CUBIC CORP /DE/
Form 10-Q
February 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended December 31, 2011

001-08931

Commission File Number

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

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 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 x 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 (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o   Small Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes o No x

As of January 18, 2012, registrant had only one class of common stock of which there were 26,736,307 shares outstanding (after deducting 8,945,300 shares held as treasury stock).

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(amounts in thousands, except per share data)

	Three Months Ended December 31,			
		2011		**2010**
Net sales:				
Products	$	157,312	$	135,371
Services		161,435		149,049
		318,747		284,420
Costs and expenses:				
Products		114,751		90,087
Services		132,243		121,811
Selling, general and administrative		34,637		37,030
Research and development		4,896		6,255
Amortization of purchased intangibles		4,039		2,038
		290,566		257,221
Operating income		28,181		27,199
Other income (expense):				
Interest and dividend income		762		864
Interest expense		(347)		(407)
Other income (expense) - net		1,691		(227)
Income before income taxes		30,287		27,429
Income taxes		8,800		7,400
Net income		21,487		20,029
Less noncontrolling interest in income of VIE		45		121
Net income attributable to Cubic	$	21,442	$	19,908
Basic and diluted net income per common share	$	0.80	$	0.74
Average number of common shares outstanding		26,736		26,736

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31, 2011 (Unaudited)	September 30, 2011 (See note below)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 289,141	$ 329,148
Short-term investments	18,872	25,829
Accounts receivable - net	254,811	223,984
Recoverable income taxes	22,177	20,725
Inventories - net	42,172	36,729
Deferred income taxes and other current assets	20,783	34,230
Total current assets	647,956	670,645
Long-term contract receivables	24,140	23,700
Property, plant and equipment - net	52,045	48,467
Goodwill	146,413	146,355
Purchased intangibles - net	50,147	54,139
Other assets	18,118	15,534
	$ 938,819	$ 958,840
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 30,372	$ 38,870
Customer advances	172,988	183,845
Accrued compensation and other current liabilities	86,344	103,339
Income taxes payable	8,460	7,902
Current portion of long-term debt	4,539	4,541
Total current liabilities	302,703	338,497
Long-term debt	7,233	11,377
Other long-term liabilities	56,157	57,168
Shareholders equity:		
Common stock	12,574	12,574
Retained earnings	620,291	598,849
Accumulated other comprehensive loss	(23,853)	(23,294)
Treasury stock at cost	(36,078)	(36,078)
Shareholders equity related to Cubic	572,934	552,051
Noncontrolling interest in variable interest entity	(208)	(253)
Total shareholders equity	572,726	551,798
	$ 938,819	$ 958,840

Note: The balance sheet at September 30, 2011 has been derived from the audited financial statements at that date.

See accompanying notes.

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CUBIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended December 31, 2011	2010
Operating Activities:		
Net income	$ 21,487	$ 20,029
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,832	3,868
Changes in operating assets and liabilities	(65,693)	(7,744)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(38,374)	16,153
Investing Activities:		
Acquisitions, net of cash acquired		(124,431)
Net additions to property, plant and equipment	(5,249)	(1,440)
Proceeds from sales or maturities of short-term investments	6,957	30,926
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,708	(94,945)
Financing Activities:		
Principal payments on long-term borrowings	(4,136)	(4,137)
Purchases of treasury stock		(4)
NET CASH USED IN FINANCING ACTIVITIES	(4,136)	(4,141)
Effect of exchange rates on cash	795	1,770
NET DECREASE IN CASH AND CASH EQUIVALENTS	(40,007)	(81,163)
Cash and cash equivalents at the beginning of the period	329,148	295,434
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 289,141	$ 214,271

See accompanying notes.

CUBIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

December 31, 2011

Note 1 Basis for Presentation

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

In the first quarter of fiscal year 2012, we revised our method of categorizing sales and the related cost of sales between products and services. Our revised method of categorization considers whether individual projects relate predominantly to product or service sales. As a result of this revision in categorization, $12.6 million of sales and $9.8 million of cost of sales have been reclassified from products to services in the Condensed Consolidated Statements of Income for the three months ended December 31, 2010 in order to conform to the current year presentation.

In our opinion, all adjustments necessary for a fair presentation of these financial statements have been included, and are of a normal and recurring nature. Operating results for the three month period ended December 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended September 30, 2011.

The preparation of the financial statements in conformity with U. S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 Balance Sheet Details

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

	December 31, 2011	September 30, 2011

Trade and other receivables	$	21,684	$	20,259
Long-term contracts:				
Billed		86,847		89,056
Unbilled		170,960		138,764
Allowance for doubtful accounts		(540)		(395)
Total accounts receivable		278,951		247,684
Less estimated amounts not currently due		(24,140)		(23,700)
Current accounts receivable	$	254,811	$	223,984

The amount classified as not currently due is an estimate of the amount of long-term contract accounts receivable that will not be collected within one year from December 31, 2011 under transportation systems contracts in the U.S., Australia and the U.K. The non-current balance at September 30, 2011 represented non-current amounts due from customers under transportation systems contracts in the same locations.

Note 2 Balance Sheet Details - Continued

Inventories consist of the following (in thousands):

	December 31, 2011	September 30, 2011
Work in process and inventoried costs under long-term contracts	$ 69,751	$ 70,225
Customer advances	(28,708)	(34,582)
Raw material and purchased parts	1,129	1,086
Net inventories	$ 42,172	$ 36,729

At December 31, 2011, work in process and inventoried costs under long-term contracts includes approximately $0.3 million in costs incurred outside the scope of work or in advance of a contract award, compared to $1.2 million as of September 30, 2011. We believe it is probable that we will recover these costs, plus a profit margin, under contract change orders or awards within the next year.

Note 3 Comprehensive Income

Comprehensive income is as follows (in thousands):

	Three Months Ended December 31,	
	2011	2010
Net income	$ 21,487	$ 20,029
Foreign currency translation adjustments	601	1,428
Net unrealized loss from cash flow hedges	(1,160)	(3,663)
Comprehensive income	$ 20,928	$ 17,794

Note 4 Fair Value of Financial Instruments

We carry financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities at cost, which we believe approximates fair value because of the short-term maturity of these instruments. The fair value of long-term debt is calculated by discounting the value of the note based on market interest rates for similar debt instruments. At December 31, 2011, the fair value of our long-term debt was estimated to be approximately $13.0 million compared to a carrying value of $11.8 million. At September 30, 2011, the fair value of our long-term debt was estimated to be approximately $17.5 million compared to a carrying value of $15.9 million. Receivables consist primarily of amounts due from U.S. and foreign governments for defense products and local government agencies for transportation systems. Due to the nature of our customers, we generally do not require collateral. We have limited exposure to credit risk as we have historically collected substantially all of our receivables from government agencies.

The valuation techniques required for fair value accounting are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. The two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.

- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

- Level 3 - Significant inputs to the valuation model are unobservable.

The following table presents assets and liabilities measured and recorded at fair value on our Balance Sheet on a recurring basis (in thousands). The fair value of cash equivalents and short term investments approximates their cost. The fair value of tax exempt bonds are generally determined using standard observable inputs, including reported trades, quoted market prices, broker/dealer quotes, and issuer spreads. The maturities of tax exempt bonds are within the next year. Derivative financial instruments related to foreign currency forward contracts are measured at fair value, the material portions of which are based on active or inactive markets for identical or similar instruments or model-derived valuations whose inputs are observable. Where model-derived valuations are appropriate, the company uses the applicable credit spread as the discount rate. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for counterparties and through periodic settlements of positions.

	December 31, 2011		
	Level 1	**Level 2**	**Total**
Assets			
Cash equivalents - money market funds	$ 251,913	$	$ 251,913
Short-term investments - tax exempt bonds		18,872	18,872
Current derivative assets		1,000	1,000
Noncurrent derivative assets		2,196	2,196
Total assets	$ 251,913	$ 22,068	$ 273,981
Liabilities			
Current derivative liabilities	$	$ 5,955	$ 5,955
Noncurrent derivative liabilities		5,246	5,246
Net assets	$ 251,913	$ 10,867	$ 262,780

	September 30, 2011		
	Level 1	**Level 2**	**Total**
Assets			
Cash equivalents	$ 266,842	$	$ 266,842
Short-term investments - tax exempt bonds		25,829	25,829
Current derivative assets		7,466	7,466
Total assets	$ 266,842	$ 33,295	$ 300,137
Liabilities			
Current derivative liabilities	$	$ 7,522	$ 7,522
Noncurrent derivative liabilities		6,164	6,164
Net assets	$ 266,842	$ 19,609	$ 286,451

Note 5 Financing Arrangements

We have a committed three-year revolving credit agreement with a group of financial institutions in the amount of $150 million, expiring in December 2012. As of December 31, 2011, there were no borrowings under this agreement; however, there were letters of credit outstanding under the agreement totaling $86.6 million, which reduce the available line of credit to $63.4 million.

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Note 6 Pension Plans

The components of net periodic pension benefits costs are as follows (in thousands):

	Three Months Ended December 31,	
	2011	2010
Service cost	$ 126	$ 201
Interest cost	2,384	2,331
Expected return on plan assets	(2,548)	(2,532)
Amortization of actuarial loss	355	213
Administrative expenses	21	25
Net pension cost	$ 338	$ 238

Note 7 Income Taxes

Our effective tax rate for the three months ended December 31, 2011 is lower than the U.S. federal statutory tax rate primarily due to the amount of income earned in foreign tax jurisdictions that is taxed at lower rates than the U.S. federal statutory tax rate, and due to the impact of research and development (R&D) and other income tax credits.

Our effective tax rate for the three months ended December 31, 2011 is higher than our effective tax rate for fiscal 2011. The primary reason for the increase in our estimated fiscal 2012 effective tax rate is due to the expiration of the U.S. federal R&D credit on December 31, 2011. In addition, our fiscal 2011 effective income tax rate was decreased by the retroactive reinstatement of the federal R&D credit in the quarter ended December 31, 2010, which had expired in December 2009. Because the reinstatement was retroactive, in addition to the benefit for the 2011 R&D credit our fiscal 2011 provision also benefitted by $1.5 million for the additional credit that we realized in our fiscal 2010 tax return.

The amount of unrecognized tax benefits was $4.3 million at December 31, 2011 and September 30, 2011, exclusive of interest. The total amount of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate is $4.3 million at December 31, 2011.

As of December 31, 2011, our open tax years in significant jurisdictions include 2006-2010 in the UK and New Zealand and 2008-2010 in the U.S. We believe appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

Note 8 Derivative Instruments and Hedging Activities

We utilize derivative and nonderivative financial instruments, such as foreign currency forwards, foreign currency debt obligations and foreign currency cash balances, to manage our exposure to fluctuations in foreign currency exchange rates. We do not use any derivative financial instruments for trading or other speculative purposes. At December 31, 2011 and September 30, 2011, we had foreign exchange contracts with a notional value of $358.4 million and $290.4 million outstanding, respectively.

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

For the three months ended December 31, 2011 and December 31, 2010, the amount of gains and losses from hedges classified as not highly effective was not significant. There are no significant credit risks related to contingent features in our derivative agreements. The amount of estimated unrealized net losses from cash flow hedges which are expected to be reclassified to earnings in the next twelve months is $3.2 million, net of income taxes, which will be offset by a gain on the underlying exposure.

Note 9 Segment Information

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

	Three Months Ended December 31,			
		2011		2010
Sales:				
Transportation Systems	$	124.0	$	89.4
Defense Systems		86.4		95.8
Mission Support Services		108.1		98.8
Other		0.2		0.4
Total sales	$	318.7	$	284.4
Operating income (loss):				
Transportation Systems	$	15.4	$	15.1
Defense Systems		9.3		8.3
Mission Support Services		4.5		5.1
Unallocated corporate expenses and other		(1.0)		(1.3)
Total operating income	$	28.2	$	27.2

Note 10 - Acquisition

On December 20, 2010 we acquired all of the outstanding capital stock of Abraxas Corporation (Abraxas), a Herndon, Virginia-based company that provides services that are complementary to our Mission Support Services (MSS) business including risk mitigation services, and subject matter and operational expertise for law enforcement and homeland security clients. The results of Abraxas operations have been included in our consolidated financial statements since the acquisition date. For the three months ended December 31, 2011 the amounts of Abraxas net sales and net loss after taxes included in our consolidated statement of income were $19.2 million and $0.5 million, respectively.

The following unaudited pro forma information presents our consolidated results of operations as if Abraxas had been included in our consolidated results since October 1, 2009 (in millions):

	Three Months Ended December 31,	
	2011	**2010**
Net sales	$ 318.7	$ 297.9
Net income attributable to Cubic	$ 21.4	$ 20.0

The pro forma information includes adjustments to give effect to pro forma events that are directly attributable to the acquisition and have a continuing impact including the amortization of purchased intangibles and the elimination of interest expense for the repayment of Abraxas debt. No adjustments were made for transaction expenses, other adjustments that do not reflect ongoing operations or for operating efficiencies or synergies. The pro forma financial information is not necessarily indicative of what the consolidated financial results of our operations would have been had the acquisition been completed on October 1, 2009, and it does not purport to project our future operating results.

Note 11 Legal Matters

In 1997, the Ministry of Defense for the Armed Forces of the Islamic Republic of Iran obtained a United States District Court judgment enforcing an arbitration award in its favor against us of $2.8 million, plus costs and interest related to a contract awarded to us by Iran in 1977. Both parties appealed to the 9th Circuit Court of Appeals. In December 2011, a decision was handed down upholding the arbitration award and requiring the District Court to resolve outstanding issues related to the amount of interest to be paid and whether the plaintiff should be awarded attorney s fees. In a previous year, we recorded a liability for the judgment amount and have accrued interest as of December 31, 2011 for our best estimate of the amount to be paid. We are not able to determine at this time whether the court will award a different amount of interest than we have accrued or whether it will require us to reimburse the plaintiff for attorney s fees; therefore, we have not recorded a liability for these unknown and inestimable amounts as of December 31, 2011. Under a 1979 Presidential executive order, all transactions by United States citizens with Iran are prohibited, however, we have filed an application with the U.S. Treasury Department requesting a license to hand the funds owed over to the District Court. We have not yet received the license from the U.S. Treasury Department, nor has the District Court ruled on these issues.

In November 2011, we received a claim from a public transit authority customer which alleges that the authority incurred a loss of transit revenue due to the inappropriate and allegedly illegal actions of one of our former employees, who is currently in police custody. This individual was employed to work on a contract we acquired in a business combination in 2009 and had allegedly been committing these illegal acts from almost two years prior to our acquisition of the contract, until his arrest in May 2011. The transit system was designed and installed by a company unrelated to us. The transit authority has preliminarily estimated its loss of revenue to be approximately $5 million. The claim seeks recoupment from us, and possibly from the company from which we acquired the contract, of the alleged lost revenue and an unspecified amount of fees and damages, which we are currently unable to estimate. We do not yet have sufficient information to assess the merits or value of the claim, however, insurance may cover all, or a portion, of any losses we could ultimately incur for this matter. No liability for this claim has been recorded as of December 31, 2011.

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

Note 12 Subsequent Events

On January 12, 2012 we entered into a new secured letter of credit facility agreement with a bank related to our letters of credit, which guarantee performance of our obligations to perform under contracts in all of our operating segments. In support of the facility, we placed $68.5 million on deposit 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. In return the bank will reduce associated letter of credit fees, accommodate extended expiration dates for the underlying letters of credit, and pay an interest rate approximating the three month LIBOR on the deposit. The initial term of the facility is one year; however we may choose at any time to terminate the facility, pending the payment of certain breakage fees, and move the associated letters of credit to another credit facility.

We have completed an evaluation of all subsequent events through the issuance date of these consolidated financial statements and concluded no other subsequent events have occurred that require recognition or disclosure.

CUBIC CORPORATION

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

December 31, 2011

Our three primary businesses are in the defense and transportation industries. These are high technology businesses that design, manufacture and integrate complex systems and provide essential services to meet the needs of various federal and regional government agencies in the U.S. and other nations around the world.

Cubic Transportation Systems (CTS) is the leading delivery, integration and IT service provider of automated fare collection systems and turnkey services for public transit authorities worldwide. We provide hardware, software and multiagency, multimodal transportation integration technologies and a full scope of operational services that allow the agencies to efficiently collect fares, manage their operations, reduce shrinkage and make using public transit a more convenient and attractive option for commuters.

Cubic Defense Systems (CDS) is focused on two primary lines of business: Training Systems and Communications. The segment is a diversified supplier of live and virtual military training systems, and communication systems and products to the U.S. Department of Defense, other government agencies and allied nations. We design 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 virtual training systems are aimed at marksmanship, armored vehicle, and tactical missile systems. Our communications products are aimed at intelligence, surveillance, and search and rescue markets. Other product lines include multi-band communication tracking devices, and cross domain hardware solutions to address multi-level security requirements.

Mission Support Services (MSS) 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; risk mitigation services, and subject matter and operational expertise for national agency and homeland security clients; as well as support to field operations, force deployment and redeployment, and logistics.

Consolidated Overview

Sales for the quarter ended December 31, 2011 increased to $318.7 million from $284.4 million last year, an increase of 12%. CTS sales increased 39% and MSS sales increased 9% compared to the first quarter of last year while CDS sales decreased 10%. See the segment discussions following for further analysis of segment sales.

Operating income was $28.2 million in the quarter compared to $27.2 million in the first quarter of last year, an increase of 4%. CDS operating income increased 12% and CTS operating income increased 2% compared to the first quarter of last year, and MSS operating income was 12%

lower. Corporate and other costs for the quarter were $1.0 million in 2011 compared to $1.3 million in 2010.

Net income attributable to Cubic for the first quarter of fiscal 2012 was $21.4 million, or 80 cents per share, compared to $19.9 million, or 74 cents per share last year. Net income increased for the quarter due to the increase in operating income and other income. Included in other income was a net foreign currency exchange gain of $1.9 million in the first quarter of this year compared to a loss of $0.1 million last year, before applicable income taxes. These increases were partially offset by the increase in income tax expense described below.

Our gross margin percentage on product sales decreased to 27% in the first quarter of this year compared to 33% in the first quarter of last year. The decrease in our gross margin percentage on product sales is primarily due to the growth in sales on new CTS design and build contracts that are in an early stage of development and are realizing lower margins than our other, more mature, CTS contracts.

Selling, general and administrative (SG&A) expenses decreased in the first quarter this year to $34.6 million compared to $37.0 million last year. As a percentage of sales, SG&A expenses were 10.9% for the first quarter compared to 13.0% last year. The decrease was due primarily to lower selling costs in the CDS and MSS segments. In addition, SGA expenses in the first quarter of last year included $0.7 million of costs related to the Abraxas acquisition. Company funded research and development expenditures, which mainly relate to new defense technologies we are developing, decreased to $4.9 million for the first quarter compared to $6.3 million last year. Amortization of purchased intangibles increased in the first quarter this year to $4.0 million compared to $2.0 million in the first quarter last year due to the acquisition of Abraxas.

Our projected effective tax rate for fiscal 2012 is 28.9% and is reflected in the tax provision for the first quarter. The projected effective rate for fiscal 2012 is higher than last year s effective rate of 27.0% for the three months primarily due to the expiration of the U.S. federal research and development (R&D) credit on December 31, 2011. In addition, our fiscal 2011 effective income tax rate was decreased by the retroactive reinstatement of the federal R&D credit in the quarter ended December 31, 2010, which had expired in December 2009. Because the reinstatement was retroactive, in addition to the benefit for the 2011 R&D credit our fiscal 2011 provision also benefitted by $1.5 million for the additional credit that we realized in our fiscal 2010 tax return. The effective rate for fiscal 2012 could be affected by, among other factors, the mix of business between the U.S. and foreign jurisdictions, our ability to take advantage of available tax credits and audits of our records by taxing authorities.

Transportation Systems Segment (CTS)

	Three Months Ended December 31, 2011	2010
	(in millions)	
Transportation Systems Segment Sales	$ 124.0	$ 89.4
Transportation Systems Segment Operating Income	$ 15.4	$ 15.1

CTS sales increased 39% to $124.0 million compared to $89.4 million last year. Sales were higher from work on contracts in Australia, a contract in Canada, and our contracts in the U.K. Partially offsetting these increases were lower sales from design and build projects in the U.S. compared to the first quarter last year. The average exchange rates between the prevailing currency in our foreign operations and the U.S. Dollar did not have a material impact on sales when compared to the first quarter of 2011 exchange rates.

Operating income from CTS increased 2% in the first quarter this year to $15.4 million, compared to $15.1 million last year. Higher sales from contracts in Canada and the U.K. contributed to the increase, in addition to improved margins from a service contract in North America. Partially offsetting these increases was cost growth related to a contract in the U.S. In addition, the growth in sales came largely from new contracts that are at an early stage of development, realizing lower margins than our other, more mature, contracts. The average exchange rates between the prevailing currency in our foreign operations and the U.S. Dollar did not have an impact on operating income when compared to the first quarter of 2011 exchange rates.

Defense Systems Segment (CDS)

	Three Months Ended December 31,	
	2011	2010
	(in millions)	
Defense Systems Segment Sales		
Training systems	$ 68.7	$ 82.0
Communications	14.1	11.8
Other	3.6	2.0
	$ 86.4	$ 95.8
Defense Systems Segment Operating Income		
Training systems	$ 8.2	$ 9.8
Communications	3.1	0.8
Other	(2.0)	(2.3)
	$ 9.3	$ 8.3

Training Systems

Training systems sales decreased 16% in the first quarter this year to $68.7 million compared to $82.0 million in the first quarter of last year. Operating income was also down 16% for the quarter from $9.8 million last year to $8.2 million this year. In the first quarter of last year, a delivery of air combat training systems to a U.S. government customer resulted in significant sales and operating income for the quarter. In addition, ground combat training sales and operating income in the U.S. and the Far East were lower for the quarter ended December 31, 2011. Partially offsetting these decreases in the current quarter were higher sales from other air and ground combat training systems contracts and higher operating income from a European contract. Sales and operating income were also higher in this year s first quarter from air combat training system sales to a customer in the Far East.

Communications

Communications sales increased 19% in the first quarter to $14.1 million from $11.8 million last year. Sales were higher for the first quarter from personnel locater systems and power amplifiers, but were lower from data links. Operating income more than tripled to $3.1 million in the first quarter this year from $0.8 million last year. Higher personnel locater systems and power amplifier sales and improved margins from data links contributed to the increase for the quarter.

Other

Included in other are businesses that are developing cross domain and global asset tracking products. In the first three months we continued to invest in the development and marketing of these products, resulting in an operating loss for the quarter.

Mission Support Services Segment (MSS)

	Three Months Ended December 31,			
	2011		2010	
	(in millions)			
Mission Support Services Segment Sales	$	108.1	$	98.8
Mission Support Services Segment Operating Income	$	4.5	$	5.1

Sales from MSS increased 9% to $108.1 million in the first quarter this year, from $98.8 million last year. The acquisition of Abraxas added $19.2 million to sales for the quarter compared to only $1.3 million in the first quarter last year. Sales growth was also driven by increased activity in support of instruction and maintenance of flight simulators. Partially offsetting these sales improvements was a decrease in activity during the first quarter at the Joint Readiness Training Center (JRTC) in Fort Polk, LA., from a contract at the U.S. Army s Quartermaster Center and School, and from other training and education contracts.

MSS operating income decreased 12% to $4.5 million in the first quarter this year from $5.1 million last year. Lower sales from certain higher margin training and education contracts also contributed to the decrease in operating income for the first three months this year. Abraxas incurred an operating loss of $0.8 million for the first quarter this year, which included $2.6 million of amortization of intangible assets. Abraxas incurred an operating loss of $0.8 million in the first quarter last year mainly from acquisition related costs.

Backlog

	December 31, 2011	September 30, 2011
	(in millions)	
Total backlog		
Transportation Systems	$ 1,782.7	$ 1,368.5
Mission Support Services	895.6	932.2
Defense Systems:		
Training systems	471.0	489.1
Communications and electronics	26.3	36.0
Other	6.8	9.7
Total Defense Systems	504.1	534.8
Other Operations	1.2	1.3
Total	$ 3,183.6	$ 2,836.8
Funded backlog		
Transportation Systems	$ 1,782.7	$ 1,368.5
Mission Support Services	240.0	258.8
Defense Systems:		
Training systems	471.0	489.1
Communications and electronics	26.3	36.0
Other	6.8	9.7
Total Defense Systems	504.1	534.8
Other Operations	1.2	1.3
Total	$ 2,528.0	$ 2,163.4

As reflected in the table above, total backlog increased $346.8 million and funded backlog increased $364.6 million from September 30, 2011 to December 31, 2011. The backlog increase at CTS was from a new contract awarded by the Chicago Transit Authority, which added $454 million as of December 31, 2011. Changes in exchange rates between the prevailing currency in our foreign operations and the U.S. Dollar as of the end of the quarter increased backlog by approximately $22.5 million compared to September 30, 2011.

The difference between total backlog and funded backlog represents options under multiyear service contracts. Funding for these contracts comes from annual operating budgets of the U.S. government and the options are normally exercised annually. Options for the purchase of additional systems or equipment are not included in backlog until exercised. In addition to the amounts identified above, we have been selected as a participant in or, in some cases, the sole contractor for several substantial indefinite delivery/ indefinite quantity (IDIQ) contracts. IDIQ contracts are not included in backlog until an order is received. We also have several service contracts in our transportation business that include contingent revenue provisions tied to meeting certain performance criteria. These variable revenues are also not included in the amounts identified above.

Liquidity and Capital Resources

Operating activities used cash of $38.4 million for the first quarter of the fiscal year. Increases in accounts receivable and decreases in accounts payable, other current liabilities and customer advances contributed to the use of cash. All three segments contributed to the use of cash. A significant portion of the cash used was in the transportation segment for expenditures related to large contracts in Australia and Canada.

Investing activities for the three-month period included capital expenditures of $5.2 million and proceeds from sales or maturities of marketable securities of $7.0 million. Financing activities for the three-month period consisted of scheduled payments on our long-term debt of $4.1 million.

We have a committed three-year revolving credit agreement with a group of financial institutions in the amount of $150 million, expiring in December 2012. We have begun discussions with our banks and intend to extend or replace this credit agreement with a facility having a maturity beyond 2012. As of December 31, 2011, there were no borrowings under this agreement; however, there were letters of credit outstanding under the agreement totaling $86.6 million, which reduce the available line of credit to $63.4 million. On January 12, 2012 we entered into a new secured letter of credit facility agreement with a bank related to our letters of credit, which guarantee performance of our obligations to perform under contracts in all of our operating segments. In support of the facility, we placed $68.5 million on deposit 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. In return the bank will reduce associated letter of credit fees, accommodate extended expiration dates for the underlying letters of credit, and pay an interest rate approximating the three month LIBOR on the deposit. This interest rate provides an improvement over the rate earned on our previous investment choices. The initial term of the facility is one year; however we may choose at any time to terminate the facility, pending the payment of certain breakage fees, and move the associated letters of credit to another credit facility.

As of December 31, 2011, $243.9 million of the $308.0 million of our cash, cash equivalents, and short-term investments was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Our financial condition remains strong with working capital of $345.3 million and a current ratio of 2.1 to 1 at December 31, 2011. We expect that cash on hand, cash flows from operations, and our unused lines of credit will be adequate to meet our liquidity requirements for the foreseeable future.

Critical Accounting Policies, Estimates and Judgments

Our financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We continually evaluate our estimates and judgments, the most critical of which are those related to revenue recognition, income taxes, valuation of goodwill, purchased intangibles and pension costs. We base our estimates and judgments on historical experience and other factors that we believe to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known.

Besides the estimates identified above that are considered critical, we make many other accounting estimates in preparing our financial statements and related disclosures. All estimates, whether or not deemed critical affect reported amounts of assets, liabilities, revenues and expenses, as well as disclosures of contingent assets and liabilities. These estimates and judgments are also based on historical experience and other factors that are believed to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known, even for estimates and judgments that are not deemed critical.

For further information, refer to the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended September 30, 2011.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION

This report, including the documents that we incorporate by reference, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to the safe harbor created by those sections. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or our future financial and/or operating performance are not historical and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as may, will, anticipate, estimate, plan, project, continuing, ongoing, expect, believe, intend, predict, potential, opportunity and similar words or ph of these words or phrases. These statements involve estimates, assumptions and uncertainties, including those discussed in Risk Factors in our annual report on Form 10-K for the year ended September 30, 2011, and throughout this filing that could cause actual results to differ materially from those expressed in these statements.

Because the risk factors 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 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 4 - STATEMENT ON DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures which are designed to ensure that information required to be disclosed in our periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Our disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating such controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2011. The evaluation was performed with the participation of senior management of each business segment and key corporate functions, and under the supervision of the CEO and CFO. Based on our evaluation, we concluded that our disclosure controls and procedures were effective as of December 31, 2011.

We routinely review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems and migrating certain processes from our operating units to our corporate shared service center. In addition, if we acquire new businesses, we will review the controls and procedures of the acquired business as part of our integration activities.

There were no changes in our internal control over financial reporting during the most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS

(a) The following exhibits are included herein:

Exhibit No.	**Description**
3.1	Amended and Restated Certificate of Incorporation. Incorporated by reference to Form 10-Q filed for the quarter ended June, 30, 2006, file No. 1-8931, Exhibit 3.1.
3.2	Amended and Restated Bylaws. Incorporated by reference to Form 10-K filed for the fiscal year ended September 30, 2010, file No. 1-8931, Exhibit 3.2.
10.1	2005 Equity Incentive Plan. Incorporated by reference to Form 10-K filed for the fiscal year ended September 30, 2005, file No. 1-8931, Exhibit 10.1.
10.2	Amended Transition Protection Plan. Incorporated by reference to Form 10-K filed for the fiscal year ended September 30, 2007, file No. 1-8931, Exhibit 10.2.
10.3	Credit Agreement dated December 16, 2009. Incorporated by reference from Form 10-Q for the quarter ended December 31, 2009, file No. 001-08931, Exhibit 10.3
10.4	Revised Deferred Compensation Plan. Incorporated by reference to Form 10-Q for the quarter ended March 31, 2008, file No. 1-8931, Exhibit 10.4
10.5	Compensatory Arrangements of Certain Officers. Incorporated by reference to Form 8-K filed February 23, 2011, file No. 1-08931
15	Report of Independent Registered Public Accounting Firm
31.1	Certification of CEO
31.2	Certification of CFO
32.1	CEO Certification
32.2	CFO Certification
101	Financial statements from the Cubic Corporation Quarterly Report of Form 10-Q for the quarter ended December 31, 2011, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated condensed balance sheets, (ii) consolidated condensed statements of income, (iii) consolidated condensed statements of cash flows, and (iv) notes to consolidated financial statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		CUBIC CORPORATION
Date	January 31, 2012	/s/ William W. Boyle William W. Boyle Senior Vice President and CFO
Date	January 31, 2012	/s/ Mark A. Harrison Mark A. Harrison Vice President and Corporate Controller