

CUBIC CORP /DE/  
Form 10-K  
November 23, 2015  
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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, 2015**

**Commission File Number 001-08931**

**CUBIC CORPORATION**

Exact Name of Registrant as Specified in its Charter

**Delaware**  
State of Incorporation

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

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

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

**Common Stock**  
Title of each class

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  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 23,719,359 shares of common stock held by non-affiliates of the registrant was: \$1,227,951,215 as of March 31, 2015, 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

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determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of November 4, 2015 including shares held by affiliates is: 26,964,099 (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 2016 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, 2015.

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**CUBIC CORPORATION**

ANNUAL REPORT ON FORM 10-K

For the Year Ended September 30, 2015

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**PART I**

**Item 1. BUSINESS.**

**GENERAL**

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

Our Cubic Transportation Systems (CTS) business accounted for approximately 40% of our sales in fiscal year 2015. CTS specializes in the design, development, production, installation, maintenance and operation of automated fare payment, traffic management and enforcement solutions, real-time information collection systems, and revenue management infrastructure and technologies for transportation agencies. As part of our turnkey solutions, CTS also provides these customers with a comprehensive suite of business process outsourcing (BPO) services and expertise, such as card and payment media management, central systems and application support, retail network management, passenger call centers and financial clearing and settlement support. As transportation authorities seek to optimize their operations by outsourcing bundled systems and services, CTS has transformed itself from a provider of automated fare collection (AFC) systems into a systems integrator and services company focused on the intelligent transportation market.

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 2015. 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 addition, in December of 2014 we acquired DTECH, a provider of modular networking and baseband communications equipment which adds networking capability to our secure communications portfolio.

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We have a broad customer base across our businesses, with approximately 62% of our fiscal year 2015 sales generated from the U.S. federal, state and local governments. Approximately 7% of these domestic sales were attributable to Foreign Military Sales, which are sales to allied foreign governments facilitated by the U.S. government. The remainder of our fiscal year 2015 sales were attributable to sales to foreign government agencies and municipalities. In fiscal year 2015, 58% of our total sales were derived from services, with product sales accounting for the remaining 42%. Headquartered in San Diego, California, we had approximately 8,300 employees working on 5 continents and in 26 countries as of September 30, 2015.

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

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**BUSINESS SEGMENTS**

Information regarding the amounts of revenue, operating profit and loss and identifiable assets attributable to each of our business segments, is set forth in Note 16 to the Consolidated Financial Statements for the year ended September 30, 2015. 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 over 2,000 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 44% of the segment's fiscal year 2015 sales, with services accounting for the remaining 56%.

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 Sydney region (Opal Card) and the Brisbane region (Go Card). We have also recently been 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 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.



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The transportation systems and services business breaks into niche market segments, each of which are 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.

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, 2015 and 2014 amounted to \$1.894 billion and \$1.995 billion, respectively. We expect that approximately \$510 million of the September 30, 2015 backlog will be converted into sales by September 30, 2016.

**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, Imtech, Accenture, IBM, Indra, Siemens, Transcore, Trapeze 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.

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**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 4,000 employees working in 17 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 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

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operational support to the U.S. Navy for Anti-Submarine Warfare (ASW) and counter-mine operations and training.

We provide comprehensive support to help plan, manage and execute Defense Threat Reduction Agency (DTRA) worldwide consequence management exercise program, which trains senior U.S. and allied civilian and military personnel, first responders and other users of DTRA products. Additionally 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.

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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. Department of Defense (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.

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**Backlog – CGD Services**

Funded sales backlog of our CGD Services segment at September 30, 2015 was \$150 million compared to \$171 million at September 30, 2014. Total backlog, including unfunded options under multiyear service contracts, was \$486 million at September 30, 2015 compared to \$616 million at September 30, 2014. We expect that approximately \$180 million of the September 30, 2015 total backlog will be converted into sales by September 30, 2016.

**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 DoD and 40 allied nations. It is a market leader in live and virtual military training systems and has launched an emerging and fast growing presence in game-based training systems. Training systems provided by 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, 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 1,800 employees working in 11 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 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 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. We have also developed a broad international base for this product, particularly in Asia Pacific and the Middle East. In addition to procuring the ACMI training system, many nations also rely on Cubic for on-site operations and maintenance support.

#### *Ground Combat Training Systems*

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 (CMTC) at Hohenfels, Germany, now known as the Joint Multinational Readiness Center. Since the completion of these original contracts, we have significantly expanded our market footprint with the sale of fixed, mobile and urban operation training centers to uniformed military and security forces in the U.S. and allied nations around the world. Our 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.

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*Game-Based Learning Systems*

The \$298.5 million LCS courseware contract win by the Simulation Systems Division during 2013 has opened a large new market for 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. In July 2015, CGD Systems won a \$2.4 million contract with Emirates airline to develop a virtual cabin air crew training system. At present the company is investing in the appropriate tool sets and staffing resources to meet the Navy and commercial airline requirements. Near-term opportunities include other 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.

*DTECH*

On December 16, 2014 we acquired DTECH LABS, Inc. (DTECH). DTECH, based in Sterling, VA, 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 USMC's Small Unmanned Aerial System and Networking-on-the-move system programs.

*Personnel Locator System and Power Amplifiers*



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

### *Cyber Cross-Domain*

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

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**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, 2015 was \$596 million compared to \$570 million at September 30, 2014. We expect that approximately \$310 million of the September 30, 2015 backlog will be converted into sales by September 30, 2016.

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

In the defense market, we continue to focus on expanding our domestic and international footprint in the global military simulation and training market as well as enabling the convergence and integration of live, virtual and constructive training technologies. U.S. federal budgetary decisions and constraints have put downward pressure on growth in the defense industry and has affected our business in 2015. 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 2015 Global Military Simulation and Virtual Training Market report, the value of the global military simulation and virtual training programs market is \$10.4 billion in 2015. The value of the market is expected to increase at a CAGR of 4.2% over the forecast period, to reach a value of \$15.8 billion by 2025. In the U.S., we believe that there are near term pressures on training budgets for systems and services due to cost pressures resulting from sequestration. However, we believe that changes in training doctrine and the use of new types of training that are cost effective will be essential for the military to fulfill its mission. Globally, we are focused on the emerging economies within the Asia-Pacific region and the Middle East, which are expected to be strong markets for simulation and training products and services with projected growth rates in excess of the overall market. In addition, new platforms and the significant increase in unmanned vehicles and other advanced weapon systems could generate significant demand for operator training on these new platforms.

Our secure communications products address the large and broadly defined Command, Control, Communications, Computers, Intelligence, Surveillance, Reconnaissance (C4ISR) market, with an estimated addressable market of approximately \$2 billion annually. We believe that our products and technologies address mission critical requirements such as: integrated communications suites for unmanned aerial vehicles (UAV), ships and the dismounted soldier; battlefield awareness; 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 transport. We intend to reposition 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.

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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. We are also committed to building a strong C4ISR business as we announced this past year.

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:

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

**Superior Operational Performance**

Our businesses will continue to achieve high levels of performance on current contracts, delivering world-class solutions on schedule and on budget. Achieving this level of performance will deliver high value to our customers, employees, and shareholders. Superior program execution

will help us defend our positions in core markets and expand to new customers by leveraging solid past performance.

**Strategic Reinvestment of Capital**

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

**Innovation**

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

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The cost of company sponsored R&D activities was \$18.0 million, \$18.0 million, and \$24.4 million in 2015, 2014 and 2013, respectively. In addition to internally funded R&D, a significant portion of our new product development occurs in conjunction with the performance of work on our contracts. The amount of contract-required engineering and product development activity was approximately \$77.2 million in 2015 compared to \$73.0 million in 2014 and \$68.3 million in 2013; however, these costs are included in cost of sales as they are directly related to contract performance. In fiscal year 2015, we spent 7% of our sales on the total of internally funded and contract funded R&D, primarily focused in our CGD Systems and CTS segments.

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

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**Pursue Strategic Acquisitions**

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

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

**Enhance Services Business**

We view services as a core element of our business and we are working to expand our service offerings and customer base. In aggregate, approximately 58% of our sales in fiscal year 2015, were from service-related work. We believe that a strong base of service work helps to consistently generate profits and smooth the sales fluctuations inherent in systems work.

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

At 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.

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 the

company to provide enhanced services through regular customer contact and increased visibility of product performance and reliability.

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

**Expand International Footprint**

We have developed a large global presence in our three business segments. CTS has delivered over 400 projects in 40 major markets on 5 continents to date. Approximately 70% of the CTS segment's fiscal year 2015 sales were attributable to international customers. CTS has expanded in Australia with the award of a \$341.0 million contract to design and build an electronic ticketing system for Sydney and to operate and maintain the system until 2024. The Australian operation is now one of three primary operating regions of CTS alongside North America and Europe, and will be the base for us to pursue opportunities in the Asia-Pacific region. In December 2014 Ireland's railway system operator Iarnród Éireann (Irish Rail) selected CTS for the replacement of its entire national reservation, pricing, ticketing and distribution system.



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CGD Systems has delivered systems in more than 40 allied nations. In fiscal year 2015, approximately 51% 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 UK, Canada, and the United Arab Emirates in response to growing opportunities. These complement a well-established and sound presence in Singapore, Australia, New Zealand, and Italy.

In fiscal year 2015, 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 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 8,300 persons at September 30, 2015.

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

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**Item 1A. RISK FACTORS.**

**Risks relating to our business**

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

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 three 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 year 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 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.

*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 2015. 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 Department of Defense (DoD), have declined from time to time for extended periods, resulting in program delays, program cancellations and a slowing of new program starts. Future levels of expenditures and authorizations for defense-related programs by the U.S. and foreign governments may decrease, remain constant or shift to programs in areas where we do not currently provide products or services, thereby reducing the chances that we will be awarded new contracts.

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

In addition, the DoD has recently increased its emphasis on awarding contracts to small businesses; 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 recompeting for a contract, as we would need to do so more often. In addition, as we may need to expend capital resources at

higher levels upon the award of a new contract, the shorter the duration of the contract, the less time we have to recoup such expenditures and turn a profit under such contract.

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

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

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

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

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

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

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



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

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

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

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

As part of our strategy, we will, from time to time, acquire a minority or majority interest in a business. These investments are made upon careful analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining acquisition price. After acquisition, unforeseen issues could arise which adversely affect the anticipated returns or which are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates.

We evaluate our recorded goodwill balances for potential impairment annually as of July 1, or when circumstances indicate that the carrying value may not be recoverable. The goodwill impairment test is performed by comparing the fair value of each reporting unit to its carrying value, including recorded goodwill. In the fourth quarter of fiscal 2013, we recognized a goodwill impairment in our 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.

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No goodwill impairment was recognized in fiscal 2014 or fiscal 2015. Any future impairment could result in substantial losses and write-downs that would reduce our results of operations. For more information on the goodwill impairment recognized in fiscal 2013 and the accounting policies we have in place for impairment of goodwill, see our discussion under *Valuation of Goodwill* in Item 7 of this Form 10-K.

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

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

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

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.

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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 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.

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*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;
- 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.

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***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.

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 2015 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, 2015, our total backlog was approximately \$3.0 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 businesses must comply with and are affected by various government regulations that impact our operating costs, profit margins and our internal organization and operation of our businesses. These regulations affect how we do business and, in some instances, impose added costs. Any changes in applicable laws could adversely affect our business and financial condition. Any material failure to comply with applicable laws could result in contract termination, price or fee reductions or suspension or debarment from contracting. The more significant regulations include:

- the Federal Acquisition Regulations (FAR) and all department and agency supplements, which comprehensively regulate the formation, administration and performance of U.S. government contracts;
- the Truth in Negotiations Act and implementing regulations, which require certification and disclosure of all cost and pricing data in connection with certain contract negotiations;

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- 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;
- 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.

***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

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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.

***Unforeseen problems with the implementation and maintenance of our information systems could have an adverse effect on our operations.***

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 \$50.0 million, and the software applications are expected to be implemented in phases over the next 2.5 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.

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

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

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

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

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

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

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

We seek to protect our proprietary technology and inventions through patents and other proprietary-right protection, and also rely on trademark laws to protect our brand. However, we may fail to obtain the intellectual property rights necessary to provide us with a competitive advantage, and any of our owned or licensed intellectual property rights could be challenged, invalidated, circumvented, infringed or misappropriated.

We may also fail to apply for or obtain intellectual property protection in important foreign countries, and the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States. If we are unable to obtain or maintain these protections, we may not be able to prevent third parties from using our technology and inventions, which could adversely affect our business.

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.

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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.

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

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Our current \$200.0 million unsecured revolving credit agreement expires in May 2017. The available line of credit on the agreement is reduced by any letters of credit issued under the agreement. As of September 30, 2015, there were borrowings totaling \$60.0 million under this agreement and there were letters of credit outstanding totaling \$21.8 million, which reduced the available line of credit to \$118.2 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, 2015, there were letters of credit outstanding under this agreement of \$58.5 million. In support of this facility, we placed \$69.2 million of our cash on deposit in the U.K. as collateral in a restricted account with the bank providing the facility. We are required to leave the cash in the restricted account so long as the bank continues to maintain associated letters of credit under the facility. The maximum amount of letters of credit currently allowed by the facility is \$62.8 million, and any increase above this amount would require bank approval and additional restricted funds to be placed on deposit. We may choose at any time to terminate the facility and move the associated letters of credit to another credit facility. Letters of credit outstanding under the facility do not reduce the available line of credit available under the revolving credit agreement described above.

On March 12, 2013, we entered into a note purchase and private shelf agreement pursuant to which we issued \$100.0 million in aggregate principal amount of senior unsecured notes, bearing interest at a rate of 3.35%. Principal payments are due from 2021 through 2025. In addition, pursuant to the agreement, on July 17, 2015 we issued additional senior unsecured notes in an aggregate principal amount of \$25.0 million. These additional notes will also mature on March 12, 2025 and will bear an interest rate of 3.70%. 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, 2015 this agreement does not restrict such distributions to shareholders.

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

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

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

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

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

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

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

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



## Edgar Filing: CUBIC CORP /DE/ - Form 10-K

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

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

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

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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 December 2014 we acquired DTECH LABs, Inc. (DTECH), 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. We cannot assure you that we will be able to integrate acquired companies successfully without substantial expense, delay or operational or financial problems. Such expenses, delays or operational or financial problems may include the

following:

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

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

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

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

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 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.

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**Risks relating to our common stock**

*The price of our common stock may fluctuate significantly*

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

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

- our quarterly or annual earnings or those of our competitors;
- the public's reaction to our press releases, our other public announcements and our filings with the Securities and Exchange Commission;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of our competitors;
- 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 Executive Chairman of the Board of Directors beneficially owns a large percentage of our common stock and as a result can exert significant influence over us.***

At November 20, 2015, Walter C. Zable, our Executive Chairman of the Board of Directors, and Karen F. Cox, Mr. Zable's sister, beneficially owned an aggregate of 3,098,956 shares, or approximately 11.5%, 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 2015, 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.

#### **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

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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, or the negatives of these words or phrases. These forward-looking statements involve risks, estimates, assumptions and uncertainties, including those discussed in Risk factors and elsewhere throughout this report and in the documents incorporated by reference herein, that could cause actual results to differ materially from those expressed in these statements.

Such risks, estimates, assumptions and uncertainties include, among others: unanticipated issues related to the restatement of our financial statements; our ability to monitor and evaluate the effectiveness of new processes and procedures we have implemented to remediate the material weaknesses that existed in our internal control over financial reporting; our dependence on U.S. and foreign government contracts; delays in approving U.S. and foreign government budgets and cuts in U.S. and foreign government defense expenditures; the ability of certain government agencies to unilaterally terminate or modify our contracts with them; our ability to successfully integrate new companies into our business and to properly assess the effects of such integration on our financial condition; the U.S. government's increased emphasis on awarding contracts to small businesses, and our ability to retain existing contracts or win new contracts under competitive bidding processes; negative audits by the U.S. government; the effects of politics and economic conditions on negotiations and business dealings in the various countries in which we do business or intend to do business; competition and technology changes in the defense and transportation industries; our ability to accurately estimate the time and resources necessary to satisfy obligations under our contracts; the effect of adverse regulatory changes on our ability to sell products and services; our ability to identify, attract and retain qualified employees; 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.

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 2.1 million square feet of both owned and leased properties located in the United States and foreign countries. We own approximately 54% 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
<b>Corporate Headquarters:</b>	
San Diego, CA	Owned
<b>Investment properties:</b>	
New York, NY	Owned
Teterboro, NJ	Leased
<b>Transportation Systems:</b>	
Atlanta, GA	Leased
Auburn, Australia	Leased

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<b>Location of Property</b>	<b>Owned or Leased</b>
Brisbane, Australia	Leased
Burnaby, BC, Canada	Leased
Chicago, IL	Leased
Concord, CA	Leased
Emeryville, CA	Leased
Greenford, London, England	Leased
Hamburg, Germany	Leased
Hyderabad, India	Leased
Inglewood, CA	Leased
Kingswinford, West Midlands, England	Leased
Kingswood, Australia	Leased
London, England	Leased
Malmö, Sweden	Leased
Mascot, Australia	Leased
Merthsham, Surrey, England	Leased
Murrarie, Australia	Leased
Newtonabby, Belfast, England	Leased
New York, NY	Leased
Norwalk, CA	Leased
Oakland, CA	Leased
Oldham, England	Leased
Concord, Ontario, Canada	Leased
Salfords, Surrey, England	Owned
San Diego, CA	Owned
San Francisco, CA	Leased
Stockton-on-Tees, England	Leased
Sydney, Australia	Leased
Tullahoma, TN	Leased and Owned
Vancouver, BC	Leased
Vaxjo, Sweden	Leased
Wollongong, Australia	Leased

**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
Tampa, FL	Leased

**Cubic Global Defense Systems:**

Abu Dhabi UAE	Leased
Arlington, VA	Leased
Ashburn, VA	Leased
Auckland, New Zealand	Leased
Austin, TX	Leased
Canberra, Australia	Leased

Farnham, Surrey, England	Leased
Heisingor, Denmark	Leased
Herndon, VA	Leased

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<b>Location of Property</b>	<b>Owned or Leased</b>
Orlando, FL	Owned
Riyadh, Saudi Arabia	Leased
San Diego, CA	Owned
Singapore	Leased
St. Petersburg, FL	Leased
Sterling, VA	Leased
Tijuana, Mexico	Leased
Townsville, Australia	Leased

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**Item 3. LEGAL PROCEEDINGS.**

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

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

We are not a party to any other material pending proceedings and we consider all other matters to be ordinary proceedings incidental to 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.

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

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

## MARKET AND DIVIDEND INFORMATION

Quarter	Sales Price of Common Shares				Dividends per Share	
	Fiscal 2015		Fiscal 2014		Fiscal 2015	Fiscal 2014
	High	Low	High	Low		
First	\$ 54.99	\$ 45.40	\$ 56.55	\$ 49.14		
Second	53.92	50.44	54.13	49.04	\$ 0.14	\$ 0.12
Third	51.27	46.92	52.25	44.21		
Fourth	47.71	40.33	47.04	42.60	\$ 0.14	\$ 0.12

On November 4, 2015, the closing price of our common stock on the New York Stock Exchange was \$45.24. There were 638 shareholders of record of our common stock as of November 4, 2015.



Table of Contents**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.

	2015	2014	Years Ended September 30,		2012	2011
			2013			
<b>Results of Operations:</b>						
Sales	\$ 1,431,045	\$ 1,398,352	\$ 1,361,407	\$ 1,404,084	\$ 1,301,584	
Cost of sales	1,091,326	1,082,535	1,055,313	1,060,140	983,269	
Selling, general and administrative expenses	212,518	181,672	165,230	164,189	159,791	
Research and development	17,992	17,959	24,445	28,722	25,260	
Interest expense	4,400	4,084	3,427	1,602	1,541	
Income taxes	48,997	19,831	14,502	40,332	34,119	
Net income attributable to Cubic (1)	22,885	69,491	25,086	97,427	86,044	
<b>Per Share Data:</b>						
Net income per share, basic (1)	\$ 0.85	\$ 2.59	\$ 0.94	\$ 3.64	\$ 3.22	
Net income per share, diluted (1)	0.85	2.59	0.94	3.64	3.22	
Cash dividends	0.27	0.24	0.24	0.24	0.28	
<b>Shares used in calculating net income per share:</b>						
Basic	26,872	26,787	26,736	26,736	26,736	
Diluted	26,938	26,845	26,760	26,736	26,736	
<b>Year-End Data:</b>						
Shareholders' equity related to Cubic	\$ 756,288	\$ 782,278	\$ 716,946	\$ 677,171	\$ 580,627	
Equity per share, basic	28.14	29.20	26.82	25.33	21.72	
Total assets	1,300,276	1,194,606	1,109,618	1,014,550	963,650	
Long-term debt	126,705	102,390	102,920	11,503	15,918	

(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. See Note 10 of 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. See Note 7 of the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of the goodwill impairment.



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

**Company Overview**

We are a leading international provider of cost-effective systems and solutions that address the mass transit and global defense markets' most pressing and demanding requirements. We are engaged in the design, development, manufacture, integration, and sustainment of advanced technology systems and products. We also provide a broad range of engineering, training, technical, logistic, and information technology services. We serve the needs of various federal and regional government agencies in the U.S. and allied nations around the world with products and services that have both defense and civil applications. Our main areas of focus are in mass transit automated fare payment and revenue management infrastructure, defense, intelligence, homeland security, and information technology, including cyber security. For the fiscal year ended September 30, 2015, 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 47% of sales in 2015, 47% of sales in 2014, and 51% of sales in 2013. In fiscal year 2015, 58% of our total sales were derived from services, with product sales accounting for the remaining 42%.

We operate in three reportable business segments: transportation systems, 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 47% of our total sales for fiscal year 2015. International sales from Cubic Transportation Systems (CTS), Cubic Global Defense Services (CGD Services) and Cubic Global Defense Systems (CGD Systems) amounted to 70%, 9% and 51%, respectively, of the applicable segment sales for fiscal year 2015. 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 \$18.0 million in 2015. 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, 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. We have made a number of niche acquisitions of businesses during the past several years, including DTECH LABs, Inc. in December 2014, Intific, Inc. in February 2014 and Intelligent Transport Management Solutions

Limited in November 2013. Generally, these acquisitions are dilutive to earnings in the short-term due to acquisition related costs, integration costs, retention payments and often higher amortization of purchased intangibles in the early periods after acquisition 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 various Budget Control Acts since 2011. On March 1, 2013, the sequestration of appropriations was implemented by the federal government. The Bipartisan Budget Act of 2013 set overall discretionary spending for the 2014 fiscal year at \$1.012 trillion about halfway between the Senate budget level of \$1.058 trillion and the House budget level of \$967 billion. The agreement provided \$63 billion in sequester relief over two years, split evenly between defense and non-defense programs.

In fiscal year 2014, defense discretionary spending was set at \$520.5 billion, and non-defense discretionary spending was set at \$491.8 billion. The sequester relief was fully offset by savings elsewhere in the budget. The agreement included dozens of specific deficit-reduction provisions, with mandatory savings and non-tax revenue totaling approximately \$85 billion. On November 2, 2015, the Bipartisan Budget Act of 2015 revised discretionary spending limits for fiscal year 2016 and fiscal year 2017 in the security category of \$548 billion and \$551 billion, respectively, in new budget authority. The ultimate effects of sequestration and subsequent budget control acts still cannot be determined, as these reductions from previous budget projections have had an impact upon our customers' procurement of products and services and will continue to have an impact on the defense industry over time. With the Highway Bill still in negotiation on Capitol Hill, these budgetary constraints may also impact funding to our U.S. mass transit customers from the federal government for large infrastructure projects.

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

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

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

Segment Overview

*Cubic Transportation Systems*

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

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

We 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 Sydney region (Opal Card) and the Brisbane region (Go Card). We have also recently been 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 innovative new services, technology obsolescence, equipment refurbishment and the introduction of new or adjacent applications.

In 2015, revenues from services provided by CTS were \$315.4 million, or 56% of CTS sales.

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We are currently designing and building major new systems in Vancouver, 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. This was the case in 2014, for our Chicago and Vancouver contracts as we experienced negative cash flows from these two major projects, however, in 2015 cash flows from our North American operations were positive. Each of these projects includes a ten-year operate and maintain period and we expect cash flows from these projects to be positive in future years.

Cash payment terms offered by our mass transit customers in a competitive environment are sometimes not favorable to us. The customers budget constraints often result in less funding available for the build of a new system, with more funds becoming available when the system becomes operational. This, coupled with the inherent risks in managing large infrastructure projects, can yield negative cash flows and lower and less predictable profit margins on contracts during the design and build phase. Conversely, during the operate-and-maintain phase, revenues and costs are typically more predictable and profit margins tend to be higher.

Gross profit margins from services sales in CTS were 32% and 24% for fiscal years 2015 and 2014, respectively, and gross profit margin from product sales was 25% and 28% in 2015 and 2014, respectively. Generally, the trend toward more services revenues has helped to generate higher profit margins from the segment in recent years than in the past; however in 2014 service gross margins were lower than product gross margins mostly due to the increased costs of the first year of providing services on the Chicago contract. In 2015 the service gross margin returned to a more typical level as the start-up phase of the Chicago contract was completed. The mix of product and services sales can produce fluctuations in margin from period-to-period; however, we expect the trend of increasing services sales to continue in the next several years.

Most of our sales in CTS for fiscal year 2015 were from fixed-price contracts. However, some of our service contracts provide for variable payments, in addition to the fixed payments, based on meeting certain service level requirements and, in some cases, based on system usage. Service level requirements are generally contingent upon factors that are under our control, while system usage payments are contingent upon factors that are generally not under our control, other than basic system availability. Development and system integration contracts in CTS are usually accounted for on a percentage-of-completion basis using the cost-to-cost method to measure progress toward completion, which requires us to estimate our costs to complete these contracts on a regular basis. Our actual results can vary significantly from these estimates and changes in estimates can result in significant swings in revenues and profitability from period to period. Generally, we are at risk for increases in our costs, unless an increase results from customer-requested changes. At times, there can be disagreement with a customer over who is responsible for increases in costs. In these situations we must use judgment to determine if it is probable that we will recover our costs and any profit margin.

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

For the new fare collection system for the Chicago Transit Authority, the contract specifies that we would not begin to be paid until we entered the service period. In accordance with authoritative accounting literature, we did not begin recognizing revenue on this contract until it entered the service period in August 2013. As of September 30, 2015, we had capitalized \$73.0 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 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.



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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 recompletable of the KBSC contract which has a base and four option periods. The segment supports all four of the U.S. Army's combat training centers (CTCs) comprised of: the Joint Readiness Training Center (JRTC) in Fort Polk, Louisiana, which is the nation's premier training center for light infantry forces; the National Training Center (NTC) in Fort Irwin, California, the Army's premier heavy maneuver CTC; the Joint Multinational Readiness Center (JMRC) in Hohenfels, Germany, which is the U.S. Army Europe's combat maneuver training center for realistic training from the individual to the brigade level; and the Mission Command Training Program (MCTP) in Fort Leavenworth, Kansas, which delivers mission command training to the Army's senior commanders and is the Army's only worldwide deployable CTC. We also currently provide and/or have provided defense modernization support for 13 NATO entrants in Central and Eastern Europe under FMS contracts.

We are adapting to a new era in defense and national security spending practices. In the past, many of the contracts we were awarded in 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. For example, the gross profit margin in CGD Services was 10% in 2014 and 2015 compared to 11% in 2013. Threats related to sequestration and margin compression were among the factors that resulted in a decline in the estimated fair value of CGD Services and a resulting \$50.9 million goodwill impairment in 2013. We must continue to work to keep our costs low to remain competitive under these market conditions. These conditions also provide the opportunity for us to increase our market share of the large DoD services market. To maximize our business opportunities under ID/IQ contract vehicles, we often seek new work both as a prime contractor and a subcontractor. By increasing our participation in multiple award ID/IQ contracts we improve our chances to develop new customers, programs and capabilities. Retaining customers is a critical component of our success; we remain vigilant in maintaining a high win rate on re-compete contracts to retain our customers. Despite the trend toward small business awards by the U.S. government, where we must take a role as a subcontractor, 92% of our revenues in fiscal year 2015 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. At NEK we employ over 500 employees with substantial experience in the Special Forces community.

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. We anticipate that this acquisition should be accretive by fiscal year 2017.

Cost reimbursable and time and materials contracts accounted for 51% of our sales in CGD Services for fiscal year 2015, 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.

*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, and secure communication systems and products to the DoD, other U.S. government agencies and allied nations. We design and manufacture instrumented range systems for fighter aircraft, armored vehicles and infantry force-on-force live training weapons effects simulations, laser-based tactical and communication systems, and precision gunnery solutions. Our secure communications products are aimed at intelligence, surveillance, ground combat, and search and rescue markets.

CGD Systems is building upon its role as a leader in air and ground combat training systems worldwide. Our products and systems help our customers to retain technological superiority with cost-effective solutions. We design, innovate, manufacture and field a diverse range of technologies that are critical to combat readiness, supply chain logistics and national security for the U.S. and allied nations. Our primary lines of business include air combat training ranges and after action review software, ground combat training systems, including a full range of laser engagement simulation systems, game-based learning systems, virtual small arms training systems, Intelligence, Surveillance and Reconnaissance (ISR) data links, networking and baseband communications equipment, 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.

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Our established international footprint in 40 allied nations is a key ingredient to our strategy. Our global footprint helps to insulate us from possible shifts or downturns in DoD spending. Sales to international customers of CGD Systems have become a major part of our business with 51% of sales in 2015 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 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 communications, and live fire training solutions to US and international forces. These acquisitions deepen our training and communication capabilities and expand our customer base.

Fixed-price contracts accounted for 89% of CGD Systems revenue for fiscal year 2015. 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 2015 was 29%, compared to 30% in 2014 and 32% in 2013. At times, particularly favorable or unfavorable contracts can cause variation in this ratio, due to competition and the prevalence of fixed-price arrangements. Fixed-price contracts create both the risk of cost growth and the opportunity to increase margins if we are able to reduce our costs.

**Operating overview**

Cubic Corporation sales in 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 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, particularly the strengthening of the U.S. dollar against the British pound, Australian dollar, and the New Zealand dollar 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 4%, or \$52.1 million in 2015 compared to 2014.

Cubic Corporation sales in 2014 were \$1.398 billion compared to \$1.361 billion in 2013, an increase of 3%. Increases in sales for CTS and CGD Systems of 13% and 10%, respectively, were partially offset by a 15% decrease in CGD Services sales. Revenues from businesses we acquired in 2014 and 2013 increased our consolidated sales by 5% from 2013 to 2014. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in an increase in sales of \$6.4 million in 2014 from 2013.

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