2011 third quarter operating income of \$8.0 million. For the nine-month period, operating income decreased 24% to \$11.4 million in 2013 from \$15.0 million in 2012, which had decreased 18% from 2011 nine-month operating income of \$18.2 million. The decreased operating income for the third quarter of 2013 compared to 2012 resulted from the sales decreases described above and from an operating loss at NEK. For the nine-month period of 2013, the decrease resulted from increased personnel costs on a flight simulator training contract, an operating loss at NEK and the sales decreases described above. The NEK operating loss was \$0.7 million for the third quarter of 2013 and \$1.2 million for the nine-month period ended June 30, 2013, including acquisition-related costs of \$0.6 million. In 2012, lower sales from certain higher margin training and education contracts contributed to the decrease in operating income for the quarter and nine-month period compared to 2011. In addition, the competitive environment in the government services industry drove profit margins lower than in recent years. Abraxas incurred an operating loss of \$0.3 million for the third quarter of 2012 which was the same as in 2011. Abraxas' operating loss for the nine-month period ended June 30, 2012 decreased to \$1.7 million from \$1.8 million in 2011.

Table of Contents**Defense Systems Segment (CDS)**

	Nine Months Ended June 30,			Three Months Ended June 30,		
	2013	2012	2011	2013	2012	2011
	(As Restated)	(in millions) (As Restated)	(As Restated)	(As Restated)	(in millions) (As Restated)	(As Restated)
<b><u>Defense Systems Segment</u></b>						
<b><u>Sales</u></b>						
Training systems	\$ 217.9	\$ 248.7	\$ 248.7	\$ 65.2	\$ 112.7	\$ 75.8
Secure communications	44.6	37.8	35.5	13.4	8.8	9.8
	\$ 262.5	\$ 286.5	\$ 284.2	\$ 78.6	\$ 121.5	\$ 85.6
<b><u>Defense Systems Segment</u></b>						
<b><u>Operating Income</u></b>						
Training systems	\$ 17.4	\$ 32.0	\$ 31.4	\$ 7.9	\$ 19.3	\$ 7.2
Secure communications	(3.6)	(5.0)	(8.7)	(1.7)	(4.5)	(3.2)
Restructuring costs	(6.2)			(0.1)		
	\$ 7.6	\$ 27.0	\$ 22.7	\$ 6.1	\$ 14.8	\$ 4.0

**Training Systems**

Training systems sales decreased 42% in the third quarter of 2013 to \$65.2 million compared to \$112.7 million in 2012, which increased 49% over 2011 sales of \$75.8 million. Sales decreased 12% for the nine-month period to \$217.9 million in 2013 from \$248.7 million in 2012, which was consistent with sales of \$248.7 million in 2011. Sales were lower for the quarter and the nine-month period in 2013 compared to 2012 from ground combat training systems in the U.S., U.K., and the Far East as well as from sales of virtual small-arms training systems. 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 quarter and particularly for the nine-month period in 2013. In 2012, sales were higher for the third quarter compared to 2011 from two ground combat training ranges we are building in Europe and from sales of small arms training systems. Sales were lower for the quarter and nine-month periods from air combat training systems. A delivery of air combat training systems to a U.S. government customer in 2011 had resulted in significant sales and operating income for the nine-month period. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in an increase in sales of \$0.3 million for the third quarter of 2013 and \$1.0 million for the nine-month period, compared to the same periods in 2012. In 2012, such exchange rates resulted in an increase in sales of \$0.1 million for the third quarter of 2012 and \$1.2 million for the nine-month period, compared to 2011.

Operating income decreased 59% in the third quarter to \$7.9 million in 2013 compared to \$19.3 million in 2012, which was 168% higher than third quarter of 2011 operating income of \$7.2 million. For the nine-month period, operating income decreased 46% to \$17.4 million from \$32.0 million in 2012, after increasing 2% in the first nine months of 2012 from \$31.4 million in 2011. The decrease in operating income for the third quarter and first nine months of 2013 resulted primarily from a change in estimate that had occurred during the third quarter of 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 the quarter and nine-month periods because of this favorable change in estimate in the third quarter of 2012. Operating margins also decreased in 2013 on the lower sales of ground combat training systems described above, particularly due to decreases in sales to customers in the Far East. In addition, although sales of air combat training systems increased for the quarter and nine-month period, the operating margin percentage for air combat training systems for the nine-month period in fiscal 2013 was lower than in fiscal 2012 due to a decrease in sales of higher margin air combat training systems to a customer in the Far East. The increase in operating income in the third quarter of 2012 compared to 2011 resulted from the change in estimate during the quarter, as described above. For the nine-month period, operating income from this favorable change in estimate

was nearly offset by lower ground combat training sales and operating income in the U.S. and the Far East. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar did not have a material impact on operating income when comparing exchange rates for the third quarter and the nine-month period of 2013 to the third quarter and the nine-month period of 2012. In 2012, such exchange rates did not result in a material impact in operating income for the third quarter of 2012 and resulted in an increase in operating income of \$0.3 million for the nine-month period, compared to 2011.

#### **Secure Communications**

Secure communications sales increased 52% in the third quarter of 2013 to \$13.4 million compared to \$8.8 million in the third quarter of 2012, after having decreased 10% in 2012 from \$9.8 million in the third quarter of 2011. Sales increased 18% for the nine-month period to \$44.6 million in 2013 from \$37.8 million in 2012, which represented a 6% increase from sales of \$35.5 million in 2011. Operating losses decreased to \$1.7 million in the third quarter of 2013 from \$4.5 million in 2012 and \$3.2 million in 2011. Operating losses for the nine-month period decreased to \$3.6 million in 2013 from \$5.0 million in 2012, after decreasing from \$8.7 million in 2011.

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Sales were higher from personnel locator systems for the quarter and nine-month period of 2013 compared to 2012 but were lower from power amplifier products. Sales of data link products increased for the third quarter, but were lower for the nine-month period ended June 30, 2013. In 2012, higher sales for both the third quarter and nine-month period came from data links, while power amplifier sales were higher for the nine-month period but lower for the quarter compared to 2011. Personnel locator systems were lower in 2012 for both the quarter and nine-month period than in 2011.

The overall operating loss for Secure Communications is primarily due to the results of operations of our asset tracking and cyber security product lines. For the third quarter of 2013, increased margins and increased margin percentages on higher sales of data link products were primarily responsible for the decrease in the overall Secure Communications operating loss compared to 2012. For the nine-month period of 2013, higher operating income on higher personnel locator system sales was partially offset by lower margins on datalink sales. These decreased datalink margins for the nine months were caused by lower sales as well as cost growth, particularly from the impact of cost increases of \$1.2 million in the first quarter of fiscal 2013 on a U.S. government contract. In 2012, an increase in the operating loss for the third quarter resulted from cost growth of \$3.1 million on two data links contracts, partially offset by a reduction in the investment in asset tracking and cyber security products. The operating loss for the first nine months of the 2012 fiscal year decreased from 2011 primarily because of the reduction in our investment in asset tracking and cyber security products, partially offset by lower sales and operating income from personnel locator systems and the cost growth from data link contracts mentioned above.

**Restructuring costs**

In March 2013, our CDS business implemented a restructuring plan to reduce global employee headcount by approximately 150 in order to rebalance our resources with work levels that have declined due to recent delays in contract awards and contract funding. CDS incurred resulting restructuring charges of \$6.1 million and \$0.1 million, in the second and third quarters of fiscal 2013, respectively. The workforce realignment was reflective of the current mix of work and anticipated activity levels going forward. We anticipate that operating margins will improve for CDS over the remainder of the current fiscal year and next year with the leaner cost structure.

The following table presents a rollforward of our restructuring liability as of June 30, 2013, which is included within accrued compensation and other current liabilities within our Condensed Consolidated Balance Sheets (in millions):

	<b>Restructuring Liability</b>	
	<b>Employee Separation Expenses</b>	
Liability as of December 31, 2012	\$	
Accrued costs		6.1
Cash payments		(0.5)
Liability as of March 31, 2013		5.6
Accrued costs		0.1
Cash payments		(4.6)
Liability as of June 30, 2013	\$	1.1

Certain restructuring costs are based upon estimates. Actual amounts paid may ultimately differ from these estimates. If additional costs are incurred or recognized amounts exceed costs, such changes in estimates will be recognized when incurred.



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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:

	Nine Months Ended June 30,			Three Months Ended June 30,		
	2013	2012	2011	2013	2012	2011
	(As Restated)	(in thousands) (As Restated)	(As Restated)	(As Restated)	(in thousands) (As Restated)	(As Restated)
<b>Reconciliation:</b>						
Net income attributable to Cubic	\$ 62,272	\$ 75,515	\$ 69,903	\$ 18,381	\$ 27,395	\$ 21,641
Add:						
Provision for income taxes	20,437	31,381	25,282	7,292	11,667	6,959
Interest expense (income), net	1,168	(1,485)	(514)	395	(463)	(96)
Other expense (income), net	764	(95)	462	813	950	(1,232)
Noncontrolling interest in income of VIE	149	149	261	24	53	56
Depreciation and amortization	18,014	17,140	16,246	6,417	5,843	6,160
<b>ADJUSTED EBITDA</b>	<b>\$ 102,804</b>	<b>\$ 122,605</b>	<b>\$ 111,640</b>	<b>\$ 33,322</b>	<b>\$ 45,445</b>	<b>\$ 33,488</b>

Liquidity and Capital Resources

Operating activities used cash of \$6.8 million and \$38.8 million for the first nine months of 2013 and 2012, respectively, and provided cash of \$94.7 million in the first nine months of 2011. Increases in accounts receivable and long-term capitalized contract costs and decreases in accounts payable, and other current liabilities contributed to the use of cash in 2013. Long-term capitalized contract costs include costs incurred on a contract to develop and manufacture a transportation fare system for a customer in the U.S. for which revenue will not begin to be recognized until the system has been delivered. The growth in accounts receivable related to several large on-going contracts we worked on in 2013, including transportation systems contracts in Canada and Australia and a defense systems contract in Italy. Negative cash flows on these contracts at this stage of their completion is in accordance with contract terms. Contract terms, including payment terms on our long-term development contracts, are customized for each contract based upon negotiations with the respective customer. 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. In 2013, much of the growth in the unbilled accounts receivable was based upon when we are entitled to receive milestone payments. CDS and CTS segments contributed to the use of cash from operating activities in 2013, while MSS provided cash from operating activities. In the first nine months of 2012, increases in accounts receivable, inventories, and long-term capitalized contract costs, and decreases in other current liabilities and customer advances contributed to the use of cash. Use of cash by our CTS and CDA segments was also partially offset by positive cash flows from our MSS segment in 2012. A significant portion of the cash used was in the transportation segment for expenditures related to large contracts in Australia, Canada, and the U.S., where we must meet certain milestones before being paid by the customer.

Investing activities for the nine-month period of 2013 included \$40.5 million of cash paid related to the acquisition of NEK, \$20.2 million of cash paid related to the acquisition of NextBus, the purchase of \$4.1 million of marketable securities and capital expenditures of \$6.2 million. Financing activities for the nine-month period consisted of the receipt of proceeds of \$100.0 million from a note purchase and private shelf agreement described below, scheduled payments on our long-term debt of \$8.4 million, and dividends paid to our shareholders of \$3.2 million.



A change in exchange rates between foreign currencies, primarily between the Australian dollar and the U. S. dollar and between the British Pound and the U.S. dollar, resulted in a decrease of \$10.1 million to our cash balance as of June 30, 2013 compared to September 30, 2012, and a decrease to Accumulated Other Comprehensive Income of \$11.1 million during the nine-month period. Although this does not directly impact liquidity, if these exchange rates continue to change, there will be an impact on our sales and operating income, as noted in the CTS section above.

We have a Revolving Credit Agreement with a group of financial institutions in the amount of \$200.0 million that expires in May 2017. The available line of credit in the Revolving Credit Agreement is reduced by any letters of credit issued under the agreement. As of June 30, 2013, there were no borrowings under this agreement. Any borrowings under the Revolving Credit Agreement bear interest at a variable rate. At June 30, 2013 there were letters of credit outstanding under the Revolving Credit Agreement totaling \$36.1 million, which reduce the available line of credit to \$163.9 million.

We also have a 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 June 30, 2013, there were letters of credit outstanding under this agreement of \$55.1 million. In support of the Secured Letter of Credit Facility, we placed \$68.9 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 Secured Letter of Credit Facility do not reduce the available line of credit available under the Revolving Credit Agreement.

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On March 12, 2013, we entered into a note purchase and private shelf agreement pursuant to which we agreed to issue \$100.0 million of senior unsecured notes, bearing interest at a rate of 3.35% and maturing on March 12, 2025. Notes with an aggregate principal amount of \$50.0 million were purchased on March 12, 2013 and notes with the remaining aggregate principal amount of \$50.0 million were purchased on April 23, 2013. In addition, pursuant to the agreement, we may from time to time issue and sell, and the purchasers may in their sole discretion purchase, within the next three years, additional senior notes in aggregate principal amount of up to \$25.0 million that will have terms, including interest rate, as we and the purchasers may agree upon at the time of issuance.

As of June 30, 2013, \$176.2 million of the \$212.5 million of our cash and cash equivalents was held by our foreign subsidiaries. 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, our intent is to permanently reinvest 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.

Our financial condition remained strong with working capital of \$499.9 million and a current ratio of 3.1 to 1 at June 30, 2013. We expect that cash on hand, cash flows from operations, and our unused lines of credit will be adequate to meet our liquidity requirements for the foreseeable future.

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September 30,	2013 (in millions) (As Restated)	2012 (As Restated)
<b>Total backlog</b>		
Transportation Systems	\$ 1,526.4	\$ 1,656.0
Mission Support Services	626.7	737.0
Defense Systems:		
Training systems	457.8	348.0
Secure communications	35.7	47.1
Other		21.5
Total Defense Systems	493.5	416.6
Other Operations		0.3
Total	\$ 2,646.6	\$ 2,809.9
<b>Funded backlog</b>		
Transportation Systems	\$ 1,526.4	\$ 1,656.0
Mission Support Services	221.0	248.1
Defense Systems:		
Training systems	457.8	348.0
Secure communications	35.7	47.1
Other		21.5
Total Defense Systems	493.5	416.6
Other Operations		0.3
Total	\$ 2,240.9	\$ 2,321.0

As reflected in the table above, total backlog decreased \$163.3 million and funded backlog decreased \$80.1 million from September 30, 2012 to September 30, 2013. Backlog for CTS and MSS decreased from September 30, 2012 to September 30, 2013 due to sales recognized by these segments in excess of new contracts added. The decrease in MSS backlog was partially offset by the addition of \$19.5 million of backlog from the acquisition of NEK, and the decrease in CTS backlog was partially offset by the addition of \$7.1 million of backlog from the acquisition of NextBus. The increase in CDS backlog included over \$125 million of contracts with customers in the Asia Pacific region signed during 2013. Changes in exchange rates between the prevailing currency in our foreign operations and the U.S. dollar as of the end of fiscal 2013, decreased backlog by approximately \$37.8 million compared to September 30, 2012, 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.

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**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 clarified the intent about the application of existing fair value measurement requirements and added new disclosure requirements related to the unobservable inputs of Level 3 measurements and the redemption frequency of Level 2 measurements that calculate net asset value per share. We adopted ASU 2011-04 in 2012. This adoption had no material impact to our financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which eliminates the option to present other comprehensive income (OCI) in the statement of shareholders' equity and instead requires net income, the components of OCI, and total comprehensive income to be presented in either one continuous statement or two separate but consecutive statements. The standard also requires that items reclassified from OCI to net income be presented on the face of the financial statements. This standard became effective for us in 2012 and did not have an effect on our results of operations, financial position, or cash flows as it only required a change in the presentation of OCI in our consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, *Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. Prior to the adoption of ASU 2012-02, entities were required to perform a two-step impairment test as outlined by the Accounting Standards Codification (ASC). Step one of the two-step indefinite-lived intangible asset impairment test is performed by calculating the fair value of the indefinite-lived intangible asset and comparing the fair value with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, then the entity is required to perform the second step of the impairment test to measure the amount of the impairment loss, if any. Under the amendment, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its indefinite-lived intangible assets. Moreover, an entity can bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. The amendment is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Accordingly, we adopted this amendment in fiscal year 2013. This adoption had no impact to our financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under GAAP that provide additional detail on these amounts. This standard is effective prospectively for reporting periods beginning after December 15, 2012. Accordingly we adopted this standard in the first quarter of fiscal year 2014.

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.

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 enhances 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. We are currently evaluating the new guidance to determine the impact it may have on our consolidated financial statements

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**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 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.

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/A.

Products and services provided under long-term, fixed-price contracts represented approximately 75% of our sales for 2013. 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 2013 net earnings would have increased or decreased by approximately \$6.6 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.

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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. Recently, we have seen an increase in the number of customer requests for proposal that include this type of contractual arrangement. An example of this is a contract we entered into in 2011 to provide system upgrades and long-term services for the Vancouver, B.C. Canada Smart Card and Faregate system. We adopted updated authoritative accounting guidance for multiple element arrangements in 2010 on a prospective basis. For contracts of this nature entered into in 2010 and beyond, 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 construction portion of a contract we use the cost-to-cost percentage-of-completion method and for the services portion we 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.

Changes in estimates on contracts for which revenue is recognized using the cost-to-cost percentage-of-completion method decreased operating income by approximately \$1.7 million in 2013, and increased operating income by approximately \$15.7 million in 2012 and \$17.3 million in 2011. These adjustments 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 and \$11.7 million (\$0.44 per share) in 2011.

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.

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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.

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 assesses 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.

We have not recognized any U.S. tax expense on undistributed earnings of our foreign subsidiaries since we intend to reinvest the earnings outside the U.S. for the foreseeable future and therefore no amounts of undistributed earnings are available for distribution. These undistributed earnings totaled approximately \$292.2 million at September 30, 2013. Annually we evaluate the capital requirements in our foreign subsidiaries 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 2013 amortization expense would have increased by approximately \$1.9 million.

Table of Contents*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,	2013	2012	2011
		(in millions)	
Mission Support Services	\$ 94.4	\$ 118.4	\$ 118.4
Defense Systems	22.2	21.0	20.7
Transportation Systems	18.3	7.5	7.3
Total goodwill	\$ 134.9	\$ 146.9	\$ 146.4

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.

For the first step of our fiscal 2013 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 a five year forecast for our Mission Support Services reporting unit and we used three year forecasts for our Transportation Systems and Defense Systems reporting units. 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 reporting unit, and three years for our Transportation Systems and Defense Systems reporting units. The future cash flows were discounted to present value using a discount rate of 11.5% for our Defense Systems reporting unit, 12.0% for our Mission Support Services reporting unit and 8.0% for our Transportation Systems reporting unit.

Slowed defense spending and margin compression due to competitive pressures on bid rates have impacted operating results and tempered the projected cash flows of our MSS reporting unit, negatively impacting our estimate of its fair value. Step one of the impairment test concluded that the carrying value of our MSS reporting unit, including goodwill, exceeded its estimated fair value. For our remaining two reporting units, the estimated fair values were in excess of their carrying values. The fair value of our CTS and CDS reporting units would remain in excess of their respective carrying values even if there were a 10% decrease in their fair value at July 1, 2013.

For our MSS reporting unit, 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, which was determined in the first step of the impairment test, 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. If the implied fair value of goodwill is less than the carrying value, the difference is recorded as an impairment loss. Based on the results of the step two analysis, we recorded a \$50.9 million goodwill impairment in 2013.

After recognition of the goodwill impairment in the carrying value of the goodwill, the fair value of our MSS reporting unit would remain in excess of its carrying value even if there were a 10% decrease in its fair value at July 1, 2013. Unforeseen negative changes in future business or other market conditions for MSS, including further 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 MSS or our other reporting units and could result in a goodwill impairment charge in a future period.

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*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 2013 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 2013 would increase or decrease net earnings for 2014 by approximately \$0.5 million, and would have decreased or increased the amount of the benefit obligation recorded at September 30, 2013, by approximately \$8.6 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 9 to the Consolidated Financial Statements for more information.

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.

We intend to obtain financing in the future in order to finance a transportation contract with a customer for which we have incurred significant costs prior to receiving payments under the contract. In order to mitigate the risk of changes in interest rates prior to obtaining this financing, we have entered into a forward starting swap to reduce interest rate variability exposure for the projected interest rate cash flows. See Note 9 to the Consolidated Financial Statements for more information.

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**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.



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## CUBIC CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)

	Years Ended September 30,		
	2013	2012	2011
	(As Restated)	(As Restated)	(As Restated)
Net sales:			
Products	\$ 562,310	\$ 677,328	\$ 601,093
Services	799,097	726,756	700,491
	1,361,407	1,404,084	1,301,584
Costs and expenses:			
Products	425,793	466,178	418,504
Services	629,520	593,962	564,765
Selling, general and administrative expenses	165,230	164,189	159,791
Restructuring costs	8,139		
Impairment of goodwill	50,865		
Research and development	24,445	28,722	25,260
Amortization of purchased intangibles	16,680	14,828	14,681
	1,320,672	1,267,879	1,183,001
Operating income	40,735	136,205	118,583
Other income (expenses):			
Interest and dividend income	1,576	2,994	2,568
Interest expense	(3,427)	(1,602)	(1,541)
Other income (expense), net	887	366	863
Income before income taxes	39,771	137,963	120,473
Income taxes	14,502	40,332	34,119
Net income	25,269	97,631	86,354
Less noncontrolling interest in income of VIE	183	204	310
Net income attributable to Cubic	\$ 25,086	\$ 97,427	\$ 86,044
Net Income per share attributable to Cubic:			
Basic	\$ 0.94	\$ 3.64	\$ 3.22
Diluted	0.94	3.64	3.22
Weighted Average shares used in per share calculations:			
Basic	26,736	26,736	26,736
Diluted	26,760	26,736	26,736

See accompanying notes.

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## CUBIC CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Years Ended September 30,		
	2013	2012	2011
	(As Restated)	(As Restated)	(As Restated)
Net income	\$ 25,269	\$ 97,631	\$ 86,354
Other comprehensive income (loss):			
Adjustment to pension liability, net of tax	13,106	(5,585)	(3,285)
Foreign currency translation	974	10,877	(1,329)
Net unrealized gain (loss) from cash flow hedges, net of tax	3,777	242	(5,618)
Net unrealized gain (loss) on available-for-sale securities, net of tax	(2)		
Total other comprehensive income (loss)	17,855	5,534	(10,232)
Total comprehensive income	\$ 43,124	\$ 103,165	\$ 76,122

See accompanying notes.

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## CUBIC CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30,	
	2013 (As Restated)	2012 (As Restated)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 203,892	\$ 212,267
Restricted cash	69,381	68,749
Marketable securities	4,055	
Accounts receivable:		
Trade and other receivables	17,352	17,543
Long-term contracts	362,308	331,891
Allowance for doubtful accounts	(658)	(463)
	379,002	348,971
Recoverable income taxes	7,885	7,083
Inventories	59,746	42,095
Deferred income taxes	8,354	7,969
Prepaid expenses and other current assets	10,284	13,977
Total current assets	742,599	701,111
Long-term contract receivables	19,021	21,918
Long-term capitalized contract costs	68,963	26,875
Property, plant and equipment, net	56,305	55,327
Deferred income taxes	19,322	16,364
Goodwill	134,851	146,933
Purchased intangibles, net	57,542	39,374
Miscellaneous other assets	9,772	6,648
Total assets	\$ 1,108,375	\$ 1,014,550

See accompanying notes.

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## CUBIC CORPORATION

## CONSOLIDATED BALANCE SHEETS continued

(in thousands)

	September 30,	
	2013 (As Restated)	2012 (As Restated)
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 40,310	\$ 49,071
Customer advances	84,307	75,951
Accrued compensation	43,394	52,680
Other current liabilities	64,616	56,089
Income taxes payable	12,731	24,747
Current maturities of long-term debt	557	4,561
Total current liabilities	245,915	263,099
Long-term debt	102,363	6,942
Accrued pension liability	20,785	46,382
Deferred compensation	9,792	8,619
Income taxes payable	6,434	5,244
Other non-current liabilities	6,006	7,142
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized 5,000 shares		
Issued and outstanding none		
Common stock, no par value:		
Authorized 50,000 shares		
2013 and 2012 Issued 35,682 shares, outstanding 26,736 shares	15,825	12,574
Retained earnings	740,002	721,333
Accumulated other comprehensive loss	(2,803)	(20,658)
Treasury stock at cost - 8,945 shares	(36,078)	(36,078)
Shareholders' equity related to Cubic	716,946	677,171
Noncontrolling interest in variable interest entity	134	(49)
Total shareholders' equity	717,080	677,122
Total liabilities and shareholders' equity	\$ 1,108,375	\$ 1,014,550

See accompanying notes.

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## CUBIC CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended September 30,		
	2013	2012	2011
	(As Restated)	(As Restated)	(As Restated)
<b>Operating Activities:</b>			
Net income	\$ 25,269	\$ 97,631	\$ 86,354
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	25,359	22,857	22,341
Stock-based compensation expense	3,251		
Inventory write-down	2,760		
Impairment of goodwill	50,865		
Deferred income taxes	(7,508)	(1,486)	2,512
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(18,991)	(122,984)	2,047
Inventories	(19,890)	173	4,168
Prepaid expenses and other current assets	3,867	7,432	4,882
Long-term capitalized contract costs	(42,088)	(26,875)	
Accounts payable and other current liabilities	(25,637)	9,630	(1,467)
Customer advances	8,990	(55,769)	32,660
Income taxes	(19,114)	14,219	(22,144)
Other items, net	(409)	495	(2,259)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(13,276)</b>	<b>(54,677)</b>	<b>129,094</b>
<b>Investing Activities:</b>			
Acquisition of businesses, net of cash acquired	(63,691)		(126,825)
Purchases of marketable securities	(4,050)		
Proceeds from sales or maturities of short-term investments		25,829	58,252
Purchases of property, plant and equipment	(9,052)	(14,226)	(8,728)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(76,793)</b>	<b>11,603</b>	<b>(77,301)</b>
<b>Financing Activities:</b>			
Proceeds from short term borrowings	70,000		
Principal payments on short term borrowings	(70,000)		
Proceeds from long term borrowings	100,000		
Principal payments on long-term borrowings	(8,543)	(4,549)	(4,555)
Contingent consideration payments related to acquisitions of businesses	(7,842)		
Net change in restricted cash	(158)	(68,584)	
Dividends paid to shareholders	(6,417)	(6,417)	(7,486)
Purchases of treasury stock			(4)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>77,040</b>	<b>(79,550)</b>	<b>(12,045)</b>

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Effect of exchange rates on cash	4,654	5,743	(6,034)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,375)	(116,881)	33,714
Cash and cash equivalents at the beginning of the year	212,267	329,148	295,434
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 203,892	\$ 212,267	\$ 329,148
Supplemental disclosure of non-cash investing and financing activities:			
Liability incurred to acquire NEK, net	\$ 4,490	\$	\$

See accompanying notes.

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## 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, 2010 (previously reported)	\$ 12,574	\$ 553,452	\$ (16,340)	\$ (36,074)	\$ (563)	(26,736)
Adjustments to opening shareholders' equity		(1,687)	380			
September 30, 2010 (as restated)	12,574	551,765	(15,960)	(36,074)	(563)	(26,736)
Net income (as restated)		86,044			310	
Other comprehensive loss, net of tax (as restated)			(10,232)			
Purchase of treasury stock				(4)		
Cash dividends paid \$ .28 per share of common stock		(7,486)				
September 30, 2011 (as restated)	12,574	630,323	(26,192)	(36,078)	(253)	(26,736)
Net income (as restated)		97,427			204	
Other comprehensive income, net of tax (as restated)			5,534			
Cash dividends paid \$ .24 per share of common stock		(6,417)				
September 30, 2012 (as restated)	12,574	721,333	(20,658)	(36,078)	(49)	(26,736)
Net income (as restated)		25,086			183	
Other comprehensive income, net of tax (as restated)			17,855			
Stock-based compensation	3,251					
Cash dividends paid \$ .24 per share of common stock		(6,417)				
September 30, 2013 (as restated)	\$ 15,825	\$ 740,002	\$ (2,803)	\$ (36,078)	\$ 134	(26,736)

See accompanying notes.

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CUBIC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

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 (including intercompany balances for which settlement is not anticipated in the foreseeable future) 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 accumulated 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 \$(0.8) million, \$0.7 million and \$(0.3) million in 2013, 2012 and 2011, 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 cash flows of our reporting units and of our intangible assets used for goodwill 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 its availability.

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.

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

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 advanced payments, 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 amortized into 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 8 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 material impairment of long-lived assets for the years ended September 30, 2013, 2012 and 2011.

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.

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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 accumulated other comprehensive 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.

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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.

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 multiple element contracts that were entered prior to October 1, 2009, a delivered item was considered a separate unit of accounting when it had value to the customer on a standalone basis and there was objective and reliable evidence of the fair value of the undelivered items. For contracts where we are unable to conclude there were separate units of accounting, we combine the deliverables and recognize revenue once the final item has been delivered or, if the final element is a service, over the period of performance.

We adopted authoritative accounting guidance for multiple-element arrangements effective October 1, 2009 on a prospective basis. This guidance affected the accounting conclusion as to whether a deliverable under a contract is considered a separate unit of accounting, and also affected the method that is used to allocate arrangement consideration to each separate unit of accounting. The new guidance eliminates the requirement for objective and reliable evidence of fair value to exist for the undelivered items in order for a delivered item to be treated as a separate unit of accounting. The new guidance also requires arrangement consideration to be allocated at the inception of the arrangement to all deliverables using the relative-selling-price method and eliminates the use of the residual method of allocation. 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 use the percentage-of completion method and for the services portion we 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.

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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.

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. For all performance-based RSUs granted to date, the measurement period is October 1, 2012 through September 30, 2015. 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. Annually 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.





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

	Year Ended September 30,		
	2013 (As Restated)	2012 (As Restated)	2011 (As Restated)
Net income attributable to Cubic	\$ 25,086	\$ 97,427	\$ 86,044
Weighted average shares - basic	26,736	26,736	26,736
Effect of dilutive securities	24		
Weighted average shares - diluted	26,760	26,736	26,736
Net income per share attributable to Cubic, basic	\$ 0.94	\$ 3.64	\$ 3.22
Effect of dilutive securities			
Net income per share attributable to Cubic, diluted	\$ 0.94	\$ 3.64	\$ 3.22
Anti-dilutive employee share-based awards			

**Recent Accounting Pronouncements:** In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 clarified the intent about the application of existing fair value measurement requirements and added new disclosure requirements related to the unobservable inputs of Level 3 measurements and the redemption frequency of Level 2 measurements that calculate net asset value per share. We adopted ASU 2011-04 in 2012. This adoption had no material impact to our financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which eliminates the option to present other comprehensive income (OCI) in the statement of shareholders' equity and instead requires net income, the components of OCI, and total comprehensive income to be presented in either one continuous statement or two separate but consecutive statements. The standard also requires that items reclassified from OCI to net income be presented on the face of the financial statements. This standard became effective for us in 2012 and did not have an effect on our results of operations, financial position, or cash flows as it only required a change in the presentation of OCI in our consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, *Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. Prior to the adoption of ASU 2012-02, entities were required to perform a two-step impairment test as outlined by the ASC. Step one of the two-step indefinite-lived intangible asset impairment test is performed by calculating the fair value of the indefinite-lived intangible asset and comparing the fair value with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, then the entity is required to perform the second step of the impairment test to measure the amount of the impairment loss, if any. Under the amendment, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its indefinite-lived intangible assets. Moreover, an entity can bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. The amendment is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Accordingly, we adopted this amendment in fiscal year 2013. This adoption had no impact to our financial statements.

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In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under GAAP that provide additional detail on these amounts. This standard is effective prospectively for reporting periods beginning after December 15, 2012. Accordingly we adopted this standard in the first quarter of fiscal year 2014. We are currently evaluating the impact of adopting this guidance.

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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.

## NOTE 2 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

We have restated our Consolidated Balance Sheets at September 30, 2013 and 2012 and our Consolidated Statements of Income, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the years ended September 30, 2013, 2012, and 2011 including the cumulative impact of corrected errors for periods prior to October 1, 2010.

The cumulative adjustments to correct the errors in the consolidated financial statements for all periods prior to October 1, 2010 are recorded as adjustments to retained earnings and accumulated other comprehensive income (loss) at September 30, 2010, as shown in the consolidated statements of changes in shareholders' equity. The cumulative effect of those adjustments decreased previously reported retained earnings by \$1.7 million and reduced previously reported accumulated other comprehensive loss by \$0.4 million at September 30, 2010.

The following tables present the summary impacts of the restatement adjustments on our previously reported consolidated retained earnings at September 30, 2010 and consolidated net income for the years ended September 30, 2013, 2012 and 2011 (in thousands):

Retained earnings at September 30, 2010 - As previously reported	\$	553,452
Adjustments		(1,687)
Retained earnings at September 30, 2010 - As restated	\$	551,765

	2013	For the Years Ended	
		September 30,	2011
		2012	
Net Income - As previously reported	\$ 19,798	\$ 91,900	\$ 83,594
Adjustments	5,288	5,527	2,450
Net Income - As restated	\$ 25,086	\$ 97,427	\$ 86,044

*Description of Adjustments*

On February 20, 2014, we announced that we would be restating certain previously issued audited consolidated financial statements and unaudited condensed consolidated financial statements primarily to correct two errors in the recognition of revenue.

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

In addition to the errors described above, we also made adjustments related to other individually immaterial errors including certain corrections that had been previously identified but not recorded because they were not material, individually or in the aggregate, to our consolidated financial statements. These corrections included certain accrued liabilities and reserves and miscellaneous reclassification entries; adjustments to various income tax and indirect tax accrual accounts; and adjustments to sales and cost of sales to correct cutoff on immaterial revenue recognition transactions.

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The following tables present the impact of the restatement on the our previously issued Consolidated Balance Sheets as of September 30, 2013 and 2012, and our Consolidated Statements of Income, Comprehensive Income and Cash Flows for the years ended September 30, 2013, 2012, and 2011:

	Consolidated Statement of Income Year Ended September 30, 2013			Consolidated Statement of Income Year Ended September 30, 2012			Consolidated Statement of Income Year Ended September 30, 2011		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
<b>(amounts in thousands, except per share data)</b>									
Net sales:									
Products	\$ 568,442	\$ (6,132)	\$ 562,310	\$ 663,287	\$ 14,041	\$ 677,328	\$ 600,933	\$ 160	\$ 601,093
Services	792,281	6,816	799,097	718,208	8,548	726,756	694,648	5,843	700,491
	1,360,723	684	1,361,407	1,381,495	22,589	1,404,084	1,295,581	6,003	1,301,584
Costs and expenses:									
Products	429,494	(3,701)	425,793	451,573	14,605	466,178	418,279	225	418,504
Services	629,832	(312)	629,520	594,662	(700)	593,962	564,062	703	564,765
Selling, general and administrative	164,876	354	165,230	163,688	501	164,189	159,791		159,791
Restructuring costs	8,139		8,139						
Impairment of goodwill	50,865		50,865						
Research and development	24,445		24,445	28,722		28,722	25,260		25,260
Amortization of purchased intangibles	16,680		16,680	14,828		14,828	14,681		14,681
	1,324,331	(3,659)	1,320,672	1,253,473	14,406	1,267,879	1,182,073	928	1,183,001
Operating income	36,392	4,343	40,735	128,022	8,183	136,205	113,508	5,075	118,583
Other income (expense):									
Interest and dividend income	1,576		1,576	2,994		2,994	2,568		2,568
Interest expense	(3,415)	(12)	(3,427)	(1,550)	(52)	(1,602)	(1,461)	(80)	(1,541)
Other income (expense) - net	(367)	1,254	887	821	(455)	366	1,662	(799)	863
Income before income taxes	34,186	5,585	39,771	130,287	7,676	137,963	116,277	4,196	120,473
Income taxes	14,205	297	14,502	38,183	2,149	40,332	32,373	1,746	34,119
Net income	19,981	5,288	25,269	92,104	5,527	97,631	83,904	2,450	86,354
Less noncontrolling interest in income of VIE	183		183	204		204	310		310
Net income attributable to Cubic	\$ 19,798	\$ 5,288	\$ 25,086	\$ 91,900	\$ 5,527	\$ 97,427	\$ 83,594	\$ 2,450	\$ 86,044
Net income per share attributable to Cubic:									
Basic	\$ 0.74	\$ 0.20	\$ 0.94	\$ 3.44	\$ 0.20	\$ 3.64	\$ 3.13	\$ 0.09	\$ 3.22
Diluted	\$ 0.74	\$ 0.20	\$ 0.94	\$ 3.44	\$ 0.20	\$ 3.64	\$ 3.13	\$ 0.09	\$ 3.22
Weighted average shares used in per share calculations:									
Basic	26,736		26,736	26,736		26,736	26,736		26,736

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Diluted 26,760 26,760 26,736 26,736 26,736 26,736

	Consolidated Statement of Comprehensive Income September 31, 2013			Consolidated Statement of Comprehensive Income September 31, 2012			Consolidated Statement of Comprehensive Income September 31, 2011		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
Net income	\$ 19,981	\$ 5,288	\$ 25,269	\$ 92,104	\$ 5,527	\$ 97,631	\$ 83,904	\$ 2,450	\$ 86,354
Other comprehensive income:									
Adjustment to pension liability, net of taxes	13,501	(395)	13,106	(5,585)		(5,585)	(3,285)		(3,285)
Foreign currency translation	494	480	974	10,688	189	10,877	(1,250)	(79)	(1,329)
Net unrealized gains/losses from cash flow hedges, net of tax	3,777		3,777	242		242	(5,618)		(5,618)
Net unrealized gain (loss) on available-for-sale securities, net of tax	(2)		(2)						
Total other comprehensive income (loss)	17,770	85	17,855	5,345	189	5,534	(10,153)	(79)	(10,232)
Total comprehensive income (loss)	37,751	5,373	43,124	97,449	5,716	103,165	73,751	2,371	76,122

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	Consolidated Balance Sheet September 30, 2013			Consolidated Balance Sheet September 30, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 203,892	\$	\$ 203,892	\$ 212,267	\$	\$ 212,267
Restricted cash	69,381		69,381	68,749		68,749
Marketable securities	4,055		4,055			
Accounts receivable - net	376,143	2,859	379,002	350,697	(1,726)	348,971
Recoverable income taxes	7,885		7,885	7,083		7,083
Inventories - net	54,400	5,346	59,746	52,366	(10,271)	42,095
Deferred income taxes	8,354		8,354	7,587	382	7,969
Prepaid expenses and other current assets	10,284		10,284	13,977		13,977
Total current assets	734,394	8,205	742,599	712,726	(11,615)	701,111
Long-term contract receivables	19,249	(228)	19,021	22,070	(152)	21,918
Long-term capitalized costs	75,520	(6,557)	68,963	26,875		26,875
Property, plant and equipment - net	56,305		56,305	55,327		55,327
Deferred income taxes	19,322		19,322	16,364		16,364
Goodwill	134,851		134,851	146,933		146,933
Purchased intangibles - net	57,542		57,542	39,374		39,374
Other assets	9,772		9,772	6,648		6,648
	\$ 1,106,955	\$ 1,420	\$ 1,108,375	\$ 1,026,317	\$ (11,767)	\$ 1,014,550
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Current liabilities:						
Trade accounts payable	\$ 39,016	\$ 1,294	\$ 40,310	\$ 47,917	\$ 1,154	\$ 49,071
Customer advances	103,187	(18,880)	84,307	100,764	(24,813)	75,951
Accrued compensation and other current liabilities	43,394		43,394	52,680		52,680
Other current liabilities	62,693	1,923	64,616	55,988	101	56,089
Income taxes payable	8,076	4,655	12,731	20,733	4,014	24,747
Current portion of long-term debt	557		557	4,561		4,561
Total current liabilities	256,923	(11,008)	245,915	282,643	(19,544)	263,099
Long-term debt	102,363		102,363	6,942		6,942
Accrued pension liability	20,785		20,785	46,382		46,382
Deferred compensation	9,792		9,792	8,619		8,619
Income taxes payable	6,769	(335)	6,434	4,862	382	5,244
Other long-term liabilities	5,396	610	6,006	6,527	615	7,142
Shareholders' equity:						
Common stock	15,825		15,825	12,574		12,574
Retained earnings	728,424	11,578	740,002	715,043	6,290	721,333
Accumulated other comprehensive loss	(3,378)	575	(2,803)	(21,148)	490	(20,658)
Treasury stock at cost	(36,078)		(36,078)	(36,078)		(36,078)
Shareholders' equity related to Cubic	704,793	12,153	716,946	670,391	6,780	677,171
Noncontrolling interest in variable interest entity	134		134	(49)		(49)
Total shareholders' equity	704,927	12,153	717,080	670,342	6,780	677,122



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\$	1,106,955	\$	1,420	\$	1,108,375	\$	1,026,317	\$	(11,767)	\$	1,014,550
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	Consolidated Statement of Cash Flows September 30, 2013			Consolidated Statement of Cash Flows September 30, 2012			Consolidated Statement of Cash Flows September 30, 2011		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>Operating Activities:</b>									
Net income	\$ 19,981	\$ 5,288	\$ 25,269	\$ 92,104	\$ 5,527	\$ 97,631	\$ 83,904	\$ 2,450	\$ 86,354
Adjustments to reconcile net income to net cash provided by (used in) operating activities:									
Depreciation and amortization	25,359		25,359	22,857		22,857	22,341		22,341
Share-based compensation expense	3,251		3,251						
Inventory write-downs	2,760		2,760						
Impairment of goodwill	50,865		50,865						
Deferred income taxes	(7,508)		(7,508)	(1,486)		(1,486)	2,512		2,512
Changes in operating assets and liabilities net of effects from acquisitions:									
Accounts receivable	(14,588)	(4,403)	(18,991)	(118,164)	(4,820)	(122,984)	3,566	(1,519)	2,047
Inventories	(4,219)	(15,671)	(19,890)	(13,636)	13,809	173	2,442	1,726	4,168
Prepaid expenses and other current assets	3,485	382	3,867	7,574	(142)	7,432	5,122	(240)	4,882
Long-term capitalized contract costs	(48,645)	6,557	(42,088)	(26,875)		(26,875)			
Accounts payable and other current liabilities	(27,587)	1,950	(25,637)	8,525	1,105	9,630	(1,547)	80	(1,467)
Customer advances	3,006	5,984	8,990	(37,999)	(17,770)	(55,769)	37,143	(4,483)	32,660
Income taxes	(19,027)	(87)	(19,114)	11,929	2,290	14,219	(23,713)	1,569	(22,144)
Other items	(409)	0	(409)	494	1	495	(2,676)	417	(2,259)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(13,276)</b>		<b>(13,276)</b>	<b>(54,677)</b>		<b>(54,677)</b>	<b>129,094</b>		<b>129,094</b>
<b>Investing Activities:</b>									
Acquisition of businesses, net of cash acquired	(63,691)		(63,691)				(126,825)		(126,825)
Net additions to property, plant and equipment	(9,052)		(9,052)	(14,226)		(14,226)	(8,728)		(8,728)
Purchases of short-term investments	(4,050)		(4,050)						
Proceeds from maturities of short-term investments				25,829		25,829	58,252		58,252
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(76,793)</b>		<b>(76,793)</b>	<b>11,603</b>		<b>11,603</b>	<b>(77,301)</b>		<b>(77,301)</b>
<b>Financing Activities:</b>									
Proceeds from short-term borrowings	70,000		70,000						
Principal payments on short-term borrowings	(70,000)		(70,000)						
Proceeds from long-term borrowings	100,000		100,000						
Principal payments on long-term debt	(8,543)		(8,543)	(4,549)		(4,549)	(4,555)		(4,555)
	(7,842)		(7,842)						

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Contingent consideration payments related to acquisitions of						
Dividends paid to shareholders	(6,417)	(6,417)	(6,417)	(6,417)	(7,486)	(7,486)
Change in restricted cash	(158)	(158)	(68,584)	(68,584)		
Purchases of treasury stock					(4)	(4)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	77,040	77,040	(79,550)	(79,550)	(12,045)	(12,045)
Effect of exchange rates on cash	4,654	4,654	5,743	5,743	(6,034)	(6,034)
NET INCREASE (DECREASE) IN CASH AND CASH	(8,375)	(8,375)	(116,881)	(116,881)	33,714	33,714
Cash and cash equivalents at the beginning of the year	212,267	212,267	329,148	329,148	295,434	295,434
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 203,892	\$ 203,892	\$ 212,267	\$ 212,267	\$ 329,148	\$ 329,148

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

### NOTE 3 ACQUISITIONS

#### NEK

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. This acquisition has expanded the scope of services and customer base of our Mission Support Services (MSS) segment. In connection with the acquisition, we hired more than 200 employees of the Seller's Special Operations Forces training business. This transaction has been accounted for as a business combination. The results of the acquired operations have been included in our consolidated financial statements since the acquisition date. 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 excludes any allocation of the goodwill impairment described in Note 8 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.

The acquisition agreement states that the cost of the acquisition will total \$52.0 million, adjusted by the difference between the net working capital acquired and targeted working capital amounts, less amounts that will not be due if certain future events fail to occur. The acquisition-date fair value of consideration transferred is estimated to be \$52.6 million. Through September 30, 2013 we have paid the Seller cash consideration of \$48.1 million from our existing cash resources and we have recorded a current liability of approximately \$4.5 million at September 30, 2013 as an estimate of additional cash consideration that is due to the Seller. The timing of the payment of \$1.0 million of the additional cash consideration will be accelerated if the Seller causes certain events to occur, but will ultimately be paid over the passage of time regardless of whether these events occur. Approximately \$3.5 million of the additional cash consideration is contingent upon future events, including the novation of certain of the Seller's contracts to NEK. We have estimated the fair value of the contingent consideration using a

probability-weighted discounted cash flow model. We have estimated that the probability of our payment to the Seller of any amounts less than the maximum possible additional cash consideration of \$3.5 million is remote. As such, we have estimated that the fair value of the additional cash consideration at September 30, 2013 approximates the maximum possible contingent payments to the Seller of \$3.5 million. There has been no change in the estimated fair value of the total estimated contingent payments to be made to the Seller since the date of the acquisition.

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The following table summarizes the estimated 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 estimated fair value of the accounts receivable is preliminary and will be finalized as further information is received from the Seller and a customer regarding the billed amounts.

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 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 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 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.

*NextBus*

On January 24, 2013, Cubic 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 Cubic Transportation Systems (CTS) segment. This transaction has been accounted for as a business combination. The results of the acquired NextBus operations have been included in our consolidated financial statements since the acquisition date. 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.

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

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

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

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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.

*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. The results of the acquired AIS operations have been included in our consolidated financial statements since the acquisition date. 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 estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Customer relationships	\$	1.4
Technology		0.9
Backlog		0.6
Other net assets acquired		(1.5)
Net identifiable assets acquired		1.4
Goodwill		0.6
Net assets acquired	\$	2.0

The estimated fair values of the assets acquired and liabilities assumed, including the fair value of liabilities for potential claims from customers and the fair value of receivables are preliminary estimates pending the finalization of our valuation analyses. These values will be finalized as further information is received from the customers. 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. The results of the acquired PSMC operations have been included in our consolidated financial statements since the acquisition date. For the year ended September 30, 2013 the amount of PSMC's 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):

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

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

*Abraxas*

On December 20, 2010 we acquired all of the outstanding capital stock of Abraxas Corporation (Abraxas), a company that provides services that are complementary to our Mission Support Services (MSS) business including risk mitigation services, and subject matter and operational expertise for law enforcement and homeland security clients. The results of Abraxas operations have been included in our consolidated financial statements since the acquisition date.



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We paid \$126.0 million in cash from our existing cash resources to acquire Abraxas. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

Customer relationships	\$	20.1
Backlog		11.5
Corporate trade names		5.7
Non-compete agreements		5.2
Recoverable income taxes		4.3
Deferred tax liabilities, net		(7.6)
Net tangible assets acquired		5.1
Net identifiable assets acquired		44.3
Goodwill		81.7
Net assets acquired	\$	126.0

The recoverable income taxes are primarily related to carryback claims for the tax benefit of acquired net operating losses. The net deferred tax liabilities were recorded to reflect the tax impact of the identified intangible assets that will not generate tax deductible amortization expense, net of the future tax benefit of acquired net operating loss carryforwards. The intangible assets, which include trade name, customer relationships, non-compete agreements and backlog, 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 6 years from the date of acquisition.

*Pro forma information*

The following unaudited pro forma information presents our consolidated results of operations as if NEK, NextBus, AIS and PSMC had been included in our consolidated results since October 1, 2011 (in millions):

	Years Ended September 30,	
	2013 (As Restated)	2012 (As Restated)
Net sales	\$ 1,385.3	\$ 1,468.0
Net income attributable to Cubic	26.2	99.2

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, 2011, and it does not purport to project our future operating results.

*Subsequent event*

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On November 26, 2013, we acquired all of the outstanding capital stock of Intelligent Transport Management Solutions Limited (ITMS), a wholly owned U.K. subsidiary of Serco Limited. 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. ITMS will be included within our CTS segment. The total estimated acquisition-date fair value of consideration transferred for ITMS was approximately \$70 million.

We expect to complete the preliminary determination of the fair value of acquired assets and liabilities as well as the acquired goodwill of ITMS during the first quarter of 2014.

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## NOTE 4 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.

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

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, 2013				September 30, 2012		
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Total
<b>Assets</b>							
Cash equivalents	\$ 125,512	\$	\$	\$ 125,512	\$ 171,300	\$	\$ 171,300
Marketable securities	4,055			4,055			
Current derivative assets		1,597		1,597		3,779	3,779
Noncurrent derivative assets		6,096		6,096		3,713	3,713

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Total assets measured at fair value	129,567	7,693		137,260	171,300	7,492	178,792
<b>Liabilities</b>							
Current derivative liabilities		2,360		2,360		6,839	6,839
Noncurrent derivative liabilities		5,366		5,366		6,498	6,498
Contingent consideration to seller of NEK			3,485	3,485			
Total liabilities measured at fair value	\$	\$ 7,726	\$ 3,485	\$ 11,211	\$	\$ 13,337	\$ 13,337

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,	2013		2012	
Fair value	\$	95.8	\$	12.5
Carrying value		102.9		11.5

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Due to the impairment of goodwill for MSS reporting unit, 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, a Level 3 fair value measurement technique. See Note 8 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 except for the MSS goodwill.

## NOTE 5 ACCOUNTS RECEIVABLE

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

September 30,	2013 (As Restated)	2012 (As Restated)
<b>U.S. Government Contracts:</b>		
Amounts billed	\$ 51,529	\$ 42,852
Recoverable costs and accrued profits on progress completed not billed	60,435	77,750
	111,964	120,602
<b>Commercial Customers:</b>		
Amounts billed	47,454	48,280
Recoverable costs and accrued profits on progress completed not billed	221,911	184,927
	269,365	233,207
	381,329	353,809
Less unbilled amounts not currently due commercial customers	(19,021)	(21,918)
	\$ 362,308	\$ 331,891

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 2014. 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, 2013 under transportation systems contracts in the U.S., Australia and the U.K.

## NOTE 6 INVENTORIES

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

September 30,	2013 (As Restated)	2012 (As Restated)
Work in process and inventoried costs under long-term contracts	\$ 80,918	\$ 68,525
Materials and purchased parts	693	858

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Customer advances		(21,865)	(27,288)
	\$	59,746	\$ 42,095

At September 30, 2013, work in process and inventoried costs under long-term contracts includes approximately \$5.8 million in costs incurred outside the scope of work or in advance of a contract award, compared to \$1.9 million as of September 30, 2012. We believe it is probable that we will recover the costs inventoried at September 30, 2013, 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, 2013 and 2012 were \$7.1 million and \$5.4 million, respectively.

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## NOTE 7 PROPERTY, PLANT AND EQUIPMENT

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

September 30,	2013	2012
Land and land improvements	\$ 15,996	\$ 16,045
Buildings and improvements	45,854	44,376
Machinery and other equipment	95,898	94,113
Leasehold improvements	9,714	8,688
Accumulated depreciation and amortization	(111,157)	(107,895)
	\$ 56,305	\$ 55,327

Our provisions for depreciation of plant and equipment and amortization of leasehold improvements amounted to \$8.7 million, \$8.0 million and \$7.7 million in 2013, 2012 and 2011, respectively. Generally, we use straight-line methods for real property over estimated useful lives ranging from 15 to 39 years 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 estimated useful lives ranging from 5 to 10 years.

## NOTE 8 GOODWILL AND PURCHASED INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the two years ended September 30, 2013 are as follows (in thousands):

	Transportation Systems	Defense Systems	Mission Support Services	Total
Balances at October 1, 2011	\$ 7,269	\$ 20,653	\$ 118,433	\$ 146,355
Foreign currency exchange rate changes	248	330		578
Balances at September 30, 2012	7,517	20,983	118,433	146,933
Acquisitions (see Note 3)	10,837	1,223	26,782	38,842
Impairment of goodwill			(50,865)	(50,865)
Foreign currency exchange rate changes	(53)	(6)		(59)
Balances at September 30, 2013	\$ 18,301	\$ 22,200	\$ 94,350	\$ 134,851

We completed our annual goodwill impairment test as of July 1, 2013. 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. Slowed defense spending and margin compression due to competitive pressures on bid rates have impacted operating results and tempered the projected cash flows of our MSS reporting unit, negatively impacting our estimate of its fair value. Step one of the impairment test concluded that the carrying value of our MSS reporting unit, including goodwill, exceeded its estimated fair value. For our remaining two reporting units, the estimated fair values were in excess of their carrying values.

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For our MSS reporting unit, 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. If the implied fair value of goodwill is less than the carrying value, the difference is recorded as an impairment loss. Based on the results of the step two analysis, we recorded a \$50.9 million goodwill impairment in 2013.



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

	September 30, 2013			September 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	\$ 97,424	\$ (54,712)	\$ 42,712	\$ 71,145	\$ (40,785)	\$ 30,360
Other purchased intangibles	22,915	(8,085)	14,830	14,560	(5,546)	9,014
Total	\$ 120,339	\$ (62,797)	\$ 57,542	\$ 85,705	\$ (46,331)	\$ 39,374

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, over a weighted average period of 6 years. Total amortization expense for 2013, 2012 and 2011 was \$16.7 million, \$14.8 million and \$14.7 million, respectively.

The table below shows our expected amortization of purchased intangibles as of September 30, 2013, for each of the next five years and thereafter (in thousands):

	Transportation Systems	Defense Systems	Mission Support Services	Total
2014	\$ 3,247	\$ 1,869	\$ 10,420	\$ 15,536
2015	2,961	1,239	7,690	11,890
2016	2,775	783	4,714	8,272
2017	2,675	253	2,452	5,380
2018	2,570	44	1,775	4,389
Thereafter	5,765		6,310	12,075
	\$ 19,993	\$ 4,188	\$ 33,361	\$ 57,542

## NOTE 9 FINANCING ARRANGEMENTS

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

September 30,	2013	2012
Series A senior unsecured notes payable to a group of insurance companies, interest fixed at 3.35%	\$ 50,000	\$
Series B senior unsecured notes payable to a group of insurance companies, interest fixed at 3.35%	50,000	
Unsecured notes payable to a group of insurance companies		8,000
Mortgage note from a U.K. financial institution, with quarterly installments of principal and interest at 6.48%	2,920	3,503
	102,920	11,503

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Less current portion		(557)		(4,561)
	\$	102,363	\$	6,942

Maturities of long-term debt for each of the five years in the period ending September 30, 2018, are as follows: 2014 \$0.6 million; 2015 \$0.6 million; 2016 \$0.6 million; 2017 \$0.6 million; 2018 \$0.5 million.

Interest paid amounted to \$3.7 million, \$7.4 million and \$1.1 million in 2013, 2012 and 2011, respectively. Interest paid in 2013 included a final payment of \$0.6 million of interest in connection with our payment to the U.S. District Court in April 2012 for an arbitration award with the Ministry of Defense for the Armed Forces of the Islamic Republic of Iran. \$5.9 million was paid in 2012 (See Note 16 for further information).

In March 2013, we entered into a note purchase and private shelf agreement pursuant to which we agreed to issue \$100.0 million of senior unsecured notes, bearing interest at a rate of 3.35% and maturing on March 12, 2025. Notes with an aggregate principal amount of \$50.0 million were issued on March 12, 2013 and notes with the remaining aggregate principal amount of \$50.0 million were issued on April 23, 2013. Interest on these notes is due semi-annually and principal payments are due from 2021 through 2025. In addition, pursuant to the agreement, we may from time to time issue and sell, and the purchasers may in their sole discretion purchase, within the next three years, additional senior notes in aggregate principal amount of up to \$25.0 million that will have terms, including interest rate, as we and the purchasers may agree upon at the time of issuance.

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, 2013, there were no borrowings under this agreement; however, there were letters of credit outstanding totaling \$23.5 million, which reduce the available line of credit to \$176.5 million.

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We have a secured letter of credit facility agreement with a bank (Secured Letter of Credit Facility) which expires in March 2014. At September 30, 2013 there were letters of credit outstanding under this agreement of \$54.4 million. Of our total restricted cash of \$69.4 million at September 30, 2013, \$68.9 million of this amount 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. The term of the facility is one year; however we may choose at any time to terminate the facility and move the associated letters of credit to another credit facility. Letters of credit outstanding under the Secured Letter of Credit Facility do not reduce the available line of credit under the Revolving Credit Agreement.

As of September 30, 2013, we had letters of credit and bank guarantees outstanding totaling \$89.6 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 \$12.4 million as of September 30, 2013, 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 \$2.9 million) to help meet the short-term working capital requirements of our subsidiaries in those countries. At September 30, 2013, 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 December 31, 2013 this agreement does not restrict such distributions to shareholders. As a result of our restatement, we have been unable to comply with covenants requiring us to provide our lenders with audited financial statements and interim financial information on a timely basis. However, we have entered into amendments to our financing arrangements which have included waivers to extend the dates by which we are required to deliver our audited financial statements and interim financial information to May 31, 2014, and as such we are not in default under our lending arrangements or credit agreements.

Our self-insurance arrangements are limited to certain workers' compensation plans, automobile liability and product liability claims. Under these arrangements, we self-insure only up to the amount of a specified deductible for each claim. Self-insurance liabilities included in other current liabilities on the balance sheet amounted to \$8.8 million and \$8.7 million as of September 30, 2013, and 2012 respectively.

NOTE 10 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 2013, \$0.4 million in 2012 and \$0.6 million in 2011) for all operating leases amounted to \$12.6 million, \$10.2 million and \$9.1 million in 2013, 2012 and 2011 respectively.

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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, 2013 (in thousands):

2014	\$	12,405
2015		9,710
2016		7,102
2017		4,870
2018		5,831
Thereafter		3,057
	\$	42,975

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## NOTE 11 INCOME TAXES

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

Years ended September 30,	2013 (As Restated)	2012 (in thousands) (As Restated)	2011 (As Restated)
<b>Current:</b>			
Federal	\$ 8,198	\$ 15,448	\$ (804)
State	2,437	1,927	810
Foreign	18,581	21,005	24,531
Total current	29,216	38,380	24,537
<b>Deferred:</b>			
Federal	(14,182)	331	9,356
State	(2,720)	328	299
Foreign	2,188	1,293	(73)
Total deferred provision	(14,714)	1,952	9,582
Total income tax expense	\$ 14,502	\$ 40,332	\$ 34,119

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

September 30,	2013	(in thousands)	2012
	(As Restated)		(As Restated)
<b>Deferred tax assets:</b>			
Accrued employee benefits	\$ 11,642		\$ 12,490
Long-term contracts and inventory valuation reductions	14,152		8,343
Allowances for loss contingencies	5,441		6,242
Deferred compensation	4,346		3,756
Property, plant and equipment	1,127		726
Intangible assets	477		
Retirement benefits	5,678		14,549
State research and development credit carryforward	4,839		3,882
Net operating losses	18,639		11,291
Foreign currency mark-to-market	302		2,192
Other	1,746		313
<b>Subtotal</b>	<b>68,389</b>		<b>63,784</b>
Valuation allowance	(8,801)		(4,205)
<b>Deferred tax assets</b>	<b>59,588</b>		<b>59,579</b>
<b>Deferred tax liabilities:</b>			
Intangible assets			8,608
Deferred revenue	28,865		25,277
State taxes	995		269
Foreign currency mark-to-market	290		146
Other	1,762		946
<b>Deferred tax liabilities</b>	<b>31,912</b>		<b>35,246</b>
<b>Net deferred tax asset</b>	<b>\$ 27,676</b>		<b>\$ 24,333</b>

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 2012 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 \$3.3 million of accrued pension costs reclassified from accrued employee benefits to retirements benefits and \$0.7 million of reserves reclassified from long-term contracts and inventory valuation reductions to allowances for loss contingencies.

As of September 30, 2013, we had \$60.3 million of foreign operating loss carryforwards and \$10.9 million of unused state tax credits that are not subject to expiration.

We are required to assess whether a valuation allowance should be recorded against our deferred tax assets (DTAs) 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. As of September 30, 2013, we evaluated our net deferred income tax assets, including an assessment of the cumulative income or loss over the prior three-year and future periods, to determine if a valuation allowance is required. With respect to Australia, a significant negative factor in our assessment at September 30, 2013 was the determination that our Australian operations had a three-year historical cumulative loss as of the end of the year. After considering our recent history of losses and future sources of taxable income in the near-term, we recorded a valuation allowance on our net deferred tax assets related to Australia, with a corresponding charge to our income tax provision, of approximately \$4.0 million in the quarter ended September 30, 2013. We will continue to assess the need for a valuation allowance on deferred tax assets by evaluating both positive and negative evidence that may exist.



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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,	2013		2012		2011	
	(As Restated)		(in thousands) (As Restated)		(As Restated)	
Tax at U.S. statutory rate	\$	13,921	\$	48,287	\$	42,165
State income taxes, net of federal tax effect		120		1,364		1,297
Nondeductible expenses		1,609		286		893
Change in reserve accrued for tax contingencies		(673)		(2,752)		2,154
Impact of goodwill impairment loss		10,046				
Change in valuation allowance		4,044				
Tax effect from foreign earnings repatriation				2,773		
Foreign earnings taxed at less than statutory rate		(7,521)		(7,847)		(6,787)
R&D credits generated in the current year		(3,202)		(906)		(2,696)
Reinstatement of federal research and development credit		(1,937)				(1,406)
Manufacturing deduction		(1,333)		(630)		(1,476)
Other		(572)		(243)		(25)
	\$	14,502	\$	40,332	\$	34,119

We are subject to ongoing audits from various taxing authorities in the jurisdictions in which we do business. As of September 30, 2013, the fiscal tax years open under the statute of limitations in significant jurisdictions include 2009-2013 in the U.K., 2008-2013 in New Zealand and 2010-2013 in the U.S. We have effectively settled all tax matters with the IRS for fiscal years prior to and including fiscal year 2010. 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.

We have recorded liabilities for unrecognized tax benefits related to permanent and temporary tax adjustments as set forth below. The net changes in the liability were as follows:

Years ended September 30,	2013		2012	
	(As Restated)		(in thousands) (As Restated)	
Balance at October 1	\$	8,649	\$	10,940
Increase (decrease) related to tax positions in prior years:				
Recognition of benefits from expiration of statutes		(575)		(1,227)
Settlements with taxing authorities		(2,332)		(1,257)
Other		824		(586)
Tax positions related to the current year		552		567
Currency translation adjustment		(40)		212
Balance at September 30	\$	7,078	\$	8,649

At September 30, 2013, the amount of unrecognized tax benefits from permanent tax adjustments that, if recognized, would affect the effective tax rate was \$4.8 million. During the next 12 months, it is reasonably possible that resolution of reviews by taxing authorities, both domestic and international, could be reached with respect to approximately \$2.2 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 2013, 2012 and 2011 was not material. Interest and penalties accrued at September 30, 2013 and 2012 amounted to \$2.2 million and \$3.7 million, respectively, bringing the total liability for uncertain tax issues to \$9.3 million and \$12.3 million, respectively, as of September 30, 2013 and 2012.

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Cash amounts paid for income taxes, net of refunds received, were \$42.1 million, \$25.4 million and \$42.1 million in 2013, 2012 and 2011, respectively.

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

Years ended September 30,	2013	2012	2011
	(As Restated)	(in thousands) (As Restated)	(As Restated)
United States	\$ (31,640)	\$ 38,692	\$ 33,879
Foreign	71,411	99,271	86,594
Total	\$ 39,771	\$ 137,963	\$ 120,473

Undistributed earnings of all our foreign subsidiaries amounted to approximately \$292.2 million at September 30, 2013. We consider those earnings to be indefinitely reinvested and, accordingly, we have not provided for U.S. federal and state income taxes thereon and have determined that no amounts of undistributed earnings are available for distribution. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income taxes and withholding taxes payable to the foreign countries, but would also be able to offset unrecognized foreign tax credit carryforwards. 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.

## NOTE 12 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.

The following table shows the notional principal amounts of our outstanding derivative instruments as of September 30, 2013 and 2012 (in thousands):

September 30,	Notional Principal	
	2013	2012
Instruments designated as accounting hedges:		
Foreign currency forwards	\$ 361,337	\$ 382,500
Forward starting swap	58,415	58,415
Instruments not designated as accounting hedges:		
Foreign currency forwards	\$ 2,697	\$ 5,945

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, 2013 and 2012. Although the table above reflects the notional principal amounts of the Company's forward starting swaps and foreign exchange instruments, it does not reflect the gains or losses associated with the exposures and transactions that the forward starting swaps 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.

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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, 2013 or 2012.

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, 2013 and 2012 (in thousands):

	Balance Sheet Location	Fair Value	
		September 30, 2013	September 30, 2012
<b>Asset derivatives:</b>			
Foreign currency forwards	Other current assets	\$ 1,597	\$ 3,779
Foreign currency forwards	Other noncurrent assets	4,957	3,713
Forward starting swap	Other noncurrent assets	1,139	
		\$ 7,693	\$ 7,492
<b>Liability derivatives:</b>			
Foreign currency forwards	Other current liabilities	\$ 2,360	\$ 6,839
Foreign currency forwards	Other noncurrent liabilities	5,366	6,407
Forward starting swap	Other noncurrent liabilities		91
Total		\$ 7,726	\$ 13,337

The tables below present gains and losses recognized in OCI for the years ended September 30, 2013, 2012, and 2011 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):

Derivative Type	September 30, 2013		Year Ended September 30, 2012		September 30, 2011	
	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion
Foreign currency forwards	\$ 4,581	\$ (1,231)	\$ 463	\$ (6,860)	\$ (8,643)	\$ (1,663)
Forward starting swap	1,230		(91)			
	\$ 5,811	\$ (1,231)	\$ 372	\$ (6,860)	\$ (8,643)	\$ (1,663)

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, 2013, 2012, or 2011. 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.

*Forward starting swap*

In connection with a transportation systems contract that we entered in December 2011, we have incurred significant costs to develop the customer's fare collection system before we begin receiving payments under the contract. In order to finance certain of these costs, we had planned to issue approximately \$83 million of 10-year fixed rate debt on or about January 1, 2014. We still plan to issue the debt, but we have recently revised our estimated date of issuance to March 31, 2014. Due to concern that market interest rates for the 10-year forward period of January 1, 2014 to January 1, 2024 would change through January 1, 2014, exposing the LIBOR benchmark component of each of the 20 projected semi-annual interest cash flows of that future 10-year period to risk of variability, in July 2012 we entered a forward-starting 10-year swap contract with a bank to reduce the interest rate variability exposure of the projected interest cash flows. The forward-starting swap has a notional amount of \$58.4 million, a termination date of January 1, 2014 and a pay 1.698% fixed rate, receive 3-month LIBOR, with fixed rate payments due semi-annually on the first day each June and December commencing June 1, 2014 through December 2023, floating payments due quarterly on the first day of each quarter commencing March 1, 2014 through December 2023, and floating reset dates 2 days prior to the first day of each calculation period.

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The swap contracts accrual period, January 1, 2014 to December 1, 2023 was designed to match the tenor of the planned debt issuance.

*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.

NOTE 13 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, 2013, the average interest rate used to accrue interest on our deferred compensation was 1.4%.

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 2013, 2012 and 2011, 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 \$19.7 million, \$18.6 million and \$18.4 million in 2013, 2012 and 2011, respectively.

Defined 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. During 2013, the European plan was amended to reduce the amount of participant compensation used in computing the pension liability for certain participants. We recognized a \$1.2 million decrease in our benefit obligation as a result of this plan amendment. 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, 2013, we expect to make contributions of approximately \$3.6 million in 2014. 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, 2013 and expected to be recognized in net pension cost during fiscal 2014 is a loss of \$0.8 million (\$0.6 million net of income tax). No plan assets are expected to be returned to us in 2013.

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):

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September 30,	2013	2012
Projected benefit obligation	\$ 209,118	\$ 215,706
Accumulated benefit obligation	202,916	209,135
Fair value of plan assets	188,337	169,323

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,	2013	2012
<b>Change in benefit obligations:</b>		
Net benefit obligation at the beginning of the year	\$ 215,706	\$ 185,485
Service cost	532	508
Interest cost	8,867	9,565
Actuarial loss (gain)	(5,726)	22,761
Plan amendments	(1,178)	57
Gross benefits paid	(8,576)	(5,928)
Foreign currency exchange rate changes	(507)	3,258
Net benefit obligation at the end of the year	209,118	215,706
<b>Change in plan assets:</b>		
Fair value of plan assets at the beginning of the year	169,323	144,319
Actual return on plan assets	24,707	24,769
Employer contributions	3,915	4,354
Gross benefits paid	(8,576)	(5,928)
Administrative expenses	(843)	(657)
Foreign currency exchange rate changes	(189)	2,466
Fair value of plan assets at the end of the year	188,337	169,323
Unfunded status of the plans	(20,781)	(46,383)
Unrecognized net actuarial loss	31,657	52,911
Net amount recognized	\$ 10,876	\$ 6,528
<b>Amounts recognized in Accumulated OCI</b>		
Liability adjustment to OCI	\$ (31,657)	\$ (52,911)
Deferred tax asset	9,292	17,440
Accumulated other comprehensive loss	\$ (22,365)	\$ (35,471)

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

Years ended September 30,	2013	2012	2011
Service cost	\$ 532	\$ 508	\$ 550
Interest cost	8,867	9,565	9,387
Expected return on plan assets	(11,605)	(10,091)	(9,979)
Amortization of actuarial loss	1,798	1,593	985
Administrative expenses	76	82	85
Net pension cost (benefit)	\$ (332)	\$ 1,657	\$ 1,028

Years ended September 30,	2013	2012	2011
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Weighted-average assumptions used to determine benefit obligation at September 30:			
Discount rate	4.8%	4.3%	5.2%
Rate of compensation increase	4.4%	3.8%	4.3%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30:			
Discount rate	4.3%	5.2%	5.2%
Expected return on plan assets	7.0%	7.0%	7.0%
Rate of compensation increase	3.8%	4.3%	4.3%

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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, 2013 are as follows:

Asset Category	Allocation Range
Equity securities	40% to 75%
Debt securities	25% to 60%
Real estate and cash	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 4 for a description of each level within the fair value hierarchy. During 2013 our plans invested in a diversified growth fund that holds underlying investments in equities, fixed-income securities, commodities, and real estate.

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, 2013				September 30, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 2,361	\$ 475	\$	\$ 2,836	\$	\$ 2,113	\$	\$ 2,113
Equity:								
U.S. equity securities		54,870		54,870		47,998		47,998
U.K. equity securities		20,983		20,983		37,059		37,059

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Other foreign equity securities			26,586		26,586		28,460		28,460					
Fixed Income:														
U.S. fixed-income funds			33,849		33,849		37,585		37,585					
U.K. fixed-income funds			12,804		12,804		10,494		10,494					
Diversified growth fund			30,146		30,146									
Real Estate				6,263	6,263			5,614	5,614					
Total	\$	2,361	\$	179,713	\$	6,263	\$	188,337	\$	163,709	\$	5,614	\$	169,323

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

		<b>Real Estate</b>
Balance as of October 1, 2011	\$	5,026
Realized and unrealized gains, net		647
Purchases, sales and settlements, net		(59)
Balance as of September 30, 2012		5,614
Realized and unrealized gains, net		712
Purchases, sales and settlements, net		(63)
Balance as of September 30, 2013	\$	6,263

The pension plans held no direct positions in Cubic Corporation common stock as of September 30, 2013 and 2012.

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

2014	\$	7,391
2015		7,825
2016		8,256
2017		8,696
2018		9,577
2019-2023		56,540

NOTE 14 STOCKHOLDERS' EQUITY

Long Term Equity Incentive Plan

On March 21, 2013, the Executive Compensation Committee of the Board of Directors approved a long-term equity incentive award program and awarded 264,549 RSUs with time-based vesting and 161,962 RSUs with performance-based vesting to certain officers, directors and management. 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 with time-based vesting will vest in four equal installments on each of October 1, 2013, 2014, 2015 and 2016, subject to the recipient's continued service through such date.

The performance period for the performance-based vesting RSUs granted on March 21, 2013 is the period from October 1, 2012 to September 30, 2015. Recipients of the performance-based vesting RSUs will be eligible to vest in the RSUs at the end of the three-year

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performance period based on Cubic's achievement of performance goals established by the Executive Compensation Committee over the performance period, subject to the recipient's continued service through September 30, 2015. The vesting of 50% of the performance-based RSUs is contingent upon Cubic meeting specified sales growth targets during the performance period and vesting of 50% of the performance based RSUs is contingent upon Cubic meeting return on equity targets for the performance period. Cubic's sales growth achievement and/or return on equity achievement for the performance period will determine the percentage of the RSUs that will vest.

Through September 30, 2013, Cubic has granted 426,511 restricted stock units of which none have vested. The restricted stock units have a weighted-average grant date fair value of \$43.76 per share, which represents the fair market value of one share of our common stock at the grant date. At September 30, 2013, the total number of RSUs that are ultimately expected to vest, after consideration of expected forfeitures and estimated vesting of performance-based RSUs is 243,039.

The following table summarizes our RSU activity for 2013:

	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

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As of September 30, 2013, approximately 4,038,000 shares remained available for future grants under our long term equity incentive plan. On October 1, 2013, 69,994 restricted stock units vested.

NOTE 15 STOCK BASED COMPENSATION

We recorded non-cash compensation expense related to stock-based awards of \$3.3 million for the year ended September 30, 2013, which was comprised of the following (in thousands):

Cost of sales	\$	226
Selling, general and administrative		3,025
	\$	3,251

As of September 30, 2013, there was \$15.4 million of unrecognized compensation cost related to unvested RSUs. This amount is expected to be recognized over a weighted-average period of 1.7 years. Based upon the expected forfeitures and the expected vesting of performance based RSUs, the aggregate fair value of RSUs expected to ultimately vest is \$10.6 million.

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, 2013. 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 16 LEGAL MATTERS

In 1997, the Ministry of Defense for the Armed Forces of the Islamic Republic of Iran obtained a U.S. District Court judgment enforcing an arbitration award in its favor against us of \$2.8 million, plus arbitration costs and interest related to a contract awarded to us by Iran in 1977. Both parties appealed to the 9th Circuit Court of Appeals. In December 2011, a decision was handed down upholding the arbitration award and requiring the district court to resolve outstanding issues related to the amount of interest to be paid and whether the plaintiff should be awarded attorney's fees. Under a 1979 Presidential executive order, all transactions by U.S. citizens with Iran are prohibited; however, in April 2012 we received a license from the U.S. Treasury Department allowing us to remit the arbitration award and related post-judgment interest owed totaling \$8.8 million to the U.S. District Court on April 18, 2012. We had recorded a liability for the judgment amount in periods prior to 2012 and had accrued interest through the date of the payment, so there was no impact on 2012 earnings related to this matter other than interest accrued of \$0.2 million. Through September 30, 2012 we did not accrue a liability for any additional pre-judgment interest, as we were unable to estimate a probability of loss for these amounts. In January 2013, the District Court decided in favor of the plaintiff for pre-judgment interest totaling \$0.6 million. This amount was recognized as expense in the first quarter of fiscal 2013. On February 15, 2013, this remaining sum was paid to the U.S. District Court, which we believe concluded our involvement in this matter.

In November 2011, we received a claim from a public transit authority customer which alleges 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 claim currently seeks recoupment from us of a total amount of \$3.9 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 the quarter ended March 31, 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. We have not recorded expense for any amount in excess of the \$2.9 million through September 30, 2013 as no other amount of loss is deemed probable. Insurance may cover all, or a portion, of any losses we could ultimately incur for this matter. However, any potential insurance proceeds will not be recognized in the financial statements until receipt of any such proceeds is probable.

In October 2013, a lawsuit was filed in federal court against us and one of our transit customers alleging breach of contract, violation of the Consumer Fraud Act, unjust enrichment and violation of the Electronic Funds Act. The plaintiff claims he was wrongly charged (i) multiple times, at two dollars each time, for calling the call center that we operate for patrons of our transit customer, and (ii) transfer and a second fare when he paid for a fare plus a transfer. The plaintiff is seeking to have the case certified as a class action for all patrons charged in such a manner. 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. Due to the preliminary nature of this case, we cannot estimate the probability of loss or any range of estimate of possible loss.

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Also in October 2013, a second lawsuit was filed in a state court against our same transit customer alleging conversion and unjust enrichment. 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. Due to the preliminary nature of this case, we cannot estimate the probability of loss or any range of estimate of possible loss.

In December 2013, a lawsuit was filed in federal court against us and one of our transit customers alleging breach of contract, violation of the Illinois Consumer Fraud and Deceptive Business Practices Act, and unjust enrichment in relation to our operation of our transit customer's fare collection system. The plaintiff claims to have not been credited the cost of her transit card even after registration of the card, as is required under the terms of the cardholder agreement. In addition, the plaintiff claims to have attempted to load value onto her transit card and although her bank account was debited when doing so, she claims the value has never been added on her transit account. The plaintiff is seeking to have the case certified as a class action for all transit patrons who have experienced the same alleged problems with the fare system. We are expecting to undertake the defense of the transit customer pursuant to our contractual obligations to that customer. We are investigating this matter and will vigorously defend this lawsuit. 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 17 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. 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.

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.





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

Years ended September 30,	2013 (As Restated)	2012 (As Restated)	2011 (As Restated)
<b>Sales:</b>			
Transportation Systems	\$ 529.5	\$ 522.2	\$ 433.1
Mission Support Services	468.7	491.4	476.5
Defense Systems	363.0	389.4	390.7
Other	0.2	1.1	1.3
Total sales	\$ 1,361.4	\$ 1,404.1	\$ 1,301.6
<b>Operating income (loss):</b>			
Transportation Systems	\$ 66.8	\$ 84.6	\$ 72.0
Mission Support Services	(36.1)	21.1	23.9
Defense Systems	14.2	35.3	29.8
Unallocated corporate expenses and other	(4.2)	(4.8)	(7.1)
Total operating income	\$ 40.7	\$ 136.2	\$ 118.6
<b>Assets:</b>			
Transportation Systems	\$ 369.8	\$ 268.4	\$ 167.0
Mission Support Services	205.2	212.8	144.0
Defense Systems	228.9	211.2	213.0
Corporate and other	304.5	322.2	439.7
Total assets	\$ 1,108.4	\$ 1,014.6	\$ 963.7
<b>Depreciation and amortization:</b>			
Transportation Systems	\$ 5.0	\$ 3.7	\$ 3.6
Mission Support Services	13.0	12.5	12.3
Defense Systems	6.1	5.5	5.4
Corporate and other	1.3	1.2	1.0
Total depreciation and amortization	\$ 25.4	\$ 22.9	\$ 22.3
<b>Capital expenditures:</b>			
Transportation Systems	\$ 2.8	\$ 2.7	\$ 2.2
Mission Support Services	0.3	1.1	0.3
Defense Systems	4.6	8.9	5.5
Corporate and other	1.4	1.5	0.7
Total expenditures for long-lived assets	\$ 9.1	\$ 14.2	\$ 8.7

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Years ended September 30,	2013 (As Restated)	2012 (As Restated)	2011 (As Restated)
<b>Geographic Information:</b>			
Sales (a):			
United States	\$ 741.7	\$ 742.2	\$ 753.9
United Kingdom	267.4	283.2	250.9
Canada	30.4	54.8	27.5
Australia	148.5	181.9	100.3
Middle East	35.4	38.0	38.7
Far East	78.2	56.9	82.7
Other	59.8	47.1	47.6
Total sales	\$ 1,361.4	\$ 1,404.1	\$ 1,301.6

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

Long-lived assets, net:			
United States	\$ 43.9	\$ 42.4	\$ 40.5
United Kingdom	9.2	9.5	9.1
Other foreign countries	6.6	6.1	2.9
Total long-lived assets, net	\$ 59.7	\$ 58.0	\$ 52.5

MSS and CDS segment sales include \$691.8 million, \$699.4 million and \$728.2 million in 2013, 2012 and 2011, respectively, of sales to U.S. government agencies. CTS segment sales include \$193.4 million, \$184.7 million and \$174.8 million in 2013, 2012 and 2011, 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 decreased operating income by approximately \$1.7 million in 2013, and increased operating income by approximately \$15.7 million in 2012 and \$17.3 million in 2011. These adjustments 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 and \$11.7 million (\$0.44 per share) in 2011.

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, 2013, 2012, and 2011, we recognized sales of \$13.2 million, \$12.2 million, and \$6.6 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 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 have declined due to recent delays in contract awards and contract funding. CDS incurred resulting restructuring charges of \$7.8 million. 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

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levels going forward. In addition, during 2013 we reduced corporate headcount by approximately 10 as part of a restructuring plan and incurred restructuring charges of \$0.3 million.

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

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## NOTE 18 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, 2013 and 2012:

Fiscal 2013	September 30	Three Months Ended			Year Ended September 30
		June 30	March 31	December 31	
	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)
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

Fiscal 2012	September 30	Three Months Ended			Year Ended September 30
		June 30	March 31	December 31	
	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Net sales	\$ 369,255	\$ 371,142	\$ 343,830	\$ 319,857	\$ 1,404,084
Operating income	30,740	39,602	35,923	29,940	136,205
Net income attributable to Cubic	21,912	27,395	25,856	22,264	97,427
Net income per share, basic	0.82	1.02	0.97	0.83	3.64
Net income per share, diluted	0.82	1.02	0.97	0.83	3.64

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, we recorded a goodwill impairment charge of \$50.9 million (before applicable income taxes). See Note 8 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 decreased operating profit by approximately \$9.9 million in the three months ended September 30, 2013 and increased operating profit by approximately \$0.7 million in the three months ended September 30, 2012. These adjustments decreased net income by approximately \$6.6 million (\$0.25 per share) in the three months ended September 30, 2013 and increased net income by approximately \$0.3 million (\$0.01 per share) in the three months ended and September 30, 2012.

The following tables present the effects of adjustments made to our previously reported unaudited consolidated quarterly financial information for each of the quarters in the fiscal years ended September 30, 2013 and 2012. For further information regarding these adjustments, see Note 2.



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	Condensed Consolidated Statement of Income Three Months Ended September 30, 2013			Condensed Consolidated Statement of Income Three Months Ended September 30, 2012		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
	(amounts in thousands, except per share data)			(amounts in thousands, except per share data)		
<b>Net sales:</b>						
Products	\$ 136,216	\$ (3,342)	\$ 132,874	\$ 164,458	\$ 7,174	\$ 171,632
Services	206,386	1,516	207,902	195,229	2,394	197,623
	342,602	(1,826)	340,776	359,687	9,568	369,255
<b>Costs and expenses:</b>						
Products	117,530	(1,780)	115,750	113,009	8,470	121,479
Services	167,757	94	167,851	164,060	(1,001)	163,059
Selling, general and administrative	38,429	408	38,837	42,678	501	43,179
Restructuring costs	1,941		1,941			
Impairment of goodwill	50,865		50,865			
Research and development	5,099		5,099	7,327		7,327
Amortization of purchased intangibles	4,488		4,488	3,471		3,471
	386,109	(1,278)	384,831	330,545	7,970	338,515
Operating income (loss)	(43,507)	(548)	(44,055)	29,142	1,598	30,740
<b>Other income (expense):</b>						
Interest and dividend income	297		297	571		571
Interest expense	(977)	(3)	(980)	(651)	(13)	(664)
Other income (expense) - net	397	1,254	1,651	726	(455)	271
Income (loss) before income taxes	(43,790)	703	(43,087)	29,788	1,130	30,918
Income taxes	(5,654)	(281)	(5,935)	8,645	306	8,951
Net income (loss)	(38,136)	984	(37,152)	21,143	824	21,967
Less noncontrolling interest in income of VIE	34		34	55		55
Net income (loss) attributable to Cubic	\$ (38,170)	\$ 984	\$ (37,186)	\$ 21,088	\$ 824	\$ 21,912
<b>Net income (loss) per share attributable to Cubic:</b>						
Basic	\$ (1.43)	\$ 0.04	\$ (1.39)	\$ 0.79	\$ 0.03	\$ 0.82
Diluted	\$ (1.43)	\$ 0.04	\$ (1.39)	\$ 0.79	\$ 0.03	\$ 0.82
<b>Weighted average shares used in per share calculations:</b>						
Basic	26,736		26,736	26,736		26,736
Diluted	26,736		26,736	26,736		26,736

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	Condensed Consolidated Statement of Income Three Months Ended June 30, 2013			Condensed Consolidated Statement of Income Three Months Ended June 30, 2012		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
	(amounts in thousands, except per share data)			(amounts in thousands, except per share data)		
Net sales:						
Products	\$ 131,557	\$ (3,875)	\$ 127,682	\$ 189,743	\$ 4,870	\$ 194,613
Services	208,888	656	209,544	175,654	875	176,529
	340,445	(3,219)	337,226	365,397	5,745	371,142
Costs and expenses:						
Products	93,946	(2,935)	91,011	118,431	4,641	123,072
Services	164,458	(180)	164,278	153,552	88	153,640
Selling, general and administrative	44,130		44,130	42,751		42,751
Restructuring costs	114		114			
Research and development	6,426		6,426	8,427		8,427
Amortization of purchased intangibles	4,362		4,362	3,650		3,650
	313,436	(3,115)	310,321	326,811	4,729	331,540
Operating income	27,009	(104)	26,905	38,586	1,016	39,602
Other income (expense):						
Interest and dividend income	530		530	697		697
Interest expense	(922)	(3)	(925)	(221)	(13)	(234)
Other income (expense) - net	(813)		(813)	(950)		(950)
Income before income taxes	25,804	(107)	25,697	38,112	1,003	39,115
Income taxes	7,416	(124)	7,292	11,338	329	11,667
Net income	18,388	17	18,405	26,774	674	27,448
Less noncontrolling interest in income of VIE	24		24	53		53
Net income attributable to Cubic	\$ 18,364	\$ 17	\$ 18,381	\$ 26,721	\$ 674	\$ 27,395
Net income per share attributable to Cubic:						
Basic	\$ 0.69	\$ 0.00	\$ 0.69	\$ 1.00	\$ 0.02	\$ 1.02
Diluted	\$ 0.69	\$ 0.00	\$ 0.69	\$ 1.00	\$ 0.02	\$ 1.02
Weighted average shares used in per share calculations:						
Basic	26,736		26,736	26,736		26,736
Diluted	26,762		26,762	26,736		26,736



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	Condensed Consolidated Statement of Income Three Months Ended March 31, 2013			Condensed Consolidated Statement of Income Three Months Ended March 31, 2012		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
	(amounts in thousands, except per share data)			(amounts in thousands, except per share data)		
Net sales:						
Products	\$ 164,968	\$ 2,068	\$ 167,036	\$ 155,776	\$ 1,115	\$ 156,891
Services	199,337	2,236	201,573	183,869	3,070	186,939
	364,305	4,304	368,609	339,645	4,185	343,830
Costs and expenses:						
Products	117,123	2,022	119,145	106,684	748	107,432
Services	153,766	(446)	153,320	145,642	54	145,696
Selling, general and administrative	41,320		41,320	43,039		43,039
Restructuring costs	6,084		6,084			
Research and development	7,098		7,098	8,072		8,072
Amortization of purchased intangibles	4,266		4,266	3,668		3,668
	329,657	1,576	331,233	307,105	802	307,907
Operating income	34,648	2,728	37,376	32,540	3,383	35,923
Other income (expense):						
Interest and dividend income	312		312	964		964
Interest expense	(654)	(3)	(657)	(331)	(13)	(344)
Other income (expense) - net	(53)		(53)	122		122
Income before income taxes	34,253	2,725	36,978	33,295	3,370	36,665
Income taxes	7,043	233	7,276	9,847	911	10,758
Net income	27,210	2,492	29,702	23,448	2,459	25,907
Less noncontrolling interest in income of VIE	52		52	51		51
Net income attributable to Cubic	\$ 27,158	\$ 2,492	\$ 29,650	\$ 23,397	\$ 2,459	\$ 25,856
Net income per share attributable to Cubic:						
Basic	\$ 1.02	\$ 0.09	\$ 1.11	\$ 0.88	\$ 0.09	\$ 0.97
Diluted	\$ 1.02	\$ 0.09	\$ 1.11	\$ 0.88	\$ 0.09	\$ 0.97
Weighted average shares used in per share calculations:						
Basic	26,736		26,736	26,736		26,736
Diluted	26,736		26,736	26,736		26,736

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	Condensed Consolidated Statement of Income Three Months Ended December 31, 2012			Condensed Consolidated Statement of Income Three Months Ended December 31, 2011		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
	(amounts in thousands, except per share data)			(amounts in thousands, except per share data)		
Net sales:						
Products	\$ 135,701	\$ (983)	\$ 134,718	\$ 153,310	\$ 882	\$ 154,192
Services	177,670	2,408	180,078	163,456	2,209	165,665
	313,371	1,425	314,796	316,766	3,091	319,857
Costs and expenses:						
Products	100,895	(1,008)	99,887	113,449	746	114,195
Services	143,851	220	144,071	131,408	159	131,567
Selling, general and administrative	40,997	(54)	40,943	35,220		35,220
Research and development	5,822		5,822	4,896		4,896
Amortization of purchased intangibles	3,564		3,564	4,039		4,039
	295,129	(842)	294,287	289,012	905	289,917
Operating income	18,242	2,267	20,509	27,754	2,186	29,940
Other income (expense):						
Interest and dividend income	437		437	762		762
Interest expense	(862)	(3)	(865)	(347)	(13)	(360)
Other income (expense) - net	102		102	923		923
Income before income taxes	17,919	2,264	20,183	29,092	2,173	31,265
Income taxes	5,400	469	5,869	8,353	603	8,956
Net income	12,519	1,795	14,314	20,739	1,570	22,309
Less noncontrolling interest in income of VIE	73		73	45		45
Net income attributable to Cubic	\$ 12,446	\$ 1,795	\$ 14,241	\$ 20,694	\$ 1,570	\$ 22,264
Net income per share attributable to Cubic:						
Basic	\$ 0.47	\$ 0.06	\$ 0.53	\$ 0.77	\$ 0.06	\$ 0.83
Diluted	\$ 0.47	\$ 0.06	\$ 0.53	\$ 0.77	\$ 0.06	\$ 0.83
Weighted average shares used in per share calculations:						
Basic	26,736		26,736	26,736		26,736
Diluted	26,736		26,736	26,736		26,736

	Condensed Consolidated Statement of Comprehensive Income Three Months Ended September 30, 2013			Condensed Consolidated Statement of Comprehensive Income Three Months Ended September 30, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
	Net income	\$ (38,136)	\$ 984	\$ (37,152)	\$ 21,143	\$ 824
Other comprehensive income:						

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Adjustment to pension liability, net of taxes	13,501	(395)	13,106	(5,585)		(5,585)
Foreign currency translation	15,679	1,060	16,739	7,375	203	7,578
Net unrealized gains/losses from cash flow hedges, net of tax	(926)		(926)	(598)		(598)
Net unrealized gain (loss) on available-for-sale securities, net of tax	3		3			
Total other comprehensive income (loss)	28,257	665	28,922	1,192	203	1,395
Total comprehensive income (loss)	(9,879)	1,649	(8,230)	22,335	1,027	23,362

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	Condensed Consolidated Statement of Comprehensive Income Three Months Ended June 30, 2013			Condensed Consolidated Statement of Comprehensive Income Three Months Ended June 30, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
Net income	\$ 18,388	\$ 17	\$ 18,405	\$ 26,774	\$ 674	\$ 27,448
Other comprehensive income:						
Foreign currency translation	(1,872)	96	(1,776)	(4,880)	(124)	(5,004)
Net unrealized gains/losses from cash flow hedges, net of tax	4,706		4,706	(1,288)		(1,288)
Net unrealized gain (loss) on available-for-sale securities, net of tax	(5)		(5)			
Total other comprehensive income (loss)	2,829	96	2,925	(6,168)	(124)	(6,292)
Total comprehensive income (loss)	21,217	113	21,330	20,606	550	21,156

	Condensed Consolidated Statement of Comprehensive Income Three Months Ended March 31, 2013			Condensed Consolidated Statement of Comprehensive Income Three Months Ended March 31, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
Net income	\$ 27,210	\$ 2,492	\$ 29,702	\$ 23,448	\$ 2,459	\$ 25,907
Other comprehensive income:						
Foreign currency translation	(14,608)	(730)	(15,338)	7,846	129	7,975
Net unrealized gains/losses from cash flow hedges, net of tax	(745)		(745)	3,288		3,288
Total other comprehensive income (loss)	(15,353)	(730)	(16,083)	11,134	129	11,263
Total comprehensive income (loss)	11,857	1,762	13,619	34,582	2,588	37,170

	Condensed Consolidated Statement of Comprehensive Income Three Months Ended December 31, 2012			Condensed Consolidated Statement of Comprehensive Income Three Months Ended December 31, 2011		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
Net income	\$ 12,519	\$ 1,795	\$ 14,314	\$ 20,739	\$ 1,570	\$ 22,309
Other comprehensive income:						
Foreign currency translation	1,295	54	1,349	347	(19)	328
Net unrealized gains/losses from cash flow hedges, net of tax	742		742	(1,160)		(1,160)
Total other comprehensive income (loss)	2,037	54	2,091	(813)	(19)	(832)
Total comprehensive income (loss)	14,556	1,849	16,405	19,926	1,551	21,477



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	Condensed Consolidated Balance Sheet June 30, 2013			Condensed Consolidated Balance Sheet March 31, 2013			Condensed Consolidated Balance Sheet December 31, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	\$ 212,451	\$	\$ 212,451	\$ 148,605	\$	\$ 148,605	\$ 174,116	\$	\$ 174,116
Restricted cash	68,853		68,853	68,833		68,833	68,829		68,829
Marketable securities	4,049		4,049						
Accounts receivable - net	388,436	(2,499)	385,937	414,066	(3,304)	410,762	359,301	(3,324)	355,977
Recoverable income taxes	6,673		6,673	5,600		5,600	4,817		4,817
Inventories - net	48,312	(5,935)	42,377	50,992	(11,205)	39,787	53,095	(10,578)	42,517
Deferred income taxes and other current assets	17,035	835	17,870	16,754	965	17,719	24,243	873	25,116
Total current assets	745,809	(7,599)	738,210	704,850	(13,544)	691,306	684,401	(13,029)	671,372
Long-term contract receivables									
	19,850	(152)	19,698	20,830	(152)	20,678	21,460	(152)	21,308
Long-term capitalized costs	61,782	(3,184)	58,598	51,805	(1,029)	50,776	40,146		40,146
Property, plant and equipment - net	54,770		54,770	54,732		54,732	55,434		55,434
Deferred income taxes									
Goodwill	183,895		183,895	185,589		185,589	173,734		173,734
Purchased intangibles - net	58,517		58,517	62,930		62,930	54,188		54,188
Other assets	20,974		20,974	19,507		19,507	21,390		21,390
	\$ 1,145,597	\$ (10,935)	\$ 1,134,662	\$ 1,100,243	\$ (14,725)	\$ 1,085,518	\$ 1,050,753	\$ (13,181)	\$ 1,037,572
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>									
Current liabilities:									
Short-term borrowings	\$	\$	\$ 25,000	\$	\$ 25,000	\$ 25,000	\$ 25,000	\$	\$ 25,000
Trade accounts payable	31,293		31,293	33,322		33,322	29,001		29,001
Customer advances	107,256	(27,295)	79,961	92,178	(31,185)	60,993	107,913	(27,910)	80,003
Accrued compensation and other current liabilities	114,100	123	114,223	128,096	121	128,217	122,316	103	122,419
Income taxes payable	7,229	5,105	12,334	7,094	5,323	12,417	8,715	4,997	13,712
Current portion of long-term debt	529		529	527		527	4,563		4,563
Total current liabilities	260,407	(22,067)	238,340	286,217	(25,741)	260,476	297,508	(22,810)	274,698
Long-term debt	102,380		102,380	52,502		52,502	2,814		2,814
Other long-term liabilities	66,412	628	67,040	67,918	625	68,543	65,533	1,000	66,533
Shareholders' equity:									
Common stock	14,208		14,208	12,633		12,633	12,574		12,574
Retained earnings	769,803	10,594	780,397	751,439	10,577	762,016	727,489	8,085	735,574
Accumulated other comprehensive loss	(31,635)	(90)	(31,725)	(34,464)	(186)	(34,650)	(19,111)	544	(18,567)
Treasury stock at cost	(36,078)		(36,078)	(36,078)		(36,078)	(36,078)		(36,078)
Shareholders' equity related to Cubic	716,298	10,504	726,802	693,530	10,391	703,921	684,874	8,629	693,503
Noncontrolling interest in variable interest entity	100		100	76		76	24		24
Total shareholders' equity	716,398	10,504	726,902	693,606	10,391	703,997	684,898	8,629	693,527
	\$ 1,145,597	\$ (10,935)	\$ 1,134,662	\$ 1,100,243	\$ (14,725)	\$ 1,085,518	\$ 1,050,753	\$ (13,181)	\$ 1,037,572
	Condensed Consolidated Balance Sheet June 30, 2012			Condensed Consolidated Balance Sheet March 31, 2012			Condensed Consolidated Balance Sheet December 31, 2011		

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	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	\$ 231,129	\$	\$ 231,129	\$ 230,766	\$	\$ 230,766	\$ 289,141	\$	\$ 289,141
Restricted cash	68,681		68,681	68,584		68,584			
Marketable securities				7,895		7,895	18,872		18,872
Accounts receivable - net	323,118	(4,469)	318,649	292,704	(5,191)	287,513	254,811	(5,748)	249,063
Recoverable income taxes	15,150		15,150	16,576		16,576	27,268		27,268
Inventories - net	49,622	(2,957)	46,665	51,398	1,816	53,214	43,341	2,535	45,876
Deferred income taxes and other current assets	16,708	240	16,948	19,218	240	19,458	16,441	240	16,681
Total current assets	704,408	(7,186)	697,222	687,141	(3,135)	684,006	649,874	(2,973)	646,901
Long-term contract receivables									
	22,850	(76)	22,774	23,590	(76)	23,514	24,140	(76)	24,064
Long-term capitalized costs									
	13,695		13,695						
Property, plant and equipment - net									
	56,166		56,166	55,525		55,525	52,045		52,045
Deferred income taxes									
Goodwill	146,597		146,597	146,812		146,812	146,413		146,413
Purchased intangibles - net	42,836		42,836	46,493		46,493	50,147		50,147
Other assets	20,135		20,135	20,426		20,426	19,624		19,624
	\$ 1,006,687	\$ (7,262)	\$ 999,425	\$ 979,987	\$ (3,211)	\$ 976,776	\$ 942,243	\$ (3,049)	\$ 939,194
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>									
Current liabilities:									
Trade accounts payable	\$ 40,341	\$	\$ 40,341	\$ 42,785	\$	\$ 42,785	\$ 31,554	\$	\$ 31,554
Customer advances	127,190	(17,644)	109,546	119,647	(12,785)	106,862	124,244	(9,003)	115,241
Accrued compensation and other current liabilities	84,238	193	84,431	84,793	184	84,977	88,929	166	89,095
Income taxes payable	24,778	3,495	28,273	21,346	3,274	24,620	19,606	2,318	21,924
Current portion of long-term debt	4,545		4,545	4,556		4,556	4,539		4,539
Total current liabilities	281,092	(13,956)	267,136	273,127	(9,327)	263,800	268,872	(6,519)	262,353
Long-term debt									
	6,995		6,995	7,191		7,191	7,233		7,233
Other long-term liabilities									
	67,384	941	68,325	69,059	913	69,972	66,902	855	67,757
Shareholders' equity:									
Common stock	12,574		12,574	12,574		12,574	12,574		12,574
Retained earnings	697,164	5,466	702,630	670,443	4,792	675,235	650,254	2,333	652,587
Accumulated other comprehensive loss	(22,340)	287	(22,053)	(16,172)	411	(15,761)	(27,306)	282	(27,024)
Treasury stock at cost	(36,078)		(36,078)	(36,078)		(36,078)	(36,078)		(36,078)
Shareholders' equity related to Cubic	651,320	5,753	657,073	630,767	5,203	635,970	599,444	2,615	602,059
Noncontrolling interest in variable interest entity									
	(104)		(104)	(157)		(157)	(208)		(208)
Total shareholders' equity	651,216	5,753	656,969	630,610	5,203	635,813	599,236	2,615	601,851
	\$ 1,006,687	\$ (7,262)	\$ 999,425	\$ 979,987	\$ (3,211)	\$ 976,776	\$ 942,243	\$ (3,049)	\$ 939,194

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	Condensed Consolidated Statement of Cash Flows Three Months Ended September 30, 2013			Condensed Consolidated Statement of Cash Flows Three Months Ended September 30, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>Operating Activities:</b>						
Net income (loss)	\$ (38,136)	\$ 984	\$ (37,152)	\$ 21,143	\$ 824	\$ 21,967
Adjustments to reconcile net income (loss) to net cash used in operating activities:						
Depreciation and amortization	7,345		7,345	5,717		5,717
Share-based compensation expense	1,676		1,676			
Inventory write-downs	2,760		2,760			
Impairment of goodwill	50,865		50,865			
Deferred income taxes	(7,508)		(7,508)	(1,486)		(1,486)
Changes in operating assets and liabilities net of effects from acquisitions	(23,448)	(984)	(24,432)	(41,236)	(824)	(42,060)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(6,446)</b>		<b>(6,446)</b>	<b>(15,862)</b>		<b>(15,862)</b>
<b>Investing Activities:</b>						
Acquisition of businesses, net of cash acquired	(3,042)		(3,042)			
Net additions to property, plant and equipment	(2,843)		(2,843)	(982)		(982)
Purchases of short-term investments	4		4			
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(5,881)</b>		<b>(5,881)</b>	<b>(982)</b>		<b>(982)</b>
<b>Financing Activities:</b>						
Principal payments on long-term debt	(136)		(136)	(138)		(138)
Contingent consideration payments related to acquisitions of businesses	(7,618)		(7,618)			
Dividends paid to shareholders	(3,209)		(3,209)	(3,209)		(3,209)
Change in restricted cash	(54)		(54)			
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(11,017)</b>		<b>(11,017)</b>	<b>(3,347)</b>		<b>(3,347)</b>
Effect of exchange rates on cash	14,785		14,785	1,329		1,329
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,559)</b>		<b>(8,559)</b>	<b>(18,862)</b>		<b>(18,862)</b>
Cash and cash equivalents at the beginning of the period	212,451		212,451	231,129		231,129
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>\$ 203,892</b>	<b>\$</b>	<b>\$ 203,892</b>	<b>\$ 212,267</b>	<b>\$</b>	<b>\$ 212,267</b>



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	Condensed Consolidated Statement of Cash Flows Three Months Ended June 30, 2013			Condensed Consolidated Statement of Cash Flows Three Months Ended June 30, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>Operating Activities:</b>						
Net income	\$ 18,388	\$ 17	\$ 18,405	\$ 26,774	\$ 674	\$ 27,448
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	6,417		6,417	5,843		5,843
Share-based compensation expense	1,575		1,575			
Changes in operating assets and liabilities net of effects from acquisitions	22,761	(17)	22,744	(31,524)	(674)	(32,198)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>49,141</b>		<b>49,141</b>	<b>1,093</b>		<b>1,093</b>
<b>Investing Activities:</b>						
Acquisition of businesses, net of cash acquired	(7,377)		(7,377)			
Net additions to property, plant and equipment	(2,348)		(2,348)	(3,094)		(3,094)
Purchases of short-term investments	(4,054)		(4,054)			
Proceeds from maturities of short-term investments				7,895		7,895
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(13,779)</b>		<b>(13,779)</b>	<b>4,801</b>		<b>4,801</b>
<b>Financing Activities:</b>						
Principal payments on short-term borrowings	(25,000)		(25,000)			
Proceeds from long-term borrowings	50,000		50,000			
Principal payments on long-term debt	(134)		(134)	(137)		(137)
Contingent consideration payments related to acquisitions of businesses	(224)		(224)			
Change in restricted cash	(20)		(20)			
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>24,622</b>		<b>24,622</b>	<b>(137)</b>		<b>(137)</b>
Effect of exchange rates on cash	3,862		3,862	(5,394)		(5,394)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>63,846</b>		<b>63,846</b>	<b>363</b>		<b>363</b>
Cash and cash equivalents at the beginning of the period	148,605		148,605	230,766		230,766
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>\$ 212,451</b>	<b>\$</b>	<b>\$ 212,451</b>	<b>\$ 231,129</b>	<b>\$</b>	<b>\$ 231,129</b>

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	Condensed Consolidated Statement of Cash Flows Three Months Ended March 31, 2013			Condensed Consolidated Statement of Cash Flows Three Months Ended March 31, 2012		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>Operating Activities:</b>						
Net income	\$ 27,210	\$ 2,492	\$ 29,702	\$ 23,448	\$ 2,459	\$ 25,907
Adjustments to reconcile net income to net cash used in operating activities:						
Depreciation and amortization	6,879		6,879	5,465		5,465
Changes in operating assets and liabilities net of effects from acquisitions	(63,944)	(2,492)	(66,436)	(30,444)	(2,459)	(32,903)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(29,855)</b>		<b>(29,855)</b>	<b>(1,531)</b>		<b>(1,531)</b>
<b>Investing Activities:</b>						
Acquisition of businesses, net of cash acquired	(20,177)		(20,177)			
Net additions to property, plant and equipment	(2,438)		(2,438)	(4,901)		(4,901)
Proceeds from maturities of short-term investments				10,977		10,977
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(22,615)</b>		<b>(22,615)</b>	<b>6,076</b>		<b>6,076</b>
<b>Financing Activities:</b>						
Proceeds from short-term borrowings	45,000		45,000			
Principal payments on short-term borrowings	(45,000)		(45,000)			
Proceeds from long-term borrowings	50,000		50,000			
Principal payments on long-term debt	(4,133)		(4,133)	(138)		(138)
Dividends paid to shareholders	(3,208)		(3,208)	(3,208)		(3,208)
Change in restricted cash	(313)		(313)	(68,584)		(68,584)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>42,346</b>		<b>42,346</b>	<b>(71,930)</b>		<b>(71,930)</b>
Effect of exchange rates on cash	(15,387)		(15,387)	9,010		9,010
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(25,511)</b>		<b>(25,511)</b>	<b>(58,375)</b>		<b>(58,375)</b>
Cash and cash equivalents at the beginning of the period	174,116		174,116	289,141		289,141
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>\$ 148,605</b>		<b>\$ 148,605</b>	<b>\$ 230,766</b>		<b>\$ 230,766</b>

	Condensed Consolidated Statement of Cash Flows Three Months Ended December 31, 2012			Condensed Consolidated Statement of Cash Flows Three Months Ended December 31, 2011		
	Previously Reported	Adjustments (in thousands)	As Restated	Previously Reported	Adjustments (in thousands)	As Restated
<b>Operating Activities:</b>						
Net income	\$ 12,519	\$ 1,795	\$ 14,314	\$ 20,739	\$ 1,570	\$ 22,309
Adjustments to reconcile net income to net cash used in operating activities:						
Depreciation and amortization	4,718		4,718	5,832		5,832
Changes in operating assets and liabilities net of effects from acquisitions	(43,353)	(1,795)	(45,148)	(64,948)	(1,570)	(66,518)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(26,116)</b>		<b>(26,116)</b>	<b>(38,377)</b>		<b>(38,377)</b>

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Investing Activities:

Acquisition of businesses, net of cash acquired	(33,095)	(33,095)		
Net additions to property, plant and equipment	(1,423)	(1,423)	(5,249)	(5,249)
Proceeds from maturities of short-term investments			6,957	6,957
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(34,518)	(34,518)	1,708	1,708

Financing Activities:

Proceeds from short-term borrowings	25,000	25,000		
Principal payments on long-term debt	(4,140)	(4,140)	(4,136)	(4,136)
Change in restricted cash	229	229		
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	21,089	21,089	(4,136)	(4,136)

Effect of exchange rates on cash	1,394	1,394	798	798
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,151)	(38,151)	(40,007)	(40,007)
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Cash and cash equivalents at the beginning of the period	212,267	212,267	329,148	329,148
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CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 174,116	\$ 174,116	\$ 289,141	\$ 289,141
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## NOTE 18A QUARTERLY BASIS OF PRESENTATION (UNAUDITED)

We have prepared the accompanying unaudited condensed consolidated financial statements included in Note 18 in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments necessary for a fair presentation of these financial statements have been included, and are of a normal and recurring nature.

## NOTE 18B NET INCOME PER SHARE (UNAUDITED)

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

	Three Months Ended Fiscal Year 2013				Three Months Ended Fiscal Year 2012			
	September 30 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)	September 30 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)
Net income (loss) attributable to Cubic	\$ (37,186)	\$ 18,381	\$ 29,650	\$ 14,241	\$ 21,912	\$ 27,395	\$ 25,856	\$ 22,264
Weighted average shares - basic	26,736	26,736	26,736	26,736	26,736	26,736	26,736	26,736
Effect of dilutive securities		26						
Weighted average shares - diluted	26,736	26,762	26,736	26,736	26,736	26,736	26,736	26,736
Net income (loss) per share attributable to Cubic, basic	\$ (1.39)	\$ 0.69	\$ 1.11	\$ 0.53	\$ 0.82	\$ 1.02	\$ 0.97	\$ 0.83
Effect of dilutive securities								
Net income (loss) per share attributable to Cubic, diluted	\$ (1.39)	\$ 0.69	\$ 1.11	\$ 0.53	\$ 0.82	\$ 1.02	\$ 0.97	\$ 0.83
Anti-dilutive employee share-based awards	421							

## NOTE 18C QUARTERLY BALANCE SHEET DETAILS (UNAUDITED)

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

	Fiscal Year 2013			Fiscal Year 2012		
	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)
Trade and other receivables						
Long-term contracts:	\$ 16,995	\$ 21,025	\$ 19,701	\$ 16,581	\$ 13,623	\$ 21,684

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Billed	81,867	108,774	84,961	99,252	87,000	86,847
Unbilled	307,405	302,292	273,044	226,261	211,074	165,136
Allowance for doubtful accounts	(632)	(651)	(421)	(671)	(670)	(540)
Total accounts receivable	405,635	431,440	377,285	341,423	311,027	273,127
Less estimated amounts not currently due	(19,698)	(20,678)	(21,308)	(22,774)	(23,514)	(24,064)
Current accounts receivable	\$ 385,937	\$ 410,762	\$ 355,977	\$ 318,649	\$ 287,513	\$ 249,063

Inventories consist of the following (in thousands):

	Fiscal Year 2013			Fiscal Year 2012		
	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)
Work in process and inventoried costs under long-term contracts	\$ 74,043	\$ 60,680	\$ 74,833	\$ 70,139	\$ 85,541	\$ 73,455
Customer advances	(32,164)	(21,601)	(33,086)	(24,211)	(33,378)	(28,708)
Materials and purchased parts	498	708	770	737	1,051	1,129
	\$ 42,377	\$ 39,787	\$ 42,517	\$ 46,665	\$ 53,214	\$ 45,876

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## NOTE 18D QUARTERLY FAIR VALUE OF FINANCIAL INSTRUMENTS (UNAUDITED)

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

	June 30, 2013				Fiscal Year 2013 March 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>												
Cash equivalents	\$ 137,981	\$	\$	\$ 137,981	\$ 115,214	\$	\$	\$ 115,214	\$ 128,080	\$	\$	\$ 128,080
Marketable securities	4,049			4,049								
<b>Current</b>												
derivative assets		3,918		3,918		2,827		2,827		2,552		2,552
Noncurrent derivative assets		6,634		6,634		5,303		5,303		2,612		2,612
Total assets measured at fair value	142,030	10,552		152,582	115,214	8,130		123,344	128,080	5,164		133,244
<b>Liabilities</b>												
<b>Current</b>												
derivative liabilities		3,469		3,469		6,809		6,809		5,564		5,564
Noncurrent derivative liabilities		5,694		5,694		7,170		7,170		4,304		4,304
Contingent consideration to Seller of NEK			11,104	11,104			11,684	11,684			11,684	11,684
Total liabilities measured at fair value	\$	\$ 9,163	\$ 11,104	\$ 20,267	\$	\$ 13,979	\$ 11,684	\$ 25,663	\$	\$ 9,868	\$ 11,684	\$ 21,552
<b>Fiscal Year 2012</b>												
	June 30, 2012				Fiscal Year 2012 March 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>												
Cash equivalents	\$ 173,451	\$	\$	\$ 173,451	\$ 205,862	\$	\$	\$ 205,862	\$ 251,913	\$	\$	\$ 251,913
Marketable securities						7,895		7,895		18,872		18,872
<b>Current</b>												
derivative assets		648		648		2,197		2,197		1,000		1,000
Noncurrent derivative assets		4,471		4,471		3,041		3,041		2,196		2,196
Total assets measured at fair value	173,451	5,119		178,570	205,862	13,133		218,995	251,913	22,068		273,981
<b>Liabilities</b>												
<b>Current</b>												
derivative liabilities		3,071		3,071		1,687		1,687		5,955		5,955
Noncurrent derivative liabilities		7,010		7,010		6,497		6,497		5,246		5,246
Total liabilities measured at fair value	\$	\$ 10,081	\$	\$ 10,081	\$	\$ 8,184	\$	\$ 8,184	\$	\$ 11,201	\$	\$ 11,201

NOTE 18E QUARTERLY DERIVATIVES AND HEDGING ACTIVITIES (UNAUDITED)

The following table shows the notional principal amounts of our outstanding derivative instruments (in thousands):

	Notional Principal					
	June 30	Fiscal Year 2013		Fiscal Year 2012		December 31
	June 30	March 31	December 31	June 30	March 31	December 31
<b>Instruments designated as accounting hedges:</b>						
Foreign currency forwards	\$ 373,591	\$ 380,823	\$ 393,902	\$ 413,633	\$ 370,064	\$ 358,380
Forward starting swap	58,415	58,415	58,415			
<b>Instruments not designated as accounting hedges:</b>						
Foreign currency forwards	\$ 7,512	\$ 7,430	\$ 8,511	\$ 5,571	\$ 3,871	\$ 945

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 (in thousands):

	Balance Sheet Location	Fair Value					
		June 30	Fiscal Year 2013		Fiscal Year 2012		December 31
		June 30	March 31	December 31	June 30	March 31	December 31
<b>Asset derivatives:</b>							
Foreign currency forwards	Other current assets	\$ 3,918	\$ 2,827	\$ 2,552	\$ 648	\$ 2,197	\$ 1,001
Foreign currency forwards	Other noncurrent assets	5,181	5,303	2,612	4,471	3,041	2,196
Forward starting swap	Other noncurrent assets	1,453					
		\$ 10,552	\$ 8,130	\$ 5,164	\$ 5,119	\$ 5,238	\$ 3,197
<b>Liability derivatives:</b>							
Foreign currency forwards	Other current liabilities	\$ 3,469	\$ 6,809	\$ 5,564	\$ 3,071	\$ 1,687	\$ 5,955
Foreign currency forwards	Other noncurrent liabilities	5,694	7,006	3,831	7,010	6,497	5,246
Forward starting swap	Other noncurrent liabilities		164	473			
Total		\$ 9,163	\$ 13,979	\$ 9,868	\$ 10,081	\$ 8,184	\$ 11,201

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The tables below present gains and losses recognized in OCI related to derivative financial instruments designated as cash flow hedges, as well as the amount of gains and losses reclassified into earnings (in thousands):

Derivative Type	June 30, 2013		Three Months Ended June 30, 2012		June 30, 2011	
	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion
Foreign currency forwards	\$ 5,912	\$ 289	\$ 177	\$ 2,158	\$ (357)	\$ (941)
Forward starting swap	1,617					
	\$ 7,529	\$ 289	\$ 177	\$ 2,158	\$ (357)	\$ (941)

Derivative Type	March 31, 2013		Three Months Ended March 31, 2012		March 31, 2011	
	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion
Foreign currency forwards	\$ (1,435)	\$ 20	\$ (623)	\$ (5,681)	\$ (8,323)	\$ (279)
Forward starting swap	309					
	\$ (1,126)	\$ 20	\$ (623)	\$ (5,681)	\$ (8,323)	\$ (279)

Derivative Type	December 31, 2012		Three Months Ended December 31, 2011		December 31, 2010	
	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion	Gains (losses) recognized in OCI	Gains (losses) reclassified into earnings - Effective Portion
Foreign currency forwards	\$ (457)	\$ (2,072)	\$ (4,949)	\$ (3,165)	\$ (5,635)	\$ 958
Forward starting swap	(473)					
	\$ (930)	\$ (2,072)	\$ (4,949)	\$ (3,165)	\$ (5,635)	\$ 958

NOTE 18F QUARTERLY STOCKHOLDERS EQUITY ACTIVITIES (UNAUDITED)

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		
Vested		
Forfeited		
Unvested at December 31, 2012		
Granted	426,511	\$ 43.76



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Vested			
Forfeited			
Unvested at March 31, 2013	426,511		43.76
Granted			
Vested			
Forfeited	5,142		43.76
Unvested at June 30, 2013	421,369		43.76
Granted			
Vested			
Forfeited			
Unvested at September 30, 2013	421,369	\$	43.76

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NOTE 18G QUARTERLY STOCK BASED COMPENSATION ACTIVITIES (UNAUDITED)

Non-cash compensation expense related to stock-based awards was comprised of the following (in thousands):

	Three Months Ended September 30,	
	2013	2012
Cost of sales	\$ 103	\$
Selling, general and administrative	1,514	
	\$ 1,617	\$

	Three Months Ended June 30,	
	2013	2012
Cost of sales	\$ 119	\$
Selling, general and administrative	1,456	
	\$ 1,575	\$

	Three Months Ended March 31,	
	2013	2012
Cost of sales	\$ 4	\$
Selling, general and administrative	55	
	\$ 59	\$

	Three Months Ended December 31,	
	2012	2011
Cost of sales	\$	\$
Selling, general and administrative		
	\$	\$

NOTE 18H QUARTERLY SEGMENT INFORMATION (UNAUDITED)

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

	Three Months Ended Fiscal Year 2013				Three Months Ended Fiscal Year 2012			
	September 30 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)	September 30 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)
<b>Sales:</b>								
Transportation Systems	\$ 131.1	\$ 134.8	\$ 142.4	\$ 121.2	\$ 131.5	\$ 126.9	\$ 135.3	\$ 128.5
	109.3	123.8	122.2	113.4	134.6	122.4	126.9	107.5

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Mission Support Services										
Defense Systems	100.5	78.6	103.9	80.0	102.9	121.5	81.3	83.7		
Other	(0.1)		0.1	0.2	0.3	0.3	0.3	0.2		
Total sales	\$ 340.8	\$ 337.2	\$ 368.6	\$ 314.8	\$ 369.3	\$ 371.1	\$ 343.8	\$ 319.9		
<b>Operating income:</b>										
Transportation Systems	\$ (2.7)	\$ 19.0	\$ 35.3	\$ 15.2	\$ 17.9	\$ 20.0	\$ 26.7	\$ 20.0		
Mission Support Services	(47.5)	3.6	3.6	4.2	6.1	5.9	4.6	4.5		
Defense Systems	6.6	6.1		1.5	8.2	14.8	6.2	6.0		
Unallocated corporate expenses and other	(0.5)	(1.8)	(1.5)	(0.4)	(1.5)	(1.1)	(1.6)	(0.6)		
Total operating income (loss)	\$ (44.1)	\$ 26.9	\$ 37.4	\$ 20.5	\$ 30.7	\$ 39.6	\$ 35.9	\$ 29.9		

Changes in estimates on contracts for which revenue is recognized using the cost-to-cost-percentage-of-completion method decreased operating profit by approximately \$9.8 million in the three months ended September 30, 2013, while increasing \$1.9 million in the three months ended June 30, 2013, \$3.5 million in the three months ended March 31, 2013, and \$0.3 million in the three months ended December 31, 2012. These adjustments decreased net income by approximately \$6.6 million (\$0.25 per share) in the three months ended September 30, 2013, while increasing \$0.9 million (\$0.03 per share) in the three months ended June 30, 2013, \$2.8 million (\$0.11 per share) in the three months ended March 31, 2013, and \$0.5 million (\$0.02 per share) in the three months ended December 31, 2012.

Changes in estimates on contracts for which revenue is recognized using the cost-to-cost percentage-of-completion method increased operating profit by approximately \$0.7 million in the three months ended September 30, 2012, \$12.6 million in the three months ended June 30, 2012, \$7.2 million in the three months ended March 31, 2012, and \$1.2 million in the three months ended December 31, 2011. These adjustments increased net income by approximately \$0.35 million (\$0.01 per share) in the three months ended September 30, 2012, \$8.1 million (\$0.30 per share) in the three months ended June 30, 2012, \$5.0 million (\$0.19 per share) in the three months ended March 31, 2012, and \$0.9 million (\$0.03 per share) in the three months ended December 31, 2011.

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## NOTE 18I QUARTERLY ACQUISITION (UNAUDITED)

The following unaudited pro forma information presents our consolidated results of operations as if NEK, NextBus, AIS and PSMC had been included in our consolidated results since October 1, 2011 (in millions):

	Three Months Ended Fiscal Year 2013				Three Months Ended Fiscal Year 2012			
	September 30 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)	September 30 (As Restated)	June 30 (As Restated)	March 31 (As Restated)	December 31 (As Restated)
Net sales	\$ 340.8	\$ 340.8	\$ 372.5	\$ 331.2	\$ 386.3	\$ 387.8	\$ 358.6	\$ 335.3
Net income (loss) after taxes	(37.2)	18.5	29.5	15.4	22.8	27.9	26.0	22.5

The pro forma information includes adjustments to give effect to pro forma events that are directly attributable to the acquisition 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 acquisition been completed on October 1, 2011, and it does not purport to project our future operating results.

## NOTE 19 SUBSEQUENT EVENTS

We have completed an evaluation of all subsequent events through the original issuance date of these consolidated financial statements and concluded no subsequent events have occurred that require recognition or disclosure, other than those described in the sections above.

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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, 2013 (restated) and 2012 (restated) 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, 2013 (restated). 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, 2013 (restated) and 2012 (restated), and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2013 (restated), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, Cubic Corporation has restated previously issued financial statements as of September 30, 2013 and 2012 and each of the three years in the period ended September 30, 2013.

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, 2013, 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 December 5, 2013, except for the effects of the material weaknesses described in the sixth paragraph of that report, as to which the date is May 12, 2014, expressed an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

San Diego, California

December 5, 2013, except for the effects on the consolidated financial statements of the restatement described in Note 2, as to which the date is

May 12, 2014



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**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, 2013, 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, 2013, our CEO and CFO originally concluded that our disclosure controls and procedures were effective.

However, in February 2014, the Audit and Compliance Committee concluded that our previously issued consolidated financial statements for the fiscal years ended September 30, 2013 and 2012, and each of the quarterly periods within 2013 and 2012 contained material errors and should be restated, and therefore our CEO and CFO concluded that our disclosure controls and procedures were not effective for such periods. Based upon our consideration and assessment of the errors and the related accounting analyses, we also identified material weaknesses in internal control over financial reporting for such periods.

In light of the material weaknesses referred to above, we performed additional analyses and procedures in order to conclude that our consolidated financial statements, for the fiscal years ended September 30, 2013 and 2012 and each of the quarterly periods within 2013 and 2012 are fairly presented, in all material respects, in accordance with GAAP and have undertaken remediation initiatives as discussed below.

***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

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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 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.

In connection with the restatement discussed in the Explanatory Note to this Form 10-K/A and in Note 2 to our consolidated financial statements included in Item 8 of this Form 10-K/A, under the supervision of and with the participation of our management, including our CEO and CFO, we conducted a reevaluation of the effectiveness of our internal control over financial reporting as of September 30, 2013. A material weakness is a deficiency, or a 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. In connection with management's assessment of our internal control over financial reporting described above, management has identified the following deficiencies that constituted material weaknesses in our internal control over financial reporting as of September 30, 2013:



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- 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.
- 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.

The material weaknesses described above resulted in misstatements of the aforementioned accounts and disclosures that resulted in material misstatements in our annual and interim consolidated financial statements. Because of these material weaknesses, management has concluded that we did not maintain effective internal control over financial reporting as of September 30, 2013. Our internal control over financial reporting as of September 30, 2013, has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report included elsewhere herein.

*Plans for Remediation of Material Weaknesses*

We are in the process of adding resources and have begun developing and implementing new processes and procedures to remediate the material weaknesses that existed in our internal control over financial reporting, and our disclosure controls and procedures, as of September 30, 2013. We are also in the process of providing additional training to personnel involved in the revenue recognition process.

We are developing a remediation plan (the Remediation Plan) to address the material weaknesses described above. The Remediation Plan will ensure that each area affected by a material control weakness is put through a remediation process. The Remediation Plan entails a thorough analysis which includes the following phases:

- Define and assess each control deficiency: ensure a thorough understanding of the *as is* state, process owners and procedural or technological gaps causing the deficiency. This work is underway for all identified areas;
- Design and evaluate a remediation action for each control deficiency at our wholly-owned subsidiary at which the deficiencies exist: evaluate skills of the process owners and resources dedicated to each affected area and adjust as required.
- Implement specific remediation actions: train process owners, allow time for process adoption and adequate transaction volume for next steps;

- Test and measure the design and effectiveness of the remediation actions; test and provide feedback on the design and operating effectiveness of the controls; and,
  
- Management review and acceptance of completion of the remediation effort.

The Remediation Plan will be administered by our Senior Director of Internal Audit and will involve key leaders from across the organization, including our CEO and CFO. The Senior Director of Internal Audit will report quarterly and as needed to the Audit and Compliance Committee of our Board of Directors on the progress made toward completion of the Remediation Plan.

As we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above, we will perform additional procedures prescribed by management including the use of manual mitigating control procedures and employ any additional tools and resources deemed necessary to provide reasonable assurance that our financial statements continue to be fairly stated in all material respects.

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*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2013 that materially affected or are reasonably likely to materially affect our internal control over financial reporting. Our plans for remediation of the identified material weaknesses is described above.

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, 2013, 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.

In our report dated December 5, 2013, we expressed an unqualified opinion that Cubic Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on the COSO criteria (1992 framework). Management has subsequently determined that deficiencies in controls exist related to revenue recognition at a significant wholly owned subsidiary, and has further concluded that such deficiencies represented material weaknesses as of September 30, 2013. As a result, management has revised its assessment, as presented in the accompanying Management's Report on Internal Control Over Financial Reporting, to conclude that Cubic Corporation's internal control over financial reporting was not effective as of September 30, 2013. Accordingly, our present opinion on the effectiveness of Cubic Corporation's internal control over financial reporting as of September 30, 2013, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in its revenue recognition process at a significant wholly owned subsidiary due to the number, knowledge and training of personnel at that subsidiary, and due to inadequate review and analysis of revenue recognition decisions made at that subsidiary. 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, 2013 (restated) and 2012 (restated), and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2013 (restated). These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audits of the 2013 and 2012 consolidated financial statements, and this report does not affect our report dated December 5, 2013, except for the effects on the consolidated financial statements of the restatement described in Note 2, as to which the date is May 12, 2014, which expressed an unqualified opinion on those financial statements.

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In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Cubic Corporation has not maintained effective internal control over financial reporting as of September 30, 2013, based on the COSO criteria (1992 framework).

/s/ Ernst & Young LLP

San Diego, California

December 5, 2013, except for the effects of the material weaknesses described in the sixth paragraph above, as to which the date is May 12, 2014

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**PART III**

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

Information regarding directors and executive officers and corporate governance is included in our definitive Proxy Statement filed with the SEC on January 9, 2014 in connection with our 2013 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 is 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 is 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 is 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 is included in the Proxy Statement, and is incorporated herein by reference.

**PART IV**

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

(a) Documents filed as part of this Form 10-K/A:

(1) The following consolidated financial statements of Cubic Corporation, as referenced in Item 8 of this Form 10-K/A:

Consolidated Statements of Income  
Years ended September 30, 2013, 2012 and 2011

Consolidated Statements of Comprehensive Income  
Years ended September 30, 2013, 2012 and 2011

Consolidated Balance Sheets  
September 30, 2013 and 2012

Consolidated Statements of Cash Flows  
Years ended September 30, 2013, 2012 and 2011

Consolidated Statements of Changes in Shareholders' Equity  
Years ended September 30, 2013, 2012 and 2011

Notes to Consolidated Financial Statements  
September 30, 2013

(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. Incorporated by reference to Form 10-K filed for the fiscal year ended September 30, 2007, file No. 001-08931, 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.

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

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/A for the year ended September 30, 2013, 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

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**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

5/12/14 /s/ William W. Boyle  
Date WILLIAM W. BOYLE,  
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:

5/12/14 /s/ William W. Boyle  
Date WILLIAM W. BOYLE,  
Director  
Chief Executive Officer  
(Principal Executive Officer)

5/12/14 /s/ Walter C. Zable  
Date WALTER C. ZABLE,  
Executive Chairman of the Board of  
Directors

5/12/14 /s/ John D. Thomas  
Date JOHN D. THOMAS,  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

5/12/14 /s/ Mark A. Harrison  
Date MARK A. HARRISON,  
Senior Vice President and Corporate  
Controller  
(Principal Accounting Officer)

5/12/14 /s/ Edwin A. Guiles  
Date EDWIN A. GUILLES,  
Director

5/12/14 /s/ Robert S. Sullivan  
Date ROBERT S. SULLIVAN,  
Director

5/12/14 /s/ John H. Warner  
Date JOHN H. WARNER,  
Director

5/12/14 /s/ Bruce G. Blakley  
Date BRUCE G. BLAKLEY,  
Director

5/12/14 /s/ Steven J. Norris  
Date STEVEN J. NORRIS,  
Director

5/12/14 /s/ Bradley H. Feldmann  
Date BRADLEY H. FELDMANN,  
Director