

CUBIC CORP /DE/
Form 10-K
November 22, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 30, 2016

Commission File Number 001-08931

CUBIC CORPORATION

Exact Name of Registrant as Specified in its Charter

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

Delaware	95-1678055
State of Incorporation	IRS Employer Identification No.

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

Common Stock	New York Stock Exchange, Inc.
Title of each class	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. Yes 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. Yes 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. Yes 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). Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate market value of 24,881,839 shares of common stock held by non-affiliates of the registrant was: \$994,278,286 as of March 31, 2016, based on the closing stock price on that date. Shares of common stock held by each officer and director and by each person or group who owns 10% or more of the outstanding common stock have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of November 4, 2016 including shares held by affiliates is: 27,085,927 (after deducting 8,945,300 shares held as treasury stock).

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with its 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission subsequent to the date hereof but not later than 120 days after registrant's fiscal year ended September 30, 2016.

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CUBIC CORPORATION

ANNUAL REPORT ON FORM 10-K

For the Year Ended September 30, 2016

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PART I

Item 1. BUSINESS.

GENERAL

CUBIC CORPORATION (Cubic) designs, integrates and operates systems, products and services that increase situational awareness for our customers in the transportation and defense industries. 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 40% of our sales in fiscal year 2016. CTS specializes in the design, development, production, installation, maintenance and operation of automated fare payment, traffic management and enforcement solutions, real-time information systems, and revenue management infrastructure and technologies for transportation agencies. As part of our turnkey solutions, CTS also provides these customers with a comprehensive suite of business process outsourcing (BPO) services and expertise, such as card and payment media management, central systems and application support, retail network management, customer call centers and financial clearing and settlement support. As transportation authorities seek to optimize their operations by outsourcing bundled systems and services, CTS has transformed itself from a provider of automated fare collection (AFC) systems into a systems integrator and services company focused on the intelligent transportation market.

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

Our complementary defense businesses, CGD Services and CGD Systems, provided approximately 60% of our sales in fiscal year 2016. CGD Services provides comprehensive training and exercise, operations analysis, and modeling and simulation support, as well as training analysis, curriculum design, and operations and maintenance services to all four branches of the U.S. military, including the special operations forces, as well as to allied nations. In addition,

CGD Services offers a broad range of highly specialized national security solutions to the intelligence community. CGD Systems is a leading provider of realistic, high-fidelity air, ground and surface combat 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. CGD Systems is also a key supplier of secure communications solutions, including Intelligence, Surveillance and Reconnaissance (ISR) data links, personnel locator systems for search and rescue missions, high power amplifiers for HF communications and cross domain products. In 2015 and 2016, we acquired DTECH LABs, Inc. (DTECH), GATR Technologies Inc. (GATR), and TeraLogics, LCC (TeraLogics) in connection with our strategic efforts to build and expand our command, control, communication, computers, intelligence, surveillance and reconnaissance (C4ISR) business. In the third quarter of fiscal 2016 we formalized the structure of Cubic Mission Solutions (CMS), our business unit which combines and integrates our C4ISR and secure communications operations within the CGD Systems segment.

We have a broad customer base across our businesses, with approximately 60% of our fiscal year 2016 sales generated from 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 our fiscal year 2016 sales were attributable to sales to foreign government and municipal agencies. In fiscal year 2016, 55% of our total sales were derived from services, with product sales accounting for the remaining 45%. Headquartered in San

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Diego, California, we had approximately 8,500 employees working on 5 continents and in 26 countries as of September 30, 2016.

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. The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports can be found on our internet website under the heading “Investor Relations”. We make these reports readily available free of charge in a reasonably practicable time after we electronically file these materials with the Securities and Exchange Commission (the SEC).

BUSINESS SEGMENTS

Information regarding the amounts of revenue, operating profit and loss and identifiable assets attributable to each of our business segments, is set forth in Note 16 to the Consolidated Financial Statements for the year ended September 30, 2016. Additional information regarding the amounts of revenue and operating profit and loss attributable to major classes of products and services is set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which follows in Item 7 of this Form 10-K.

TRANSPORTATION SYSTEMS SEGMENT

CTS is a systems integrator of payment and information technology and services for intelligent travel solutions. We deliver integrated systems for transportation and traffic management, delivering tools for travelers to choose the smartest and easiest way to travel and pay for their journeys, and enabling transportation authorities and agencies to manage demand across the entire transportation network — all in real time. We offer fare collection and revenue management devices, software, systems and multiagency, multimodal integration technologies, as well as a full suite of operational services that help agencies and operators efficiently collect fares and revenue, manage operations, reduce revenue leakage and make transportation more convenient. Through our NextBus and Intelligent Transport Management Solutions (ITMS) businesses, respectively, we also deliver real-time passenger information systems for tracking and predicting vehicle bus arrival times and we are a leading provider of urban and inter-urban intelligent transportation and enforcement solutions and technology and infrastructure maintenance services to UK and other international city, regional and national road and transportation agencies. Through our Urban Insights business we use big data and predictive analytics technology and a consulting model to help the transportation industry improve operations, reduce costs and better serve travelers.

CTS is comprised of approximately 2,400 employees working in major transportation markets worldwide. As an established partner with transportation authorities and operators, we have installed over 130,000 devices and deployed

over 20 regional central systems which in total process approximately 24 billion revenue-related transactions per year, generating more than \$18 billion of revenue per year for such transportation authorities and operators. Products accounted for 48% of the segment's fiscal year 2016 sales, with services accounting for the remaining 52%.

We believe that we hold the leading market position in large-scale automated fare payment and revenue management systems and services for major metropolitan areas. CTS has delivered over 20 regional back office operations which together serve over 38 million people every day in major markets around the world. We have implemented and, in many cases, operate, automated fare payment and revenue management systems for some of the world's largest transportation systems, examples include London (Oyster/Contactless Payment), the Chicago region (Ventra), the San Francisco Bay Area (Clipper), the Los Angeles region (TAP), the New York region (Metrocard), the Washington D.C. region (Smartrip), the Vancouver region (Compass), the Sydney region (Opal Card) and the Brisbane region (Go Card). In the first quarter of fiscal 2016 we were awarded a contract by the New Hampshire State Department of Transportation to deploy our back-office system for the purposes of toll revenue collection.

Through our NextBus, ITMS and Urban Insights businesses we provide advanced transportation operational management and analytics capabilities and related services to over 150 customers including organizations such as Transport for London, Transport Scotland, Highways England, Transport for Greater Manchester, Transport for New

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South Wales, Los Angeles Metro, San Francisco Muni, the Toronto Transit Commission and the Metropolitan Boston Transit Administration.

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 operations, 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 our NextCity initiative, which envisions integrated payment and information technology and services across all modes of transport. NextCity comprises a fully integrated solution offering innovative fare payment and revenue management technologies, the creation and distribution of real-time and predictive information through the integration of payment and information systems, applications that enable agencies and operators to plan for and manage demand and applications that allow customers to manage their travel through seamless access to predictive and relevant information and convenient payment methods.

Industry Overview

We define our addressable transportation market as large-scale, multi-modal transportation revenue management systems (e.g. public transit fare collection, toll collection), Real-Time Passenger Information and Intelligent Transportation Systems and services. We project the long-term growth for this market to be driven primarily by customer infrastructure expansion as well as technological obsolescence and advancement which will lead to replacements and upgrades. The average lifecycle of our revenue management systems is approximately 10 years, providing long-term recurring sales visibility and opportunities for future replacements and upgrades. Together with additional opportunities that stem from our other businesses as well as entry into new geographies, we believe our overall addressable market to be approximately \$12 billion. We believe industry experience, past performance, technological innovation and price are the key factors customers consider in awarding programs and such factors can serve as barriers to entry to potential competitors when coupled with scale and the upfront investments required for these programs.

The transportation systems and services business breaks into niche market segments, each of 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 transportation operators within

a single networked system. As such, there is a growing trend for regional payment systems, usually built around a large agency and including neighboring operators, all sharing a common regional payment media. Recent procurements for open payment systems will extend the acceptance of payment media from 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 payment media and back-office system, offering higher value and incentives to the end users, and lowering costs and creating new revenue streams through the integration of multi-modal and multi-operator systems for the regional system operators. As a result, these regional systems have created opportunities for new levels of systems support and services including customer support call centers and web support services, smart card production and distribution, financial clearing and settlement, retail merchant network management, transit benefit support, and software application support. In some cases, operators are choosing to outsource the ongoing operations and commercialization of these regional payment systems. This growing new market provides the opportunity to establish lasting relationships and grow revenues and profits over the long term.

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

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ITMS has a 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.

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

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, 2016 and 2015 amounted to \$1.793 billion and \$1.894 billion, respectively. We expect that approximately \$522 million of the September 30, 2016 backlog will be converted into sales by September 30, 2017.

CTS Competitive Environment:

We are one of several companies specializing in the transportation systems and services market. Our competitors in various market segments include Thales, Xerox, Kapsch, Accenture, IBM, Indra, Init, Siemens, Transcore, Trapeze, Parkeon and Scheidt & Bachmann.

For large tenders, our competitors may form consortiums that could include telecommunications companies, financial institutions and consulting companies in addition to the companies noted above. These procurement activities are very

competitive and require that we have highly skilled and experienced technical personnel to compete.

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

CUBIC GLOBAL DEFENSE SYSTEMS SEGMENT

CGD Systems 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 Department of Defense (DoD) and 34 allied nations. It is a market leader in live and virtual military training systems and has launched an emerging and fast growing presence in game-based training systems. Training systems provided by CGD 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 ISR data links, satellite ground terminals, modular networking and broadband communications equipment, power amplifiers, avionics systems, and cross domain products to solve data access challenges across multi-level security designations. CGD Systems is comprised of approximately 2,000 employees working in 20 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 U.S. military and the militaries of allied nations. We design and manufacture

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realistic, high-fidelity air, ground, and surface 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 CGD Systems 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, 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 of the U.S. military and allies 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 been awarded a series of contracts to produce and enhance ACMI for the F-35 Joint Strike Fighter. In May 2016, Cubic and its industry partners were selected by the U.S. Air Force Research Laboratory for Warfighter Readiness and Training Research to develop technologies for next-generation readiness capabilities. We have also developed a broad international base for our ACMI product, particularly in Asia Pacific and the Middle East. In addition to procuring the ACMI training system, many nations also rely on Cubic for on-site operations and maintenance support.

Ground Combat Training Systems

CGD Systems is a leading provider of realistic, easy-to-use, high-fidelity, reliable, and cost effective tactical engagement simulation systems that minimize user set-up time and increase training effectiveness. Our leadership role in instrumented training was established during the 1990s when Cubic provided turnkey systems for U.S. Army training centers including the Joint Readiness Training Center (JRTC) at Fort Polk, Louisiana, and the Combat Maneuver Training Center (CMTTC) at Hohenfels, Germany, now known as the Joint Multinational Readiness Center. Since the completion of these original contracts, we have significantly expanded our market footprint with the sale of fixed, mobile and urban operation training centers to uniformed military and security forces in the U.S. and allied nations around the world. Our ground combat training systems operate at over 25 combat training centers (CTCs) worldwide. Our laser-based tactical engagement simulation systems, widely known as the Multiple Integrated Laser Engagement Systems (MILES), are used at CTCs to enable realistic training without live ammunition. Cubic MILES are being utilized by all branches of the U.S. Armed Services, as well as the Department of Energy, and numerous international government customers. We have increased our focus on joint training solutions and those that can

operate simultaneously in multiple simulation environments including live, virtual, constructive and gaming domains. In fiscal year 2013 we acquired the assets of Advanced Interactive Systems (AIS), which provides live fire training solutions to U.S. and international forces, further deepening our training capabilities and expanding our customer base.

Game-Based Learning Systems

The \$298.5 million Littoral Combat Ship (LCS) courseware contract win by the Simulation Systems Division during 2013 has opened a large new market for CGD Systems. 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, we are investing in the appropriate tool sets and staffing resources to meet the Navy and commercial airline requirements. Near-term opportunities include other

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Navy and other DoD customers and commercial airlines, 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, networking and baseband communications equipment, search and rescue avionics, high power RF amplifiers, cyber security appliances for the U.S. military, government agencies, and allied nations. In 2015 and 2016 we acquired DTECH, GATR, and TeraLogics in connection with our strategic efforts to build and expand our C4ISR business. These new businesses provide deployable satellite communication terminal solutions, full motion video processing and dissemination, and networking and baseband communications equipment. In the third quarter of fiscal 2016 we combined and integrated our C4ISR and other secure communications operations into a new business unit, CMS, which is part of our Cubic Global Defense Systems segment.

GATR

On February 3, 2016, we acquired GATR, a manufacturer of next-generation deployable satellite communication terminal solutions, based in Huntsville, Alabama. GATR expands our satellite communications and networking applications technologies and expands our customer base.

TeraLogics

On December 21, 2015 we acquired TeraLogics, a business based in Ashburn, Virginia, which is a leading provider of real-time full motion video processing, exploitation and dissemination for the DoD, the intelligence community and commercial customers. TeraLogics' ability to develop real-time video analysis and delivery software for full motion video is complementary to Cubic's existing tactical communications portfolio.

DTECH

On December 16, 2014 we acquired DTECH, which is based in Sterling, Virginia, and is a provider of modular networking and baseband communications equipment that adds networking capability to our secure communications business. This acquisition expands the portfolio of product offerings and the customer base of our CGD Systems segment.

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 U.S. and international forces today. More recently we have focused on the supply of Common Data Link (CDL) products for ship borne applications, unmanned aerial vehicles (UAV), remote video terminals and hand-held products. Smaller, tactical versions of our Common Data Link have been selected for both UAV and remote video terminal applications such as the U.K.'s Watchkeeper, the U.S. Navy's Fire Scout MQ-8 UAV and common data link programs and the U.S. Marine Corp's (USMC) Small Unmanned Aerial System and Networking-on-the-move system programs.

Personnel 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,

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system certification and accreditation, and enterprise-level network architecture and engineering services. We also provide cross-domain hardware solutions to address multi-level security challenges across common networks.

Raw Materials — CGD Systems

The principal raw materials used by CGD Systems 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 — CGD Systems

Funded and total backlog of CGD Systems at September 30, 2016 was \$577 million compared to \$596 million at September 30, 2015. We expect that approximately \$251 million of the September 30, 2016 backlog will be converted into sales by September 30, 2017.

CUBIC GLOBAL DEFENSE SERVICES SEGMENT

CGD Services 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 CGD Systems segment. CGD Services is comprised of approximately 3,700 employees working in 13 nations throughout the world. Our employees serve with clients in actual training and operational environments to help prepare and support forces through the provision of comprehensive training, exercises, staff augmentation, education, operational, intelligence, technical, and logistical assistance to meet the full scope of their assigned missions. The scope of mission support that we provide includes: training and rehearsals for both small and large scale combat operations; training and preparation of military advisor and training teams; combat and material development; military staff augmentation; information technology and information assurance; logistics and maintenance support for fielded and deployed systems; support to national intelligence and special operations activities; peacekeeping; consequence management; and humanitarian assistance operations worldwide. We also plan, prepare, execute and document realistic and focused mission rehearsal exercises (using both live and computer-based exercises) as final preparation of forces prior to deployment. In addition, we provide high level consultation and advisory services to the governments and militaries of allied nations.

U.S. government service contracts are typically awarded on a competitive basis with options for multiple years. We typically compete as a prime contractor to the government, but also team with other companies on select

opportunities. Over the last several years we have experienced a number of challenges in the defense services market, including sequestration, reductions in the U.S. government's budgets, increased price competition, contract awards for shorter performance periods, and we have seen an increased amount of required subcontracting to small businesses as a result of the U.S. government's increased emphasis on meeting small business contracting mandates. In addition, some of the contracts where we were the prime contractor in the past have been set aside at re-compete for participation by small businesses only. Lastly, the government continues to use lowest price, technically acceptable evaluation methods to drive down price in competitions. This has put significant pressure on profit expectations, has diluted our overall services margin, and has caused us to reevaluate whether we will continue to bid some programs that fall within our core competencies.

Our comprehensive business base includes 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. We provide in-country logistics, maintenance, operational and training support to U.S. Forces deployed in overseas locations.

Our contracts include providing mission support services to all four of the U.S. Army's major combat training centers (CTCs): Joint Readiness Training Center (JRTC) as prime contractor, the National Training Center (NTC) and Mission

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

We provide comprehensive support to help plan, manage and execute Defense Threat Reduction Agency's (DTRA) worldwide consequence management exercise program, which trains senior U.S. and allied civilian and military personnel, first responders and other users of DTRA products. Additionally we support 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 also support DTRA with modeling and simulations to analyze, assess and predict the effects of such weapons in combat and other environments.

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

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.

A 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 operate battle simulation centers for U.S. forces in Europe, as well as for select countries in Central and Eastern Europe.

In recent years 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 to broaden our service offerings across the U.S. DoD and national security markets to pursue prime contract opportunities.

We believe the combination and scope of our defense 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 — CGD Services

Funded sales backlog of our CGD Services segment at September 30, 2016 was \$139 million compared to \$150 million at September 30, 2015. Total backlog, including unfunded options under multiyear service contracts, was \$570 million at September 30, 2016 compared to \$486 million at September 30, 2015. We expect that approximately \$183 million of the September 30, 2016 total backlog will be converted into sales by September 30, 2017.

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CGD 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, Booz Allen Hamilton, and Engility as well as other smaller companies. In many cases, we have also teamed with several of these companies, in both prime and subcontractor roles, on specific bid opportunities. While we are generally smaller than our principal competitors, we believe our competitive advantages include an outstanding record of past performance, strong incumbent relationships, the ability to control operating costs and rapidly focus technology and innovation to solve customer problems.

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

We are also well positioned in large, relatively stable markets. According to the 2016 Global Military Simulation and Virtual Training Market report, the value of the global military simulation and virtual training programs market is \$13.3 billion in 2016. The value of the market is expected to increase at a compound annual growth rate of 2.9% over the forecast period, to reach a value of \$17.7 billion by 2026. 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 C4ISR market, with an estimated addressable market of approximately \$2 billion annually. We believe that our products and technologies address mission critical requirements such as: integrated communications suites for unmanned aerial vehicles (UAV), ships and the dismounted soldier, battlefield awareness, and secure and encrypted communications. We believe that these technologies will continue to experience strong demand as the U.S. military maintains a smaller, more agile force structure.

BUSINESS STRATEGY

Cubic's strategy remains guided by our objectives of winning the customer to create market-leading positions, delivering superior operational performance, and investing our capital and talent to enhance our market-leading businesses. All of this is supported by our One Cubic initiative: sharing resources across the company to achieve superior talent management, absolute customer focus, innovation, collaboration, cost-effective enterprise systems and impeccable ethics.

In transportation, we have developed our NextCity vision for the future of transportation. We are repositioning ourselves from being a leading provider of mass transit fare collection systems to be a leading provider of integrated payment and information systems across all modes of transportation. We will continue to grow our portfolio beyond fare collection to include industries such as tolling, analytics, parking and traffic management.

In defense, we have developed our vision for NextTraining — a capability that will allow us to better prepare our customers for their NextMission by ensuring we apply the most effective training methodologies based on state-of-the-art learning methods and neurological science in a cost-effective manner. In 2015 and 2016 we acquired DTECH, GATR, and TeraLogics in connection with our strategic efforts to build and expand our C4ISR business and we formalized the structure of our CMS business unit which combines and integrates our C4ISR and secure communications operations within the CGD Systems segment.

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As part of our strategic planning process, we conducted a portfolio review and are already reshaping our portfolio to allow us to consistently grow sales, improve profitability and deliver attractive returns on capital. Our acquisition strategy remains focused on opportunities that align with our NextCity strategy and building our C4ISR business both in the U.S. and internationally. We are reviewing larger transformational opportunities that would leverage our strategy to invest in higher margin niche markets and utilize our strong capital position.

We believe implementing our strategy will improve Cubic’s competitive advantage and deliver superior value to our customers as well as superior returns to our shareholders.

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:

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

Superior Operational Performance

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

Strategic Reinvestment of Capital

We target markets that have the potential for above-average growth where domain expertise, innovation, technical competency and contracting dynamics can help to create meaningful barriers to entry. We will strategically reinvest our cash in key program captures, internal research and development (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

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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 \$32.0 million, \$18.0 million, and \$18.0 million in 2016, 2015 and 2014, respectively. In 2016 CTS accelerated R&D investment in new transportation product development, including fare collection technologies, cloud services and development of tolling and analytic technologies. CGD Systems R&D expenditures increased in 2016, including the R&D expenses incurred by our recently acquired GATR, TeraLogics, and DTECH businesses. 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 \$86.3 million in 2016 compared to \$77.2 million in 2015 and \$73.0 million in 2014; however, these costs are included in cost of sales as they are directly related to contract performance. In fiscal year 2016, we spent 8% of our sales on the total of internally funded and contract funded R&D, primarily focused in our CGD Systems and CTS segments.

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, in fiscal 2015 and 2016 we acquired DTECH, GATR, and TeraLogics in connection with our strategic efforts to build and expand our C4ISR business.

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 55% of our sales in fiscal year 2016, were from service-related work. We believe that a strong base of service work helps to consistently generate profits and smooth the sales fluctuations inherent in systems work.

At CTS, we deliver a number of customer services from key service facilities for multiple transportation authorities worldwide. Due to the technical complexities of operating electronic fare collection and payment systems,

transportation agencies are turning to their system suppliers for IT services and other operational and maintenance services, such as regional settlement, card management and customer support services that would otherwise be performed by the agencies. As a result, we are transitioning from an AFC supplier to an intelligent transportation systems integrator and services company providing a suite of turnkey outsourced services for more than 20 transit authorities and cities worldwide. Today, CTS delivers a wide range of services from customer support to financial management and technical support at operation centers across the United States, Canada, United Kingdom and Australia.

At CGD Services, 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.

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For CGD Systems, 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 CGD Systems competitive posture and enable us to provide enhanced services through regular customer contact and increased visibility of product performance and reliability.

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 65% of the CTS segment's fiscal year 2016 sales were attributable to international customers. In August 2016 the Land Transport Authority in Singapore selected CTS to be the provider of the fare collection system for the in-construction Thomson-East Coast Line.

CGD Systems has delivered systems in more than 34 allied nations. In fiscal year 2016, approximately 45% of CGD Systems sales were to allied foreign governments, including projects funded by the U.S. government pursuant to Foreign Military Sales and Foreign Military Financing arrangements. We have expanded our presence in the United Kingdom, 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 2016, approximately 9% of CGD Services sales were performed internationally, including its long-term force modernization programs supporting multiple Central and Eastern European countries. CGD Services is now coordinating with CTS and CGD Systems to use their broader international presence to help identify additional global service opportunities. We are actively working to leverage CGD Services 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. These and 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

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materials. From time to time, we have been named as a potentially responsible party at third-party waste disposal sites. We do not currently expect compliance with such laws and regulations to have a material effect upon our capital expenditures, earnings or competitive position. However, such laws and regulations are complex, change frequently and have tended to become increasingly stringent over time. Accordingly, we cannot assure you that such laws and regulations will not have a material effect on our business in the future.

OTHER MATTERS

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

We employed approximately 8,500 persons at September 30, 2016.

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

Item 1A. RISK FACTORS.

Risks relating to our business

Within the last five years we have restated our consolidated financial statements, which may lead to additional risks and uncertainties, including shareholder litigation, loss of investor confidence and negative impacts on our stock price.

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

primarily to the misapplication of GAAP for certain methods of revenue recognition.

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

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

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Management's assessment of our internal control over financial reporting as of September 30, 2013, identified material weaknesses in our internal control over financial reporting related to accounting for revenue of one of our significant wholly owned subsidiaries. A material weakness is defined as a deficiency, or 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 fiscal 2014, we developed and implemented new control procedures over financial reporting related to accounting for revenue for this significant wholly owned subsidiary, and we concluded that we had remediated this material weakness as of September 30, 2014. However, we cannot assure you that our internal control over financial reporting will prevent additional material weaknesses or other deficiencies in the future. For example, as a result of an investigation by our Audit Committee in the first half of fiscal 2015, we identified certain deficiencies in our controls and procedures in connection with programs that are accounted for under the percentage of completion method. Our Audit Committee and management determined that as of September 30, 2014, the total estimated costs of certain of our CGD Systems segment contracts were inappropriately reduced during its accounting

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close for the year ended September 30, 2014. The inappropriate reduction of the estimated costs to complete these contracts resulted in the overstatement of CGD Systems sales and operating income by approximately \$750,000 for the fourth quarter and full year of fiscal 2014. In addition, during the accounting close for our March 31, 2015 financial statements, we identified certain errors, unrelated to the matters described above, in our September 30, 2014 financial statements. These errors included an overstatement of revenue recognition on one contract and the understatement of cost of sales on a small number of contracts. The cumulative impact of these errors resulted in an overstatement of our operating income for the year ended September 30, 2014 of \$1.6 million. Although the deficiencies and errors identified in fiscal 2015 did not, individually or in aggregate, constitute a material weakness, we will need to continue to monitor and evaluate our procedures for internal control over financial reporting to ensure that they are designed properly and operating effectively. We may be at risk for future material weaknesses, particularly if these new procedures do not operate effectively. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, which could cause us to fail to meet our reporting obligations, lead to a loss of investor confidence and have a negative impact on the trading price of our common stock.

Unforeseen problems with the implementation and maintenance of our information systems could have an adverse effect on our operations and if internal controls are not designed and operated effectively our internal control over financial reporting could be ineffective.

As a part of our efforts to upgrade our current information systems, early in fiscal 2015 we began the process of designing and implementing new enterprise resource planning software and other software applications to manage our operations. The cost of the software and integration is expected to exceed \$80.0 million, and the software applications are expected to continue to be implemented in phases over the next 1.5 years. As we implement and add functionality, problems could arise that we have not foreseen, including interruptions in service, loss of data, or reduced functionality. Such problems could adversely impact our ability to provide quotes, take customer orders, and otherwise run our business in a timely manner. In addition, if our new systems fail to provide accurate and increased visibility into pricing and cost structures, it may be difficult to improve or maximize our profit margins. As such, our results of operations and cash flows could be adversely affected.

In addition, the new ERP software and other applications that we are implementing are new to our organization. We do not have experience with implementing and maintaining controls over these new systems. If we are unable to design controls within or around these systems that are effective at preventing and detecting unreliable data, or if we are unable to design or operate controls within or around these systems to provide effective control around program changes and access to the systems, we may be at risk for future material weaknesses. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, which could cause us to fail to meet our reporting obligations, lead to a loss of investor confidence and have a negative impact on the trading price of our common stock.

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

Our revenues from contracts, directly or indirectly, with foreign and U.S. state, regional and local governmental agencies represented substantially all of our total revenues in fiscal year 2016. 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.

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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;
- increased use of small business set asides by government agencies, resulting in Cubic being eligible to perform no more than 49% of the work as a subcontractor;
- increased use of lowest-priced, technically acceptable contract award criteria by government agencies;
- increased aggressiveness by the government in seeking rights in technical data, computer software, and computer software documentation that we deliver under a contract, which may result in "leveling the playing field" for competitors on follow-on procurements;

- 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

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programs by the U.S. and foreign governments may decrease, remain constant or shift to programs in areas where we do not currently provide products or services, thereby reducing the chances that we will be awarded new contracts.

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

In addition, the DoD has recently increased its emphasis on awarding contracts to small businesses; awarding contracts for defense-related services to the lowest-priced, technically acceptable offeror; 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 re-competing 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.

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 or sequestration, which could result in a termination or suspension of some or all of our contracts with the U.S. government.

If Congress does not agree on a budget or continuing resolution, it may result in a partial shutdown of the U.S. government or sequestration and cause the termination or suspension of our contracts with the U.S. government or automatic cuts to the U.S. defense budget, which could impact some or all of our contracts. Under such circumstances, we could be required to furlough affected employees for an indefinite time, terminate or suspend subcontracts, or incur contract wind-down costs. It is uncertain if we would be compensated or reimbursed for any loss of revenue during such periods. 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;

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

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

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

We have made assumptions concerning behavior by public transit authorities which may not hold true over time.

In our transportation business we have made certain assumptions that support the growth of the business. For example, we have assumed that governments will continue to charge passengers for using public transit. We have also assumed that transit agencies will continue to outsource operations and services. Should these assumptions not hold true, our transportation business could experience a material loss of business.

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 CGD Services segment of \$50.9 million. This goodwill impairment, and any impairment that might be necessary in the future, is measured by comparing the implied fair value of goodwill to its carrying value, and any impairment determined is recorded in the current period.

No goodwill impairment has been recognized subsequent to the fourth quarter of fiscal 2013. Any future impairment could result in substantial losses and write-downs that would reduce our results of operations. For more information on 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.

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

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

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

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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 could adversely impact us.

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 for no more than 49% of the total contract price. 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 consortium. This could result in significant adverse effects on our revenues, operating costs and cash flows.

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

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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;
- 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, privacy laws, and import/export regulations;
- compliance with applicable U.S. and foreign anti-corruption laws, anti-trust/competition laws, anti-Boycott Israel 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;
- compliance with domestic and foreign government policies, including requirements to expend a portion of contract funds locally and governmental industrial cooperation or offset requirements;
- the complexity and necessity of using foreign representatives and consultants or being prohibited from such use;
- the difficulty of ensuring that our foreign representatives, consultants and partners comply with applicable U.S. and foreign anti-corruption laws and anti-trust/competition laws;
- the need to form joint ventures or other special purpose companies with local, in-country partners to pursue projects as a prime contractor;
- 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;

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- 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.

The results of the United Kingdom's referendum on withdrawal from the European Union (EU) may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the EU, and has given rise to calls for the governments of other EU member states to consider withdrawal.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. Lack of clarity about future United Kingdom laws and regulations as the United Kingdom determines which EU laws to replace or replicate in the event of a withdrawal, could depress economic activity, restrict our access to capital or adversely affect our contracts or relationships with customers in the United Kingdom or elsewhere in the European economic area, including, for example, our contracts with Transport for London, which accounted for \$156.3 million, \$183.2 million and \$213.2 million of our sales in 2016, 2015 and 2014, respectively. If the United Kingdom and the EU are unable to negotiate acceptable withdrawal terms or if other EU member states pursue withdrawal, barrier-free access between the United Kingdom and other EU member states or among the European economic area overall could be diminished or eliminated. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

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 the International Traffic in Arms Regulations (ITAR) or the Export Administration Regulations (EAR), 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.

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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 the ITAR and the EAR 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 the ITAR or the EAR, we would not be able to sell export-controlled products abroad, which would adversely affect our business, results of operations and financial condition.

The loss of required licenses from the Bureau of Alcohol, Tobacco, Firearms and Explosives could limit our ability to perform on contracts requiring the use of controlled firearms.

In our training business we use certain firearms which are regulated by the Bureau of Alcohol, Tobacco, Firearms and Explosives. If we fail to properly manage the firearms pursuant to the regulations, we could face fines and the possible loss of the licenses. The loss of the licenses could result in our inability to perform on certain contracts, which would have an adverse business, reputational and financial impact.

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 82% of our revenues in fiscal year 2016 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, 2016, our total backlog was approximately \$2.9 billion. Orders may be cancelled and scope adjustments may occur, and we may not realize the full amounts of sales that we may anticipate in our backlog numbers. There can be no assurance that the projects underlying the contracts and purchase orders will be placed or completed or that amounts included in our backlog ultimately will be billed and collected. Additionally, the timing of receipt of sales, if any, on contracts included in our backlog could change. The failure to realize amounts reflected in our backlog could materially adversely affect our business, financial condition and results of operations in future periods.

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 business 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 certain contract negotiations;
- the ITAR, which control the export of items on the U.S. Munitions Control List administered by the U.S. Department of State;
- the Export Administration Regulations which control commercial, dual-use and select defense related articles;

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- the Bureau of Alcohol, Tobacco, Firearms and Explosives regulations that control the manufacture, possession and sale of firearms and explosive devices and materials;
- 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 Sherman Act and Clayton Act, which proscribe unlawful, anti-competitive conduct and business practices;
- 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;
- the Fair Labor Standards Act and similar state wage and hour laws;
- 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.

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

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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.

The DoD has become more aggressive in seeking rights in all technical data, computer software, and computer software documentation that we may deliver under U.S. government contracts. Those rights include the ability of the government to provide that technical data, computer software, and computer software documentation to our competitors which may result in “leveling the playing field” for competitors and reducing our incumbency advantage during re-procurements for those goods or services.

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.

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 not have sufficient financial resources or otherwise 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.

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

At the beginning of fiscal 2015, we had a committed five-year revolving credit agreement, expiring in May 2017, with a group of financial institutions in the amount of \$200.0 million. On February 2, 2016, we and the group of financial institutions increased the revolving line of credit available under the agreement to \$400.0 million and we borrowed \$150.0 million as a source of financing for the purchase of GATR. In connection with this increase in the facility size, certain debt covenant definitions and limitations were modified to increase our leverage capacity. On August 11, 2016, we executed the Third Amended and Restated Credit Agreement, which amended and restated the prior revolving credit agreement to extend the maturity to August 11, 2021, add a new financial institution to the group of creditors and amend certain terms and covenants. Borrowings under the agreement bear a variable rate of interest which is calculated based upon the U.S. dollar LIBOR rate plus a contractually defined credit spread that is based upon the tenor of the specific borrowing. At September 30, 2016, the weighted average interest rate on outstanding borrowings under the agreement was 2.5%. The available line of credit is reduced by any letters of credit issued under the agreement. As of September 30, 2016, there were borrowings totaling \$240.0 million under this agreement and there were letters of credit outstanding totaling \$20.7 million, which reduce the available line of credit to \$139.3 million.

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, 2016, there were letters of credit outstanding under this agreement of \$62.7 million. In support of this facility, we placed \$69.4 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 \$63.1 million, and any increase above this amount would require bank approval and additional restricted funds to be placed on deposit. We may choose at any time to terminate the facility and move the associated letters of credit to another credit facility. Letters of credit outstanding under the facility do not reduce the available line of credit available under the revolving credit agreement described above.

On March 12, 2013, we entered into a note purchase and private shelf agreement pursuant to which we issued \$100.0 million in aggregate principal amount of senior unsecured notes, bearing interest at a rate of 3.35% and maturing on March 12, 2025. In addition, pursuant to the agreement, on July 17, 2015, we issued an additional \$25.0 million in aggregate principal amount of senior unsecured notes, bearing interest at a rate of 3.70% and maturing on March 12, 2025. Interest payments on the notes issued in 2013 and 2015 are due semi-annually and principal payments are due from 2021 through 2025. On February 2, 2016 we revised the note purchase agreement and we issued an additional \$75.0 million in aggregate principal amount of senior unsecured notes bearing interest at 3.93% and maturing on March 12, 2026. Interest payments on these notes are due semi-annually and principal payments are due from 2020 through 2026. At the time of the issuance of the last series of notes, certain terms and conditions of the note purchase and private shelf agreement were revised in coordination with the revision and expansion of the revolving credit agreement discussed above in order to increase our leverage capacity. 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, 2016, this agreement does not restrict such distributions to shareholders. As of September 30, 2016, these agreements restrict such distributions to shareholders to a maximum of \$48.7 million per fiscal year.

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 reprocurement by the customer and have a material adverse effect on our ability to compete for other contracts.

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

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

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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.

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 February 2016, we acquired all of the outstanding capital stock of GATR Technologies, LLC (GATR), a defense systems business based in Huntsville, Alabama which manufactures deployable satellite communication terminal solutions. GATR expands our satellite communications and networking applications technologies for our CGD Systems segment and expands our customer base.

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;

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

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

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

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

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 that 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

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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.

We are subject to various investigations, claims and litigation that could ultimately be resolved against us.

The size, nature and complexity of our business make us susceptible to investigations, claims, and litigation, particularly those involving governments. We are and may become subject to investigations, claims and administrative, civil or criminal litigation globally and across a broad array of matters, including, but not limited to, government contracts, false claims, products liability, fraud, environmental, intellectual property, tax, export/import, anti-corruption, labor, health and safety, employee benefits and plans, including plan administration, and improper payments. These matters could divert financial and management resources; result in fines, penalties, compensatory, treble or other damages or non-monetary relief; and otherwise disrupt our business. Government regulations also provide that certain allegations against a contractor may lead to suspension or debarment from government contracts or suspension of export privileges for a company or one or more of its components. Suspension or debarment could have a material adverse effect on our company because of our reliance on government contracts and export authorizations. An investigation, claim or litigation, even if fully indemnified or insured, could also negatively impact our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future. Investigations, claims or litigation could have a material adverse effect on our financial position, results of operations and/or cash flows.

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:

- 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 SEC;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of our competitors;

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- inaccuracy of our guidance regarding future operating results;
- 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 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 November 8, 2016, Walter C. Zable, our Chairman of the Board of Directors, and Karen F. Cox, Mr. Zable's sister, beneficially owned an aggregate of 3,055,911 shares, or approximately 11.3%, of our outstanding common stock. 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 2015 Incentive Award 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.

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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:

- prior to the date of the transaction, an affirmative vote of the holders of at least 66 $\frac{2}{3}$ % 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 66 $\frac{2}{3}$ % 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 2016, we paid \$7.3 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.

We are implementing a new Enterprise Resource Planning (ERP) system and improper implementation may cause disruptions to our business.

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We are part way through the implementation of our new ERP system and full implementation will take at least another year. If we do not implement the new system properly, it could cause us to miss critical shipments, file our financials late, improperly pay employees and delay invoices to our customers. The implementation may also take more time and cost more than we have anticipated, further impacting our financial results. Such results could lead to the loss of customers, damage to our reputation, litigation and declines in our stock price.

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,” “believe,” “intend,” “predict,” “potential,” “opportunity” and similar words or phrases or the negatives of 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.

Such risks, estimates, assumptions and uncertainties include, among others: unanticipated issues related to the restatement of our financial statements; our ability to monitor and evaluate the effectiveness of new processes and procedures we have implemented to remediate the material weaknesses that existed in our internal control over financial reporting; our dependence on U.S. and foreign government contracts; delays in approving U.S. and foreign government budgets and cuts in U.S. and foreign government defense expenditures; the ability of certain government agencies to unilaterally terminate or modify our contracts with them; the effect of sequestration on our contracts; our assumptions covering behavior by public transit authorities; 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; the change in the way

transit agencies pay for transit systems; 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; our failure to properly implement our enterprise resource planning system; unforeseen problems with the implementation and maintenance of our information systems; 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.

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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 2.2 million square feet of both owned and leased properties located in the United States and foreign countries. We own approximately 51% of the square footage, including about 500,000 square feet located in San Diego, California and 423,000 square feet located in Orlando, Florida. All owned and leased properties are considered in good condition and adequately utilized. The following table identifies significant properties by business segment:

Location of Property	Owned or Leased
Corporate Headquarters:	
Arlington, VA	Leased
San Diego, CA	Owned
Investment properties:	
New York, NY	Owned
Teterboro, NJ	Leased
Transportation Systems:	
Atlanta, GA	Leased
Brisbane, Australia	Leased
Burnaby, BC, Canada	Leased

Chicago, IL	Leased
Concord, CA	Leased
Concord, Canada	Leased
Concord, NH	Leased
Emeryville, CA	Leased
Frankfurt, Germany	Leased
Glostrup, Denmark	Leased
Greenford, London, England	Leased
Hamburg, Germany	Leased
Hyderabad, India	Leased
Inglewood, CA	Leased
Kingswood, Australia	Leased
London, England	Leased
Malmo, Sweden	Leased
Mascot, Australia	Leased
Merthsham, Surrey, England	Leased
Murrarie, Australia	Leased

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Location of Property	Owned or Leased
	Leased
New York, NY	
Norwalk, CA	Leased
Oakland, CA	Leased
Salfords, Surrey, England	Owned
San Diego, CA	Owned
San Francisco, CA	Leased
Sydney, Australia	Leased
Tullahoma, TN	Leased and Owned
Vancouver, BC	Leased
Wollongong, Australia	Leased

Cubic Global Defense Systems:

Abu Dhabi UAE	Leased
Ashburn, VA	Leased
Auckland, New Zealand	Leased
Austin, TX	Leased
Canberra, Australia	Leased
Farnham, Surrey, England	Leased
Fyschwyck, Australia	Leased
Hanover, MD	Leased
Heisingor, Denmark	Leased
Herndon, VA	Leased
Huntsville, AL	Leased
Orlando, FL	Owned
Riyadh, Saudi Arabia	Leased
Salisbury, UK	Leased
San Diego, CA	Owned
Singapore	Leased
Tijuana, Mexico	Leased
Townsville, Australia	Leased

Cubic Global Defense Services:

Colorado Springs, CO	Leased
Columbus, GA	Owned
Fayetteville, NC	Leased
Hampton, VA	Leased
Herndon, VA	Leased
Honolulu, HI	Leased
Kingstowne, VA	Leased
Leavenworth, KS	Leased
Olympia, WA	Leased
Orlando, FL	Leased
San Diego, CA	Leased
Shalimar, FL	Leased

Item 3. LEGAL PROCEEDINGS.

In October 2014, a lawsuit was filed in the United States District Court, Northern District of Illinois against us and one of our transit customers alleging infringement of various patents held by the plaintiff, who is seeking judgment that we have infringed on plaintiff's patents; regular and treble damages; requiring an accounting of sales, profits, royalties and damages owed plaintiffs; pre and post judgment interest; an award of costs, fees and expenses, an injunction prohibiting

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the continuing infringement of the patents; and any other relief the court deems just and equitable. We are investigating the matter and plan to vigorously defend the lawsuit. We are also undertaking defense of our customer in this matter pursuant to our contractual obligations to that customer. Due to the procedural status 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 our 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.

Item 4. MINE SAFETY DISCLOSURES.

Not Applicable.

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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 2016		Fiscal 2015		Fiscal 2016	Fiscal 2015
	High	Low	High	Low		
First	\$ 49.16	\$ 40.71	\$ 54.99	\$ 45.40	—	—
Second	47.87	30.80	53.92	50.44	\$ 0.14	\$ 0.14
Third	42.94	38.19	51.27	46.92	—	—
Fourth	48.36	38.89	47.71	40.33	\$ 0.14	\$ 0.14

On November 4, 2016, the closing price of our common stock on the New York Stock Exchange was \$42.00. There were 608 shareholders of record of our common stock as of November 4, 2016.

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Item 6. SELECTED FINANCIAL DATA.

FINANCIAL HIGHLIGHTS AND SUMMARY OF CONSOLIDATED OPERATIONS

(amounts in thousands, except per share data)

This summary should be read in conjunction with the related consolidated financial statements and accompanying notes in Item 8 of this Form 10-K.

	Year Ended September 30,				
	2016	2015	2014	2013	2012
Results of Operations:					
Sales	\$ 1,461,665	\$ 1,431,045	\$ 1,398,352	\$ 1,361,407	\$ 1,404,084
Cost of sales	1,116,906	1,091,326	1,082,535	1,055,313	1,060,140
Selling, general and administrative expenses	269,593	212,518	181,672	165,230	164,189
Research and development	31,976	17,992	17,959	24,445	28,722
Interest expense	11,199	4,400	4,084	3,427	1,602
Income taxes	(9,212)	48,997	19,831	14,502	40,332
Net income attributable to Cubic (1)	1,735	22,885	69,491	25,086	97,427
Per Share Data:					
Net income per share, basic (1)	\$ 0.06	\$ 0.85	\$ 2.59	\$ 0.94	\$ 3.64
Net income per share, diluted (1)	0.06	0.85	2.59	0.94	3.64
Cash dividends	0.27	0.27	0.24	0.24	0.24
Shares used in calculating net income per share:					
Basic	26,976	26,872	26,787	26,736	26,736
Diluted	27,040	26,938	26,845	26,760	26,736
Year-End Data:					
Shareholders' equity related to Cubic	\$ 689,896	\$ 756,288	\$ 782,278	\$ 716,946	\$ 677,171
Equity per share, basic	25.57	28.14	29.20	26.82	25.33
Total assets	1,504,679	1,300,276	1,194,606	1,109,618	1,014,550
Long-term debt	201,012	126,705	102,390	102,920	11,503

(1) Results for the year ended September 30, 2015 include the net impact on income tax expense of establishing valuation allowances on U.S. deferred tax assets totaling \$35.8 million. This valuation allowance was reduced by

\$6.7 million in the year ended September 30,2016. See Note 10 to the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of the valuation allowance. Results for the year ended September 30, 2013 include the impact of a goodwill impairment charge of \$50.9 million, before the impact of applicable income taxes.

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

Company Overview

We are a leading international provider of cost-effective systems and solutions that address the global transportation and 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 transportation automated fare payment and revenue management infrastructure, defense, intelligence, homeland security, and information technology, including cyber security. For the fiscal year ended September 30, 2016, 40% of sales were derived from transportation systems and related services, while 60% were derived from defense systems and services. The U.S. government remains our largest customer, accounting for approximately 45% of sales in 2016, 47% of sales in 2015, and 47% of sales in 2014. In fiscal year 2016, 55% of our total sales were derived from services, with product sales accounting for the remaining 45%.

We operate in three reportable business segments: transportation systems, defense 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 43% of our total sales for fiscal year 2016. International sales from Cubic Transportation Systems (CTS), Cubic Global Defense Services (CGD Services) and Cubic Global Defense Systems (CGD Systems) amounted to 65%, 9% and 45%, respectively, of the applicable segment sales for fiscal year 2016. 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 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 \$32.0 million in 2016. In 2014 through our acquisition of Intific Inc., we significantly broadened our advanced research capabilities. Intific brings us a wide range of expertise including computer simulation, animation, human-machine interaction, robotics, neuroscience, visualization, gaming, and

artificial intelligence. Intific performs work funded by the Defense Advanced Research Projects Agency (DARPA) and other U.S. government agencies; however, most of Intific's R&D activities are included in cost of sales as they are directly related to contract performance.

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. In fiscal 2015 and 2016, we acquired DTECH, GATR, and TeraLogics in connection with our strategic efforts to build and expand our command, control, communication, computers, intelligence, surveillance and reconnaissance (C4ISR) business. In the third quarter of fiscal 2016 we formalized the structure of Cubic Mission Solutions (CMS), our business unit which combines and integrates our C4ISR and secure communications operations.

We have also made a number of niche acquisitions of businesses during the past several years, including, Intific, Inc. in February 2014 and Intelligent Transport Management Solutions Limited in November 2013. Generally, our business acquisitions are dilutive to earnings in the short-term due to acquisition related costs, integration costs, retention

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payments and often higher amortization of purchased intangibles in the early periods after acquisition and expenses related to earn-outs. 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, tax, and other initiatives to control spending and reduce the deficit. The president's 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 (BCA) and various Bipartisan Budget Acts (BBA) since 2011. The most recent, agreed to on November 2, 2015, Bipartisan Budget Act of 2015 revised discretionary spending limits to avoid sequestration for fiscal year 2016 and fiscal year 2017. The ultimate effects of sequestration and any subsequent bipartisan budget acts beyond 2017 still cannot be determined. Absent a new BCA or BBA in 2017, sequestration still threatens to severely limit discretionary federal funding in 2018. Reductions to 2018 and beyond from current budget projections could have an impact on our customers' procurement of products and services.

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

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

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

Segment Overview

Cubic Transportation Systems

CTS is a systems integrator of payment and information technology and services for intelligent travel solutions. We deliver integrated systems for transportation and traffic management, delivering tools for travelers to choose the smartest and easiest way to travel and pay for their journeys, and enabling transportation authorities and agencies to manage demand across the entire transportation network — all in real time. We offer fare collection and revenue management devices, software, systems and multiagency, multimodal integration technologies, as well as a full suite of operational services that help agencies and operators efficiently collect fares and revenue, manage operations, reduce revenue leakage and make transportation more convenient. Through our NextBus and Intelligent Transport Management Solutions (ITMS) businesses, respectively, we also deliver real-time passenger information systems for tracking and predicting vehicle arrival times and we are a leading provider of urban and inter-urban intelligent transportation and enforcement solutions and technology and infrastructure maintenance services to the United Kingdom and other international city, regional and national road and transportation agencies. Through our Urban Insights business we use big data and predictive analytics technology and a consulting model to help the transportation industry improve operations, reduce costs and better serve travelers.

The transportation markets we serve are undergoing a substantial change. Mounting pressure on transportation authorities to improve the customer experience yet stretch their operating budgets is fueling a trend toward outsourced

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services and systems that enable innovation and lower operating cost. We believe we are positioned at the forefront of this change.

We believe that we hold the leading market position in large-scale automated fare payment and revenue management systems and services for major metropolitan areas. CTS has delivered over 20 regional back office operations which together serve over 38 million people every day in major markets around the world. We have implemented and, in many cases, operate automated fare payment and revenue management systems for some of the world's largest transportation systems, examples include London (Oyster/Contactless Payment), the Chicago region (Ventra), the San Francisco Bay Area (Clipper), the Los Angeles region (TAP), the New York region (Metrocard), the Washington D.C. region (Smartrip), the Vancouver region (Compass), the Sydney region (Opal Card) and the Brisbane region (Go Card). In the first quarter of fiscal 2016 we were awarded a contract by the New Hampshire State Department of Transportation to deploy our back-office system for the purposes of toll revenue collection.

Through our NextBus, ITMS and Urban Insights businesses we provide advanced transportation operational management and analytics capabilities and related services to over 150 customers including organizations such as Transport for London, Transport Scotland, Highways England, Transport for Greater Manchester, Transport for New South Wales, Los Angeles Metro, San Francisco Muni, the Toronto Transit Commission and the Metropolitan Boston Transit Administration.

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 operations, innovative new services, technology obsolescence, equipment refurbishment and the introduction of new or adjacent applications.

In 2016, revenues from services provided by CTS were \$303.0 million, or 52% of CTS sales.

We are currently designing and building major new systems in Singapore, Ireland and New Hampshire. 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.

Cash payment terms offered by our transportation 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 26% and 32% for fiscal years 2016 and 2015, respectively, and gross profit margin from product sales was 32% and 25% in 2016 and 2015, respectively. Generally, the trend toward a greater mix of services revenues compared to product sales has helped to generate higher profit margins from the segment; however in 2016 service gross margins were lower than product gross margins mostly due to the reduction in margins on our London follow-on contract. Margins were lower on the follow-on contract in 2016 in large part because it no longer includes the award of usage bonuses as well as the impact of transition costs incurred on this contract in the first quarter of fiscal 2016. Also, the profitability of our contracts in Chicago, Vancouver, and Sydney all increased between fiscal 2015 and fiscal 2016. 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 long-term.

Most of our sales in CTS for fiscal year 2016 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

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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 the fare collection system for the Chicago Transit Authority, the contract specifies that we would not begin to be paid until we entered the service period. In accordance with authoritative accounting literature, we did not begin recognizing revenue on this contract until it entered the service period in August 2013. As of September 30, 2016, we had capitalized \$65.4 million, net, in direct costs associated with developing the new fare collection system. Selling, general and administrative (SG&A) costs associated with this contract are not being capitalized, but are being expensed as incurred. Capitalized costs are being recognized as cost of sales based upon the ratio of revenue recorded during a period compared to the revenue expected to be recognized over the term of the contract.

Cubic Global Defense Systems

CGD Systems 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 as well as 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, ground combat, and search and rescue markets. In 2016 we formalized the structure of our CMS business unit which combines and integrates our C4ISR and secure communications operations. CMS' C4ISR solutions provide information capture, assessment, exploitation and dissemination in a secure network-centric environment.

CGD Systems is continually 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, game-based learning systems, virtual small arms training systems, Intelligence, Surveillance and Reconnaissance (ISR) data links, networking and baseband communications equipment, full-motion video software and services, deployable satellite communication terminal solutions, personnel locator systems, 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 34 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 to international customers of CGD Systems have become a major part of our business with 45% of sales in 2016 to 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

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our customers. Through business acquisitions we made in the past three years, we now offer software and game-based solutions in modeling and simulation, training and education, cyber warfare, neuroscience, networking and satellite communications, and live fire training solutions to U.S. and international forces. These acquisitions deepen our training and communication capabilities and expand our customer base.

Fixed-price contracts accounted for 88% of CGD Systems revenue for fiscal year 2016. Development and system integration contracts in CGD Systems 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.

CGD Systems 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.

Increasingly, CGD Systems 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 CGD Systems business, this type of multiple-element contract has become more common in recent years. Revenues under contracts for services in CGD Systems are generally recognized as services are performed on a straight-line basis over the period of contract performance. Costs incurred under these services contracts are expensed as incurred, and may vary from period to period, resulting in fluctuations in earnings.

The gross profit margin in fiscal 2016 was 28%, compared to 29% in 2015 and 30% in 2014. 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.

Cubic Global Defense Services

CGD Services 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.

CGD Services 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.

CGD Services 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. CGD Services is the prime contractor at more than 40 military training and support facilities and supports some of the largest exercises and training events each year including the largest annual constructive simulation training event under our Korea Battle Simulation Center (KBSC) support contract. Cubic won the recomplete of the KBSC contract which has a base and four option periods. The segment supports all four of the U.S. Army's combat training centers (CTCs) comprised of: the Joint Readiness Training Center (JRTC) in Fort Polk, Louisiana, which is the nation's premier training center for light infantry forces; the National Training Center (NTC) in

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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 CGD Services 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 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-priced, technically acceptable" bids often win, have resulted in a trend toward lower profit margins from the segment in recent periods. The gross profit margin in CGD Services has been about 10% in the period from 2014 through 2016. 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, 89% of our revenues in fiscal year 2016 were as a prime contractor.

CGD Services has been focused on diversifying its business over the last three years to the national security market. The acquisitions of Abraxas in fiscal year 2011, and NEK in December 2012, add to the segment's specialized skills and further diversify the business to new customers and markets which are directly aligned with DoD's emphasis on intelligence and the special operations forces communities where trusted credentials are a high barrier to entry. NEK provides Special Forces training-related services to the U.S. Army and other national security related customers and provides a platform to expand CGD Services work both in the U.S. and to key foreign allies.

For fiscal years 2014 and 2015, NEK was slightly dilutive to our earnings per share after consideration of the amortization of purchased intangibles and acquisition related costs. In 2016, NEK was accretive to earnings.

Cost reimbursable and time and materials contracts accounted for 48% of our sales in CGD Services for fiscal year 2016, 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 using the cost-to-cost percentage-of-completion method.

Operating overview

Cubic Corporation sales in 2016 were \$1.462 billion compared to \$1.431 billion in 2015, an increase of 2%. Increases in sales for CTS and CGD Systems of 3% and 5%, respectively, were partially offset by a 3% decrease in CGD Services sales. Revenues from businesses we acquired in 2016 and 2015, all within our CGD Systems operating segment, increased our consolidated sales by 3% from 2015 to 2016, partially offset by decreased organic sales due primarily to changes in foreign currency exchange rates. The impact of changes in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against the British pound, adversely affected our sales. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar had a negative impact on sales of 2%, or \$32.3 million in 2016 compared to 2015.

Cubic Corporation sales in 2015 were \$1.431 billion compared to \$1.398 billion in 2014, an increase of 2%. Increases in sales for CGD Systems and CGD Services of 15% and 1%, respectively, were partially offset by a 5% decrease in CTS

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sales. Revenues from businesses we acquired in 2015 and 2014 increased our consolidated sales by 4% from 2014 to 2015. The impact of changes in foreign currency exchange rates had a negative impact on sales of 4%, or \$52.1 million in 2015 compared to 2014.

Operating income was \$7.2 million in 2016 compared to \$75.4 million in 2015, a decrease of 90%. CGD Systems had an operating loss of \$17.1 million in 2016 compared to operating income of \$18.4 million in 2015 primarily due to the impact of purchase accounting on businesses acquired in this segment during fiscal 2016, as further described below. Businesses we acquired in 2016 and 2015, which were all in our CGD Systems segment, generated operating losses of \$32.7 million in 2016 compared to operating income of \$0.9 million in 2015. The vast majority of losses incurred by business acquired in 2016 was due to the impact of business purchase accounting as described in the CGD Systems discussion below. CTS operating income decreased by 25% primarily related to lower profits on the transition to our follow-on fare collection contract in London, partially offset by improved profitability on contracts in Chicago, Sydney, and Vancouver. CGD Services operating income increased by 70% in 2016 due to decreased amortization of purchased intangibles and the impact of cost saving efforts. Unallocated corporate and other costs were \$44.4 million in 2016 compared to \$25.5 million in 2015. The increase in unallocated corporate costs is primarily related to strategic and IT system resource planning as part of our One Cubic initiative totaling \$36.8 million in 2016 compared to \$13.2 million in 2015, partially offset by a reduction in legal and consulting expenses related to an investigation conducted by the Audit Committee in 2015, for which we incurred expenses of \$3.0 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 \$4.0 million in 2016 compared to 2015.

Operating income was \$75.4 million in 2015 compared to \$92.5 million in 2014, a decrease of 18%. CGD Systems operating income decreased by 31% in 2015 from 2014 primarily due to \$4.6 million of restructuring charges incurred in fiscal 2015. CGD Services operating income decreased by 15% in 2015 due to continued competitive pressures driving down bid prices. CTS operating income increased by 15% predominantly due to improvements in operating results on service contracts in North America. Businesses we acquired in all of our segments in 2015 and 2014 generated operating losses of \$3.9 million in 2015 compared to \$8.3 million in 2014. Unallocated corporate and other costs for fiscal 2015 were \$25.5 million in 2015 compared to \$8.0 million in 2014. The increase in unallocated corporate costs is primarily related to strategic and IT system resource planning as part of our One Cubic initiative totaling \$13.2 million, \$3.0 million of consulting and legal fees related to an investigation conducted by the Audit Committee of the Board of Directors and a \$1.4 million increase in stock-based compensation that was not allocated to segment operations. 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 \$7.8 million in 2015 compared to 2014. In 2015 we exited our global asset tracking business. This business did not generate any significant revenue in 2015 or 2014, and had \$2.3 million of operating losses in each of those years.

Net income attributable to Cubic decreased to \$1.7 million (\$0.06 cents per share) in 2016 from \$22.9 million (\$0.85 cents per share) in 2015. The change was primarily due to the decrease in operating income described above and an increase in interest expense described below, partially offset by a reduction in income tax expense described below.

Net income attributable to Cubic decreased to \$22.9 million (\$0.85 cents per share) in 2015 from \$69.5 million (\$2.59 per share) in 2014. The change was primarily due to the increase in income tax expense described below and the decrease in operating income described above.

The gross margin from product sales was 28% in 2016, compared to 26% in 2015. The increase in gross margin percentage was primarily due to improved profitability on transportation system sales in North America, Australia, and the U.K., and a reduction of losses incurred on the virtual combat training deliverables for the U.S. Navy described below. These increases were partially offset by lower gross margins on lower DTECH sales in 2016, as DTECH sales generally have a higher gross margin percentage than other Cubic product sales. The gross margin from service sales was 20% in 2016 compared to 22% in 2015. The decrease in the gross margin percentages on services sales was predominantly the result of lower profits on the transition to our follow-on transportation fare collection contract in London, as described below.

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The gross margin from product sales was 26% in 2015, compared to 27% in 2014. The decrease in gross margin percentage was primarily due to increases in estimated costs to complete virtual combat training deliverables for the U.S. Navy within our CGD Systems business. This decrease in product gross margin percentage was partially offset by the gross margins on DTECH sales, which have a higher gross margin percentage than the majority of our organic sales. The gross margin from service sales was 22% in 2015 compared to 19% in 2014. The increase in the gross margin percentages on services sales was predominantly the result of improvements in operating results on a transportation services contract in Chicago described below.

SG&A expenses increased to \$269.6 million or 18% of sales in 2016, compared to \$212.5 million or 15% of sales in 2015. The increase in SG&A expense is primarily related to strategic and IT system resource planning as part of our One Cubic initiative for which expenses totaled \$36.8 million in 2016 compared to \$13.2 million in 2015 as well as approximately \$28.7 million of SG&A expenses recognized in 2016 in connection with recent business acquisitions compared to \$7.9 million in 2015. Business acquisition expenses in 2016 include amounts recorded for business purchase accounting matters described in the CGD Systems section below.

SG&A expenses increased to \$212.5 million or 15% of sales in 2015, compared to \$181.7 million or 13% of sales in 2014. The increase in SG&A expenses is primarily related to strategic and IT system resource planning as part of our One Cubic initiative totaling \$13.2 million, \$3.0 million of consulting and legal fees related to an investigation conducted by the Audit Committee of the Board of Directors, a \$2.5 million increase in stock-based compensation and SG&A expenses associated with DTECH, a company we acquired in 2015. Included in SG&A expenses for DTECH is \$3.6 million of expense representing the change in the fair value of contingent consideration expected to be paid to the sellers of DTECH between the acquisition date and September 30, 2015.

Company-sponsored R&D spending, related primarily to new transportation and defense technologies we are developing, totaled \$32.0 million in 2016 compared to \$18.0 million in both 2015 and 2014. Company-sponsored R&D spending for CGD Systems was \$16.4 million, \$13.2 million, and \$9.4 million, respectively, in 2016, 2015 and 2014. Company-sponsored R&D spending for CTS was \$15.6 million, \$4.8 million, and \$8.5 million for 2016, 2015, and 2014, respectively. The primary reason for the dip in the 2015 CTS R&D costs is that in 2015 we received a \$3.6 million settlement of a claim related to the reimbursement of expenses we incurred primarily in 2014 for a proposal prepared for a prospective customer of our transportation systems business. Approximately \$2.3 million of this reimbursement was for R&D expenses incurred and was credited against our expense in fiscal 2015. The remaining amount of the settlement was recorded as a reduction in 2015 SG&A expenses.

Interest and dividend income was \$1.5 million in 2016 compared to \$1.8 million in 2015 and \$1.4 million in 2014. The changes in interest and dividend income between these years were generally correlated with changes in the average cash balances held by our wholly owned subsidiaries in New Zealand and Australia. These foreign currency investments earned a higher interest rate than our other cash and short-term investments. Interest expense was \$11.2 million in 2016 compared to \$4.4 million in 2015 and \$4.1 million in 2014. The increases in interest expense were consistent with our average outstanding debt balances for these years.

Other income (expense) netted to expense of \$2.3 million in 2016 compared to income of \$0.9 million in 2015 and income of \$0.4 million in 2014. During fiscal year 2016, we recognized a loss within other expense of \$2.7 million related to our partial settlement of our remaining obligations associated with its U.S. defined benefit pension plan. The plan offered certain retired, vested participants the opportunity to voluntarily elect to receive their benefits as an immediate lump sum distribution. The lump sum distribution was paid out from plan assets in September 2016 and resulted in a settlement loss of \$2.7 million. Other than this settlement loss, the changes in other income (expense) were caused primarily by the impact of foreign currency exchange rate changes on cash advances to our foreign subsidiaries that are not hedged.

Our income tax benefit totaled \$9.2 million for fiscal 2016, compared to an income tax provision of \$49.0 million in fiscal 2015. The benefit for income taxes in fiscal 2016 primarily results from the benefit derived from the release of a portion of the existing valuation allowance against U.S. deferred tax assets due to acquired deferred tax liabilities, partially offset by nondeductible acquisition related compensation expenses. In 2015, we recorded tax expense of \$35.8 million in order to establish a valuation allowance against U.S. deferred tax assets. Due to the effects of the deferred tax

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asset valuation allowance, our effective tax rate for fiscal 2016 and 2015 does not correlate to the amount of our pre-tax income or loss. The change in the valuation allowance does not have any impact on our consolidated operations or cash flows, nor does such an allowance preclude us from using loss carryforwards or other deferred tax assets in the future. Until we re-establish a pattern of continuing profitability, in accordance with the applicable accounting guidance, U.S. income tax expense or benefit related to the recognition of deferred tax assets in the consolidated statement of operations for future periods will be offset by decreases or increases in the valuation allowance with no net effect on the consolidated statement of operations.

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

Through September 30, 2016, a valuation allowance of \$47.9 million has been established against U.S. deferred tax assets, certain foreign operating losses and other foreign deferred tax assets. For fiscal 2016, the valuation allowance was reduced by \$6.9 million, including \$9.2 million recorded as a net tax benefit in our Consolidated Statement of Income, partially offset by amounts recorded through Other Comprehensive Income related to retirement benefits. We will continue to assess the need for a valuation allowance on deferred tax assets and should circumstances change it is possible the valuation allowance, or a portion thereof, will be reversed.

Transportation Systems Segment

	September 30,		
	2016	2015	2014
	(in millions)		
Transportation Systems Segment Sales	\$ 586.4	\$ 566.8	\$ 599.7
Transportation Systems Segment Operating Income	\$ 57.5	\$ 75.9	\$ 65.9

CTS sales increased 3% to \$586.4 million in 2016 compared to \$566.8 million in 2015. Changes in foreign currency exchange rates had a significant adverse impact on our sales. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in CTS sales of \$28.6 million for 2016 compared to 2015. CTS had higher sales in North America primarily from equipment orders in New York and the San Francisco Bay Area and increased sales on contracts in Chicago and Vancouver. Sales were lower in the U.K. due to the weakening of the British pound against the U.S. dollar as well as the transition to our follow-on contract in London in fiscal 2016. Sales in Australia were slightly lower than last year due to the impact of foreign currency exchange rates. Australian sales increased by 4% when measured in Australian dollars.

CTS sales decreased 5% to \$566.8 million in 2015 compared to \$599.7 million in 2014. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in CTS sales of \$40.0 million for 2015 compared to 2014. Sales in North America decreased in 2015 compared to 2014 due to a lower amount of work on a bus installation contract in New York and on a train line fare system expansion project in Washington D.C. as these projects moved closer to completion in 2015. Revenue recognized on a system development and operations contract in Chicago was higher in 2015 than in 2014. For this Chicago contract, the recognition of sales is limited to billable amounts, and this contract reached milestones that significantly increased monthly billable amounts beginning in January 2014. Sales in Australia and the U.K. in local currencies were relatively consistent between 2014 and 2015, but after foreign currency translation were impacted by the changes in exchange rates noted above. Businesses acquired by CTS in fiscal year 2014 contributed sales of \$47.0 million in 2015 compared to \$43.7 million in 2014.

CTS operating income decreased 24% in 2016 to \$57.5 million compared to \$75.9 million in 2015. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a reduction in CTS operating income of \$3.9 million for 2016 compared to 2015. The decrease in operating income was primarily related to lower profits on the transition to our follow-on fare collection contract in London, particularly because it no longer includes the award of usage bonuses, as well as transition costs incurred on this contract in the first quarter of

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fiscal 2016. The decrease in operating income in fiscal 2016 was partially offset by improved profitability on service contracts in Sydney, Chicago, and Vancouver. In addition, operating income improved in Australia due to the finalization of system development contract negotiations. In the third quarter of fiscal 2016 we finalized negotiations regarding scope and pricing with a customer in Australia for system development work that the customer directed us to begin in the second quarter of fiscal 2015. We had inventoried costs and deferred revenue on this development work until such negotiations were complete. As a result of the finalization of the scoping and pricing, we realized increased sales and operating profits in the third quarter of fiscal 2016. CTS R&D expenses increased by \$10.8 million in fiscal 2016 compared to 2015 due to the ramp-up of the development of new transportation technologies, and due to the impact of a settlement reimbursement from a prospective customer that had reduced fiscal 2015 R&D expenses by \$2.3 million.

CTS operating income increased 15% in 2015 to \$75.9 million compared to \$65.9 million in 2014 despite the negative impacts of foreign currency exchange rates. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a reduction in CTS operating income of \$5.5 million for 2015 compared to 2014. The increase in operating income compared to 2014 was primarily attributable to a decrease in losses experienced on the Vancouver contract, an increase in gross margins on the contract in Chicago, and a gain recognized on proceeds from a claim settlement of \$3.6 million. These increases in operating income were partially offset by slightly lower margins on development and services work in the U.K. Businesses acquired by CTS in fiscal year 2014 contributed an operating loss of \$2.1 million for 2015 compared to an operating loss of \$1.4 million in 2014.

Amortization of purchased intangibles included in the CTS operating results totaled \$7.1 million, \$8.6 million, and \$9.7 million in 2016, 2015 and 2014, respectively.

Cubic Global Defense Systems Segment

	September 30,		
	2016	2015	2014
	(in millions)		
Cubic Global Defense Systems Segment Sales	\$ 484.2	\$ 462.1	\$ 400.6
Cubic Global Defense Systems Segment Operating Income (Loss)	\$ (17.1)	\$ 18.4	\$ 26.8

CGD Systems sales increased 5% to \$484.2 million in 2016 compared to \$462.1 million in 2015. Businesses acquired by CGD Systems in fiscal years 2016 and 2015 contributed sales of \$79.6 million in 2016 compared to \$45.8 million in 2015. Sales were higher from air combat training systems in the U.S., Middle East, and Far East, live fire training systems and virtual simulation systems. These increases were partially offset by lower sales from ground combat training systems, datalinks, and personnel locator systems. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$3.7 million for 2016

compared to 2015.

CGD Systems sales increased 15% to \$462.1 million in 2015 compared to \$400.6 million in 2014. Businesses acquired by CGD Systems in fiscal years 2015 and 2014 contributed sales of \$60.5 million in 2015 compared to \$5.3 million in 2014. In addition to the sales from acquired businesses, sales were higher from air combat training systems, particularly in the Middle East, as well as from ground combat training systems in the Middle East. These increases were partially offset by lower sales from ground combat training systems in the U.S. and virtual simulation systems sales. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in sales of \$12.1 million for 2015 compared to 2014.

CGD Systems had an operating loss of \$17.1 million in 2016 compared to operating income of \$18.4 million in 2015. The changes in operating results between fiscal 2015 and fiscal 2016 were primarily caused by charges incurred in connection with the accounting for business acquisitions in fiscal 2016. Including these impacts of business acquisition accounting, the businesses we acquired in 2016 and 2015 had an operating loss of \$32.7 million for 2016 compared to operating income of \$0.9 million in 2015. Included in the 2016 operating losses were business acquisition transaction costs of \$27.8 million consisting of expenses incurred for retention bonus expenses, due diligence and consulting costs incurred in connection with the acquisitions, expenses recognized related to the change in the fair value of contingent consideration for acquisitions, and, most significantly, expenses recognized in connection with our acquisition of GATR in the second quarter of fiscal 2016. Prior to our acquisition of GATR, GATR had a number of share-based payment

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awards in place to its employees. Due to the structure of certain of these share-based payment awards, we were required to recognize compensation expense, rather than purchase consideration, for the portion of our purchase price that we paid to the seller that was distributed to the recipients of these awards. Consequently, we recognized \$18.5 million of compensation expense during the quarter ended March 31, 2016 related to this matter upon completing this acquisition.

For fiscal 2016, operating income from air combat training systems was higher than fiscal 2015 on increased sales, and profitability improved from game-based virtual training system sales. In 2015 we had recorded a loss of \$9.5 million related to an increase in estimated costs to complete a contract for the development of a virtual training system. The increased costs estimates in 2015 resulted, in part, from customer directed work outside the scope of the contract. We did not recover any of these costs in 2016. While we expect to recover some amount of the costs in the future related to the work performed outside of the scope of the contract through a contract claim process, at this time it is not possible to determine the amount that will be recovered. In addition, CGD systems incurred \$4.6 million of restructuring charges in fiscal 2015 as compared to \$0.3 million of restructuring charges in fiscal 2016. In 2016, operating income declined as compared to 2015 on lower sales of ground combat training systems, datalinks, personnel locator systems, and modular networking and baseband communications equipment. Operating income from virtual simulator system sales were relatively consistent between 2016 and 2015.

CGD Systems operating income decreased 31% to \$18.4 million in 2015 compared to \$26.8 million in 2014. As noted above, increases in estimated costs to complete a contract for the development of a virtual training system, resulted in a loss of \$9.5 million in 2015. In addition, operating income was lower on decreased sales of ground combat training systems in the U.S. and virtual simulator systems. In addition, CGD systems incurred \$4.6 million of restructuring charges in fiscal 2015. The CGD Systems restructuring charges relate primarily to severance expenses incurred for the reduction of CGD Systems headcount in connection with the consolidation of management functions and other processes for CGD Systems and CGD Services businesses. Foreign currency exchange rates also negatively impacted CGD Systems operating results. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in CGD Systems operating income of \$2.2 million for 2015 compared to 2014. Partially offsetting these decreases in operating income was an increase in operating income on increased sales of ground combat training systems in the Middle East. Although sales of air combat training systems were higher in 2015 than in 2014, the operating income on these sales was consistent between years based upon the decrease in operating profit margin percentages on the mix of sales between the years. Also partially offsetting the decrease in operating income was a decrease in losses incurred by acquired businesses. Businesses acquired by CGD Systems in fiscal years 2015 and 2014 contributed operating losses of \$1.8 million for 2015 compared to operating losses of \$6.9 million in 2014.

Amortization of purchased intangibles included in the CGD Systems results amounted to \$22.3 million, \$11.3 million, and \$2.5 million in 2016, 2015 and 2014, respectively.

Cubic Global Defense Services Segment

	September 30,		
	2016	2015	2014
	(in millions)		
Cubic Global Defense Services Segment Sales	\$ 391.1	\$ 402.1	\$ 398.1
Cubic Global Defense Services Segment Operating Income	\$ 11.2	\$ 6.6	\$ 7.8

CGD Services sales decreased 3% to \$391.1 million in 2016 compared to \$402.1 million in 2015. Sales for 2016 were lower primarily because of decreased activity supporting Special Operations Forces training and lower activity on U.S. Army support contracts, other than at the Joint Readiness Training Center (JRTC) where activity and revenue was slightly higher than fiscal 2015. These decreases were partially offset by increased sales on increased intelligence support services.

CGD Services sales increased 1% to \$402.1 million in 2015 compared to \$398.1 million in 2014. Although this slight upward movement in sales between the years appears to reflect little change, there was a change in the mix of sales. We realized higher sales in 2015 from a Marine Corps training contract we won early in the fiscal year, from Special

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Operations Forces training and from growth in our simulator training operations. Sales were lower from training exercises at JRTC, the Korea Battle Simulation Center (KBSC) and the Joint Warfighting Center (JWFC).

CGD Services operating income increased 70% to \$11.2 million in 2016 compared to \$6.6 million in 2015. The largest individual contributor to the increase in CGD Services operating margins for 2016 was a \$2.9 million decrease in the amortization expense on purchased intangible assets for which amortization is based upon accelerated methods. In fiscal 2016 operating margins also increased on a number of fixed price contracts due to the impacts of cost efficiency efforts. In fiscal 2016, the increase in operating income was partially offset by an operating loss realized in the first quarter of fiscal 2016 on a Marine Corps training contract that was bid in an extremely competitive environment.

CGD Services operating income decreased to \$6.6 million in 2015 from \$7.8 million in 2014. Profit margins were lower in 2015 than in 2014 due in part to the change in mix of sales described above. Lower sales from the JRTC and JWFC contracts resulted in lower operating income, while certain contracts generating higher sales, such as the Marine Corps training contract, produced lower operating income as they were bid with lower margins due to competitive pressures. The KBSC contract was also won in a very competitive environment, resulting in lower profit margins from this new contract than our past contracts at the KBSC, which we have operated for nearly 25 years. In addition to these competitive pressures, we incurred higher compensation costs during the first quarter of fiscal 2015 as the result of recruiting new executive management. We also incurred restructuring charges of \$0.6 million as part of our plan to improve the cost structure of the business to help improve profit margins. Lower operating income was partially offset by a \$2.7 million decrease in amortization expense related to purchased intangible assets.

Amortization of purchased intangibles included in the CGD Services results amounted to \$4.8 million, \$7.7 million, and \$10.4 million in 2016, 2015 and 2014, respectively.

Liquidity and Capital Resources

Our operating cash flows have been the primary source of funding for our operations, and have been a source of funding some of our business acquisitions and all of our capital expenditures. We generated positive operating cash flows in fiscal 2016, 2015 and 2014. Operating activities provided cash of \$44.6 million, \$89.7 million and \$114.8 million in fiscal 2016, 2015 and 2014, respectively.

As further described below, from 2014 to 2016 our operating cash flows have been significantly impacted by uses of cash related to our investment in a new strategic and IT system resource planning system, our recent business acquisitions, and by the payment terms on some of our customer contracts.

Cash used in connection with the design and development of our new enterprise resource planning system (ERP) totaled \$45.2 million in fiscal 2016. Certain costs incurred in the development of internal-use software and software applications, including external direct costs of materials and services and applicable compensation costs of employees devoted to specific software development, are capitalized as computer software costs. Costs incurred outside of the application development stage, or that do not meet the capitalization requirements, are expensed as incurred. Of the \$45.2 million of cash used in 2016 in these efforts, \$24.9 million was recognized as expense and is reflected in our 2016 cash flows used in operations, while \$20.3 million was capitalized and is included in 2016 purchases of property, plant and equipment in investing cash flows. Cash used in connection with ERP design and development totaled \$27.5 million in 2015. Of this amount, \$11.5 million was recognized as expense and is reflected in our 2015 cash flows from operations, and \$16.0 million was capitalized and is included in 2015 purchases of property, plant and equipment in investing cash flows.

Under purchase accounting rules, certain cash flows for businesses acquisitions are considered “purchase consideration”. In our statement of cash flows, cash paid for purchase consideration is classified as cash used in investing activities. However, there are a number of transactions related to business acquisitions that are expensed as incurred and that are included in operating cash flows when paid. Costs that are expensed in connection with business acquisitions include retention bonus expense and due diligence and consulting costs incurred in connection with the acquisitions. Business acquisitions costs expensed in 2016, 2105, and 2014 totaled \$28.7 million, \$7.9 million, and \$5.8 million, respectively.

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In our statement of cash flows, the cash used in operations related to these expenses was generally reflected in the same period as these expenses. The expense amount for 2016 and the related operating cash outflow for 2016 reflected above includes amounts recognized related to payments to former owners of share-based payment awards for GATR. Prior to the acquisition, GATR made a number of share-based payment awards to its employees. Due to the structure of certain of these share-based payment awards, we were required to recognize compensation expense, rather than purchase consideration, for the portion of our purchase price that we paid to the seller that was distributed to the recipients of these awards. Consequently, upon completing the acquisition we recognized \$18.5 million of compensation expense related to this matter during the quarter ended March 31, 2016.

The changes in operating cash flows between 2014 and 2016 were also impacted by the terms of some of our largest customer contracts. Our contract terms with our customers can have a significant impact on our operating cash flows. Contract terms, including payment terms on our long-term development contracts, are customized for each contract based upon negotiations with the respective customer. For some large long-term development contracts, primarily with our international customers, we receive significant up-front cash payments from customers based upon the negotiated terms of these contracts. The customized payment terms on long-term development projects also often include payment milestones based upon such items as the delivery of components of systems, meeting specific contractual requirements in the contracts, or other events. These milestone payments can vary significantly based upon the negotiated terms of the contracts. Changes in the amount of unbilled accounts receivable are reflective of the difference between when costs are incurred and when we are entitled to receive milestone payments.

In 2016 and 2015, CTS and CGD Services contributed to positive operating cash flows, while CGD Systems operations used cash, primarily due to the acquisition related expenses described above. In 2014, all three segments contributed to positive operating cash flows.

Investing activities used cash of \$260.6 million in 2016, \$125.1 million in 2015 and \$121.6 million in 2014.

Cash used in investing activities during fiscal 2016 included \$243.5 million in purchase consideration paid for acquisitions of businesses, and capital expenditures of \$32.1 million, including the \$20.3 million of capitalized ERP costs described above. Cash used in investing activities in 2016 was partially offset by \$15.0 million net proceeds from sales or maturities of marketable securities.

In 2015, significant investing activities included \$90.4 million of purchase consideration paid related to the acquisition of DTECH in our CGD Systems segment, \$1.7 million of cash paid in 2015 related to business acquisitions made in 2013 and 2014, and capital expenditures of \$22.2 million, including the \$16.0 million of capitalized ERP costs described above.

In 2014, investing activities included \$72.2 million paid for the acquisition of ITMS, \$11.2 million paid for the acquisition of Intific, \$21.5 million in net purchases of marketable securities and capital expenditures of \$16.6 million.

Financing activities provided cash of \$233.1 million and \$73.3 million in 2016 and 2015 and used cash of \$9.8 million in 2014. In 2016 and 2015, we borrowed a net of \$180.0 million and \$60.0 million, respectively, on a short-term basis that, in addition to existing cash resources, was used to finance acquisitions. In fiscal 2016 we revised a note purchase agreement and issued \$75.0 million of unsecured notes bearing interest at 3.93%, maturing on March 12, 2026. Interest payments on these notes are due semi-annually and principal payments are due from 2020 through 2026. In 2015 we issued \$25.0 million of senior unsecured notes, bearing interest at a rate of 3.70% and maturing on March 12, 2025. In 2016, 2015 and 2014, respectively, we repurchased \$1.6 million, \$2.7 million and \$1.2 million of common stock in connection with our stock-based compensation plan. We made payments on long-term borrowings of \$0.5 million in 2016 and 2015 and \$0.6 million in 2014. Dividends paid to shareholders amounted to \$7.3 million (\$0.27 cents per share) in 2016 and 2015, and \$6.4 million (\$0.24 cents per share) in 2014.

The change in exchange rates between foreign currencies and the U.S. dollar resulted in a decrease of \$38.5 million to our cash balance as of September 30, 2016 compared to September 30, 2015, a decrease of \$11.0 million to our cash balance as of as of September 30, 2015 compared to September 30, 2014 and an increase of \$4.2 million to our cash balance as of September 30, 2014 compared to September 30, 2013.

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At the beginning of fiscal 2016, we had a committed five-year revolving credit agreement expiring in May 2017, with a group of financial institutions in the amount of \$200.0 million. On February 2, 2016, we and the group of financial institutions increased the revolving line of credit available under the agreement to \$400.0 million and we borrowed \$150.0 million as a source of financing for the purchase of GATR. In connection with this increase in the facility size, certain debt covenant definitions and limitations were modified to increase our leverage capacity. On August 11, 2016 we executed the Third Amended and Restated Credit Agreement, which amended and restated the prior revolving credit agreement to extend the maturity to August 11, 2021, add a new financial institution to the group of creditors and amend certain terms and covenants. Borrowings under the agreement bear a variable rate of interest, which is calculated based upon the U.S. dollar LIBOR rate plus a contractually defined credit spread that is based upon the tenor of the specific borrowing. The available line of credit is reduced by any letters of credit issued under the agreement. As of September 30, 2016, there were borrowings totaling \$240.0 million under this agreement and there were letters of credit outstanding totaling \$20.7 million, which reduce the available line of credit to \$139.3 million.

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. At September 30, 2016, there were letters of credit outstanding under this agreement of \$62.7 million. Restricted cash at September 30, 2016 of \$69.4 million was held on deposit in the U.K. as collateral in support of this 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 \$63.1 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, 2016, we had letters of credit and bank guarantees outstanding totaling \$79.2 million, including the letters of credit outstanding under our revolving credit agreement and secured letter of credit facility agreement, which guarantee either our performance or customer advances under certain contracts. In addition, we had financial letters of credit outstanding totaling \$16.6 million as of September 30, 2016, 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 \$2.3 million) to help meet the short-term working capital requirements of our subsidiaries in those countries. At September 30, 2016, 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.

The accumulated deficit in other comprehensive loss increased \$68.0 million in 2016. Unrealized translation adjustments totaled \$48.0 million and an increase in the recorded liability for our pension plans increased our accumulated other comprehensive loss by \$19.6 million.

Our financial condition remains strong with net working capital of \$262.7 million and a current ratio of 1.5 to 1 at September 30, 2016. We expect that cash on hand and our revolving credit agreement will be adequate to meet our

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working capital requirements for the foreseeable future. Our total debt to capital ratio at September 30, 2016 was 29%. 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, 2016, virtually all of the \$285.8 million of our cash, cash equivalents, including restricted cash, and marketable securities was held by our foreign subsidiaries, primarily in the U.K., New Zealand and Australia. 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. With the exception of \$34.1 million of accumulated earnings from the U.K. which we expect to repatriate, we have the intent and ability to permanently reinvest the remaining funds outside of the U.S. and our current plans do not demonstrate a need to repatriate additional amounts to fund our U.S. operations. However, changes in circumstances may result in changes to our intent or ability to reinvest such funds outside of the U.S., or our need to repatriate additional amounts.

The following is a schedule of our contractual obligations outstanding as of September 30, 2016:

	Total	Less than 1 Year	1 - 3 years	4 - 5 years	After 5 years
	(in millions)				
Short-term borrowings	\$ 240.0	\$ 240.0	\$ —	\$ —	\$ —
Long-term debt	201.0	0.4	0.7	46.4	153.5
Interest payments	47.1	7.3	14.5	13.2	12.1
Operating leases	60.0	12.4	19.6	12.7	15.3
Deferred compensation	11.7	0.8	1.9	1.3	7.7
	\$ 559.8	\$ 260.9	\$ 36.7	\$ 73.6	\$ 188.6

As of September 30, 2016, we had approximately \$11.9 million of recorded liabilities and related interest and penalties pertaining to uncertain tax positions which are excluded from the table above. None of these liabilities and related interest and penalties is expected to be paid within one year. We are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. Payments of these obligations would result from settlements with taxing authorities. For more information on our uncertain tax positions, see Note 10 to the Consolidated Financial Statements in Item 8 of this Form 10-K. The table above also excludes estimated minimum funding requirements for retirement plans as set forth by statutory requirements. For further information about future minimum contributions for these plans, see Note 12 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

The terms of the purchase agreements in certain of our recent business acquisitions provide that we will pay the sellers contingent consideration should the acquired companies meet specified goals. As of September 30, 2016, the

maximum future contingent consideration that would be payable if all such goals were met is \$23.9 million. However, we are unable to make a reasonable estimate as to the timing and magnitude of such future payments.

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Backlog

	September 30, 2016 (in millions)	September 30, 2015
Total backlog		
Transportation Systems	\$ 1,793.3	\$ 1,894.3
Cubic Global Defense Systems	576.8	595.7
Cubic Global Defense Services	570.3	485.6
Total	\$ 2,940.4	\$ 2,975.6
Funded backlog		
Transportation Systems	\$ 1,793.3	\$ 1,894.3
Cubic Global Defense Systems	576.8	595.7
Cubic Global Defense Services	139.2	149.9
Total	\$ 2,509.3	\$ 2,639.9

As reflected in the table above, total backlog decreased \$35.2 million and funded backlog decreased \$130.6 million from September 30, 2015 to September 30, 2016. The decrease in total backlog in CTS and CGD Systems was partially offset by an increase in backlog for CGD Services. TeraLogics and GATR, businesses acquired by our CGD Systems segment in fiscal year 2016, had \$49.0 million of total backlog on their respective acquisition dates. Changes in exchange rates between the prevailing currency in our foreign operations and the U.S. dollar as of the end of fiscal 2016, decreased backlog by approximately \$81.3 million compared to September 30, 2015, primarily in our Transportation Systems Segment.

The difference between total backlog and funded backlog represents options under multiyear CGD Services 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 CGD Services were long-term in nature, spanning periods of five to ten years. The U.S. 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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as defined by the applicable regulations of the SEC) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance and will require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. ASU 2014-09 will be effective for us starting in the first quarter of fiscal 2019 as we have determined that we will not adopt ASU 2014-09 early. ASU 2014-09 allows for two methods of adoption: (a) “full retrospective” adoption, meaning the standard is applied to all periods presented, or (b) “modified retrospective” adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the opening retained earnings balance in the year of adoption. We have not yet

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determined which method of adoption we will select. We are currently in the process of modeling the impact of the adoption of the new standard on certain of our long-term contracts in order to assess the expected impacts. As the new standard will supersede substantially all existing revenue guidance affecting us under GAAP, it could impact revenue and cost recognition on a significant number of contracts across our business segments, in addition to our business processes and our information technology systems. As a result, our evaluation of the effect of the new standard will likely extend over several future periods.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. ASU 2014-15 will be effective for us for the year ended September 30, 2017 and for interim reporting periods thereafter. Early adoption is permitted for financial statements that have not been previously issued, but we have not yet adopted this standard. This adoption is not expected to have a significant impact on our financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs which requires that all costs incurred to issue debt be presented in the balance sheet as a direct reduction from the carrying value of the debt, similar to the presentation of debt discounts. ASU 2015-03 is effective for us on October 1, 2016 with early adoption permitted. We do not expect that the adoption of this new accounting guidance will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 will be effective for us beginning on October 1, 2016. We are currently assessing the impact that adopting this new accounting guidance will have on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes which removes the requirement to separate deferred tax liabilities and assets into current and noncurrent amounts and instead requires all such amounts be classified as noncurrent on the balance sheet. We adopted ASU 2015-17 prospectively on October 1, 2015 and reclassified the current portion of our net deferred tax assets and liabilities to net noncurrent deferred tax assets and liabilities. No prior periods were retrospectively adjusted.

In January 2016, the FASB issued Accounting Standards Update ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for us beginning October 1, 2018 and, with the exception of a specific portion of the amendment, early adoption is not permitted. We are currently evaluating the impact this guidance will have on our financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The ASU will be effective for us beginning October 1, 2019 with early adoption permitted. We are currently evaluating the impact of the application of this accounting standard update on our consolidated financial statements as well as whether to adopt the new guidance early.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation. The new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this standard are effective for our annual year and first fiscal quarter beginning on October 1, 2017 with early adoption permitted. We are currently evaluating the impact of the application of this accounting standard update on our consolidated financial statements as well as whether to adopt the new guidance early.

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In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which provides clarifying guidance on how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance will be effective for the Company in its fiscal year beginning October 1, 2018, and early adoption is permitted. We are currently evaluating the impact of the application of this accounting standard update on our consolidated financial statements as well as whether to adopt the new guidance early.

Critical Accounting Policies, Estimates and Judgments

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

Revenue Recognition

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

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

measure progress toward completing the contract and recognizing sales. The units-of-delivery measure recognizes revenues as deliveries are made to the customer generally using unit sales values in accordance with the contract terms. We estimate profit as the difference between total estimated revenue and total estimated cost of a contract and recognize that profit over the life of the contract based on deliveries.

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.

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

Products and services provided under long-term, fixed-price contracts represented approximately 82% of our sales for 2016. 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 2016 net earnings would have increased or decreased by approximately \$7.8 million. When adjustments in estimated contract revenues or estimated costs at completion are required, any changes from prior estimates are recognized by recording adjustments in the current period for the inception-to-date effect of the changes on current and prior periods using the cumulative catch-up method of accounting. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

Changes in estimates on contracts for which revenue is recognized using the cost-to-cost percentage-of-completion method decreased operating income by approximately \$2.8 million in 2016, decreased operating income by approximately \$14.5 million in 2015, and increased operating income by approximately \$1.3 million in 2014. These adjustments decreased net income by approximately \$1.6 million (\$0.06 per share) in 2016, decreased net income by approximately \$8.0 million (\$0.30 per share) in 2015, and increased net income by approximately \$3.5 million (\$0.13 per share) in 2014.

We occasionally enter into contracts that include multiple deliverables such as the construction or upgrade of a system and subsequent services related to the delivered system. In recent years we have seen an increase in the number of customer requests for proposal that include this type of contractual arrangement. For these arrangements revenue is allocated at the inception of the contract to the different contract elements based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling

price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists for a deliverable, which is typically the case for our contracts, the guidance requires us to determine the best estimate of the selling price, which is the price at which we would sell the deliverable if it were sold on a standalone basis. In estimating the selling price of the deliverable on a standalone basis, we consider our overall pricing models and objectives, including the factors we contemplate in negotiating our contracts with our customers. The pricing models and objectives that we use are generally based upon a cost-plus margin approach, with the estimated margin based in part on qualitative factors such as perceived customer pricing sensitivity and competitive pressures. Once the contract value is allocated to the separate deliverables, revenue recognition guidance relevant to each contractual element is followed. For example, for the long-term construction portion of a contract we generally use the cost-to-cost percentage-of-completion method and for the services portion we generally recognize the service revenues on a straight-line basis over the contractual service period or based on measurable units of work performed or incentives earned. The judgment we apply in allocating the relative selling price to each deliverable can have a significant impact on the timing of recognizing

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revenues and operating income on a contract. The revenue recognized for each unit of accounting is classified as products or services sales in our Consolidated Statements of Income based upon the predominant attributes of the unit of accounting. If product and service deliverables are combined for revenue recognition purposes, revenue recognized is allocated to products or services in our Consolidated Statements of Income based upon a relative-selling-price method.

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

We provide services under contracts including outsourcing-type arrangements and operations and maintenance contracts. Revenue under our service contracts with the U.S. government, which is generally in our CGD Services segment, is recorded under the cost-to-cost percentage-of-completion method. Award fees and incentives related to performance on services contracts at CGD Services 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 CGD Systems 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 legacy transportation systems service contracts that terminated in late fiscal 2015 contained annual system usage incentive which were based upon system usage compared to annual baseline amounts. For this contract the annual system usage incentives were not considered fixed or determinable until the end of the contract year for which the incentives are measured, which fell within the second quarter of our fiscal year. Often these fees are based on meeting certain contractually required service levels or based on system usage levels.

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

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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 assess the potential outcomes of examinations by tax authorities in determining the adequacy of the provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust 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 do not provide for U.S. income taxes on the earnings of foreign subsidiaries which are considered indefinitely reinvested outside the U.S. Deferred income taxes, net of foreign tax credits, are provided for foreign earnings available for distribution. As of September 30, 2016, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately \$389.5 million, of which \$360.0 million originates from the U.K. We continually evaluate the financial requirements of our U.S. operations as well as funding requirements outside the U.S. for potential mergers and acquisitions, market growth and ongoing operations to 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 a combination of cash on hand and with the proceeds of debt. 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 2016 amortization expense would have increased by approximately \$4.2 million.

Valuation of Goodwill

Goodwill represents the purchase price paid in excess of the fair value of net tangible and intangible assets acquired. Goodwill is not amortized but is subject to an impairment test on an annual basis and when circumstances indicate that an impairment is more likely than not. Such circumstances include a significant adverse change in the business climate for one of our reporting units or a decision to dispose of a reporting unit or a significant portion of a reporting unit. The test for goodwill impairment is a two-step process. The first step of the test is performed by comparing the fair value of each reporting unit to its carrying value, including recorded goodwill. If the carrying value of a reporting unit exceeds its

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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,	2016	2015	2014
	(in millions)		
Cubic Transportation Systems	\$ 49.6	\$ 56.0	\$ 59.1
Cubic Global Defense Systems	262.9	87.5	30.6
Cubic Global Defense Services	94.4	94.4	94.4
Total goodwill	\$ 406.9	\$ 237.9	\$ 184.1

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 2016 annual 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 three year forecasts for our 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 the three year forecasts. The future cash flows were discounted to present value using a discount rate of 12.0% for our CGD Systems reporting unit, 12.5% for our CGD Services reporting unit and 12.0% for our Transportation Systems reporting unit. The estimated fair values for our CGD Services and Transportation Systems reporting units each exceeded their carrying values by over 20%, while the estimated value of our CGD Systems reporting unit exceeded its carrying value by over 15%.

Significant management judgment is required in the forecast of future operating results that are used in our impairment analysis. The estimates we used are consistent with the plans and estimates that we use to manage our business. For our CGD Services reporting unit, significant assumptions utilized in our discounted cash flow approach included growth rates for sales and margins at greater levels than we have achieved in the past five years, but at levels that are less than the average annual growth we achieved over the period from fiscal 2000 through fiscal 2010. Although we believe our underlying assumptions supporting this assessment are reasonable, if our forecasted sales and margin growth rates, timing of growth, or the discount rate vary from our forecasts, we may be required to perform an interim analysis in 2017 that could expose us to material impairment charges in the future. Assumptions

used in our discounted cash flow approach for our CGD Systems reporting unit also included growth rates for sales and margins at greater levels that we have achieved in recent years due to our expectation that businesses recently acquired by this reporting unit will achieve growth at higher rates than the unit's legacy operations. In performing the 2016 annual test for our CGD Services and CGD Systems reporting units, small changes in the discount rate, growth rate or gross margin assumptions could have a significant impact on the determination of the estimated fair value of CDG Services. For example a decrease in each future year's projected cash flows by 24% for the CGD Services reporting unit or by 16% for the CGD systems reporting unit would have resulted in us being required to complete step two of the analysis for the respective reporting unit.

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

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Pension Costs

The measurement of our pension obligations and costs is dependent on a variety of assumptions used in our valuations. 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 2016 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 2016 would increase or decrease net earnings for 2017 by approximately \$0.6 million, and would have decreased or increased the amount of the benefit obligation recorded at September 30, 2016, by approximately \$10.5 million.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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. dollar LIBOR rate, the Australia bank bill swap bid rate and the New Zealand base rate). We also have senior unsecured notes payable to insurance companies which have fixed coupon interest rates. See Note 8 to the Consolidated Financial Statements for more information.

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

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income risk on our short-term investments, thereby mitigating our net interest rate risk. We believe that we are not significantly exposed to interest rate risk at this point in time.

Foreign Currency Exchange Risk

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

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

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

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Item 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

CUBIC CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)

	Years Ended September 30,		
	2016	2015	2014
Net sales:			
Products	\$ 661,904	\$ 607,226	\$ 583,937
Services	799,761	823,819	814,415
	1,461,665	1,431,045	1,398,352
Costs and expenses:			
Products	473,444	451,295	424,682
Services	643,462	640,031	657,853
Selling, general and administrative expenses	269,593	212,518	181,672
Research and development	31,976	17,992	17,959
Amortization of purchased intangibles	34,120	27,550	22,602
Restructuring costs	1,852	6,272	1,094
	1,454,447	1,355,658	1,305,862
Operating income	7,218	75,387	92,490
Other income (expenses):			
Interest and dividend income	1,476	1,809	1,396
Interest expense	(11,199)	(4,400)	(4,084)
Pension settlement loss	(2,671)	—	—
Other income (expense), net	(2,301)	(885)	(391)
Income (loss) before income taxes	(7,477)	71,911	89,411
Income tax expense (benefit)	(9,212)	48,997	19,831
Net income	1,735	22,914	69,580
Less noncontrolling interest in income of VIE	—	29	89

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Net income attributable to Cubic	\$ 1,735	\$ 22,885	\$ 69,491
Net income per share attributable to Cubic:			
Basic	\$ 0.06	\$ 0.85	\$ 2.59
Diluted			