CUBIC CORP /DE/
Form 10-K
December 09, 2010

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, 2010

Commission File Number 001-08931

CUBIC CORPORATION

Exact Name of Registrant as Specified in its Charter

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

9333 Balboa Avenue

San Diego, California 92123

Telephone (858) 277-6780

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

Common Stock	**New York Stock Exchange, Inc.**
Title of each class	Name of exchange on which registered

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark 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 the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. Yes o No x

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 o No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of 15,798,608 shares of voting stock held by non-affiliates of the registrant was: $568,749,888 as of March 31, 2010, based on the closing stock price on that date.

Number of shares of common stock outstanding as of November 8, 2010 including shares held by affiliates is: 26,736,406 (after deducting 8,945,201 shares held as treasury stock).

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant s Proxy Statement for its 2011 Annual Meeting of Shareholders to be held on February 22, 2011, are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. BUSINESS.

GENERAL

CUBIC CORPORATION (Cubic), was 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.

Cubic is mainly involved in the design, development, manufacture, integration, installation, operation, maintenance, and support of high technology products and systems. We are focused on the defense and transportation markets and have recently also added cyber security and asset tracking businesses. We operate three reportable segments, including transportation systems, defense systems and mission support services.

Our transportation systems business is the leading provider of automated revenue collection systems and services worldwide. We provide complete turnkey solutions. Our equipment includes contactless smart card readers, passenger gates, central computer systems, and ticket vending machines for mass transit networks, including rail systems, buses, and parking applications. Our services include customer support, network and web operations, payment media management, distribution channel management, business and marketing support, financial clearing and settlement, and outsourced asset operations and maintenance.

Our defense systems business includes training systems, communications, cyber security and asset tracking. We are a leading provider of customized military range instrumentation, training and applications systems, and simulators. In addition, we are a supplier of communications and surveillance systems, surveillance receivers, power amplifiers, and avionics systems.

Our mission support services business is a leading provider of highly specialized support services including live, virtual, and constructive training; real-world mission rehearsal exercises; professional military education; 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.

During fiscal year 2010, approximately 57% of our total business was conducted, either directly or indirectly, with various agencies of the United States government. Most of the remainder of our revenue was from local, regional and foreign governments or agencies.

Cubic s internet address is www.Cubic.com. The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K. We make available free of charge on or through our Internet website under the heading Investor Information, our reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission.

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 10 to the Consolidated Financial Statements for the year ended September 30, 2010. 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 which follows at Item 7.

TRANSPORTATION SYSTEMS SEGMENT

Cubic Transportation Systems (CTS) is the leading turnkey solution provider of automated fare collection systems for public transport authorities worldwide. We provide a range of service and system solutions for the bus, bus rapid transit, light rail, commuter rail, heavy rail, ferry and parking markets. These solutions and services include system design, central computer systems, equipment design and manufacturing, device-level software, integration, test, installation, warranty, maintenance, computer hosting services, call center and web services, card management and distribution services, retail point of sale network management, mobile phone ticketing, financial clearing and settlement, software application support and outsourced asset operations and maintenance. In addition, we design, develop and manufacture special technology components, such as open payment ready smart card readers for use within our suite of fare collection equipment consisting of on-bus solutions, access control solutions, vending solutions, retail and card issuing solutions, and mobile inspection and sales solutions.

Over the years, we have been awarded over 400 projects in 40 major markets on 5 continents. Active projects include London, and various other cities around the U.K., Miami, Florida, Vancouver, B.C. Canada, the New York / New Jersey region, the Washington, D.C. / Maryland / Virginia region, the Los Angeles region, the San Diego region, San Francisco Bay region, Minneapolis/St. Paul, Chicago, Atlanta, Brisbane and Sydney in Australia, the Frankfurt/RMV region in Germany, and Sweden. These programs provide a base of current business and the potential for additional future business as the systems are expanded.

Industry Overview

Transport agencies, particularly those based in the U.S., rely heavily on federal, state and local governments for subsidies in capital investments, including new procurements and/or upgrades of automated fare collection systems. The average lifecycle for rail fare collection systems is 12 to 15 years, and for bus systems is 7 to 10 years. Procurements tend to follow a long and strict competitive bid process where low price is a significant factor.

The automated fare collection business is a niche market able to sustain only a relatively few number of suppliers. Because of the long life expectancy of these systems and only a few companies able to supply them, there is fierce competition to win these jobs, 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 operators within a single networked system. As such, there is a growing trend for regional ticketing systems, usually built around a large transit agency and including neighboring operators, all sharing a common regional smart card. There is an emerging trend for other applications to be added to these regional systems to expand the utility of the smart card, offering

higher value and incentives to the end users, and lowering costs and creating new revenue streams 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 center 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 ticketing systems. This growing new market provides the opportunity to establish lasting relationships and grow revenues and profits over the long-term.

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 commercial sources. 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, 2010 and 2009 amounted to $1.113 billion and $772 million, respectively. We expect that approximately $774 million of the September 30, 2010 backlog will not be completed by September 30, 2011.

CTS Competitive Environment:

We are one of several companies involved in providing automated fare collection systems solutions and services for public transport operators worldwide including such competitors as Thales, ACS and Scheidt & Bachmann. In addition, there are many smaller local companies, particularly in European and Asian markets. For large national tenders, our competitors may form consortiums that could include, in addition to the fare collection companies noted above, telecommunications, financial institutions, consulting and computer services companies. 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.

DEFENSE SYSTEMS SEGMENT

Cubic Defense Systems (CDS) consists of several market-focused businesses: Training Systems, Communications, Global Asset Tracking, and Cyber Security. Our products include customized military range instrumentation systems, electro-optical systems, firearm simulation systems, communications and surveillance systems, surveillance receivers, power amplifiers, avionics systems, multi-band communication tracking devices, and cross domain hardware solutions to address multi-level security requirements. We market our capabilities directly to various U.S. government departments, agencies, and foreign governments. In addition, we frequently contract or team with other leading defense suppliers.

Training Systems

Our Training Systems business is a pioneer and market leader in the design, innovation, and manufacture of immersive and instrumented training systems and products for military customers. Immersive training systems enable dismounted soldiers to train in a hyper-realistic virtual environment. Instrumented training systems are used for live training in air and ground combat domains, with weapons and other effects simulated by electronics, software, and/or laser technologies. These products collect and record simulated weapons engagements, tactical behavior, and event data to evaluate combat effectiveness, lessons learned, and provide a basis to develop after action reviews.

Our training business is organized into Air Combat and Ground Combat divisions. In Air Combat, Cubic was the initial developer and supplier of Air Combat Maneuvering Instrumentation (ACMI) capability during the Vietnam War. The ACMI product line has progressed through several generations of technologies and capabilities. We continue to maintain a market leadership position based on the competitive award of a 10-year, $525 million indefinite delivery/ indefinite quantity (IDIQ) contract in 2003, called P5, to provide advanced air combat training capability to the U.S. Air Force, Navy and Marine Corps. We also received a $50 million development contract in 2007 to develop an internal version of the P5 system for use on the F-35 Joint Strike Fighter. While most of the latest ACMI systems are designed to operate in a rangeless environment we continue to support a number of legacy, fixed geographic ranges. Many nations employ our ACMI systems for air to air combat training.

Ground Combat training uses systems analogous to air ranges for ground force training, tactical engagement simulation systems (generally known as MILES (Multiple Integrated Laser Engagement Simulation Equipment)), as well as virtual simulation products. Our leadership role in instrumented training was established during the 1990s when we provided turnkey systems for U.S. Army training centers at Fort Polk, LA (Joint Readiness Training Center JRTC) and Hohenfels, Germany (Combat Maneuver Training Center CMTC). Since these original contracts were completed we have dramatically expanded our market footprint with the sale of fixed, mobile, and urban operation training centers around the world. Increasingly, our efforts are focused on joint training solutions and those that can operate simultaneously in multiple simulation environments including live, virtual, constructive, and gaming domains.

Laser-based tactical engagement simulation systems are used at combat training centers (CTC) to permit weapons to be used realistically, registering hits or kills, without live ammunition. We supply MILES equipment as part of CTC contracts and as an independent product line. Cubic MILES systems are being utilized by all branches of the U.S. Armed Services, as well as the Department of Energy, and civilian security firms. We manufacture MILES equipment in the San Diego area and at our New Zealand-based wholly-owned subsidiary, Cubic Defence New Zealand.

At our Simulation Systems Division (SSD) in Orlando, FL, we produce immersive virtual training systems, employing actual or realistic weapons and systems together with visual imagery to simulate battle field environments. Also at SSD, we produce maintenance trainers for combat systems and vehicles, as well as operational trainers for missiles and armored vehicles.

Communications

Our Communications business is a supplier of secure data links, high power RF amplifiers, direction finding systems, remote video terminals, and search and rescue avionics for the U.S. military, government agencies, and allied nations. We supplied the air/ground secure data link for the U.S. Army/Air Force Joint STARS system during the 1980s, as well as the United Kingdom s ASTOR program and continue to provide spare parts and system upgrades. More recently we have focused on the supply of Common Data Link (CDL) products for ship borne applications, unmanned aerial vehicles (UAV), and remote video terminals. Capitalizing on a multiyear internal R&D program, we won a competitive contract in Fiscal 2003 to develop and produce the Common Data Link Subsystem (CDLS) for the U.S. Navy. CDLS has been installed on major surface ships of the U.S. fleet. Smaller, tactical versions of our Common Data Link have been selected for both UAV and remote video terminal applications such as the U.K. Watchkeeper and the U.S. Firescout UAV programs.

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

Global Asset Tracking

In May 2010 Cubic acquired the assets of Impeva Labs and formed a new subsidiary called Cubic Global Tracking Solutions, Inc (CGTS). CGTS global tracking technology is deployed with the US Department of Defense for tracking and monitoring DOD supply chain assets. The products employs satellite, GSM mobile communications, and encrypted mesh network technologies. The company offers a Device Management Center that provides continuous, reliable, real-time monitoring and event notification without fixed infrastructure. The products are designed to operate remotely for years based on highly efficient battery optimization. The company operates under a indefinite delivery/indefinite quantity subcontract to develop advanced wireless solutions for the U.S. Army s Logistics Innovation Agency.

Cyber Security

In June 2010 Cubic acquired Safe Harbor Holdings, a cyber security and information assurance company, based in Vienna, Virginia and formed a new subsidiary called Cubic Cyber Solutions, Inc (CSSI). CSSI provides specialized security and networking infrastructure, system certification and accreditation, and enterprise-level network architecture and engineering services. The company also provides cross domain hardware solutions to address multi-level security challenges across common networks.

Raw Materials CDS:

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

Backlog CDS: