

CUBIC CORP /DE/
Form 10-Q
February 05, 2009

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, 2008

1-8931

Commission File Number

CUBIC CORPORATION

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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

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 ☒ No ☐

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 ☐ Accelerated filer ☒ Non-accelerated filer ☐ Small Reporting Company ☐

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

Yes ☐ No ☒

As of January 23, 2009, registrant had only one class of common stock of which there were 26,731,987 shares outstanding (after deducting 8,945,120 shares held as treasury stock).

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CUBIC CORPORATION

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(amounts in thousands, except per share data)

| | Three Months Ended December 31, | |
|---|------------------------------------|------------|
| | 2008 | 2007 |
| Net sales: | | |
| Products | \$ 123,077 | \$ 112,347 |
| Services | 121,774 | 90,375 |
| | 244,851 | 202,722 |
| Costs and expenses: | | |
| Products | 94,984 | 84,190 |
| Services | 100,231 | 74,891 |
| Selling, general and administrative | 26,646 | 24,779 |
| Research and development | 1,860 | 1,774 |
| | 223,721 | 185,634 |
| Operating income | 21,130 | 17,088 |
| Other income (expense): | | |
| Interest and dividends | 570 | 1,521 |
| Interest expense | (532) | (732) |
| Other expense | (85) | (306) |
| Minority interest in loss of subsidiary | | 5 |
| Income before income taxes | 21,083 | 17,576 |
| Income taxes | 6,900 | 6,900 |
| Net income | \$ 14,183 | \$ 10,676 |
| Basic and diluted net income per common share | \$ 0.53 | \$ 0.40 |
| Average number of common shares outstanding | 26,727 | 26,722 |

See accompanying notes.

CUBIC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

| | December 31, 2008 (Unaudited) | September 30, 2008 (See note below) |
|--|-------------------------------------|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 91,276 | \$ 112,696 |
| Accounts receivable - net | 275,344 | 268,884 |
| Inventories | 42,658 | 45,118 |
| Deferred income taxes and other current assets | 48,567 | 48,630 |
| Total current assets | 457,845 | 475,328 |
| Long-term contract receivables | 12,500 | 19,930 |
| Property, plant and equipment - net | 51,072 | 53,887 |
| Goodwill | 59,266 | 61,032 |
| Purchased intangibles | 17,619 | 19,060 |
| Deferred income taxes and other non-current assets | 11,496 | 12,015 |
| | \$ 609,798 | \$ 641,252 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 21,439 | \$ 23,288 |
| Customer advances | 64,495 | 74,963 |
| Other current liabilities | 74,094 | 85,832 |
| Income taxes payable | 5,190 | 6,017 |
| Current portion of long-term debt | 5,935 | 6,045 |
| Total current liabilities | 171,153 | 196,145 |
| Long-term debt | 19,124 | 25,700 |
| Other long-term liabilities | 30,105 | 30,555 |
| Shareholders' equity: | | |
| Common stock | 12,485 | 12,485 |
| Retained earnings | 419,051 | 404,868 |
| Accumulated other comprehensive income (loss) | (6,049) | 7,570 |
| Treasury stock at cost | (36,071) | (36,071) |
| | 389,416 | 388,852 |
| | \$ 609,798 | \$ 641,252 |

Note: The balance sheet at September 30, 2008 has been derived from the audited financial statements at that date.

See accompanying notes.

CUBIC CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(in thousands)

| | Three Months Ended December 31, | |
|--|--|-------------------|
| | 2008 | 2007 |
| Operating Activities: | | |
| Net income | \$ 14,183 | \$ 10,676 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,460 | 2,106 |
| Changes in operating assets and liabilities | (13,151) | 14,038 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 4,492 | 26,820 |
| Investing Activities: | | |
| Acquisitions, net of cash acquired | (6,100) | |
| Net additions to property, plant and equipment | (1,448) | (1,828) |
| Proceeds from sales of marketable securities | | 66,300 |
| Purchases of marketable securities | | (39,100) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (7,548) | 25,372 |
| Financing Activities: | | |
| Principal payments on long-term borrowings | (5,568) | (5,605) |
| Other | | 43 |
| NET CASH USED IN FINANCING ACTIVITIES | (5,568) | (5,562) |
| Effect of exchange rates on cash | (12,796) | (1,111) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (21,420) | 45,519 |
| Cash and cash equivalents at the beginning of the period | 112,696 | 73,563 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | \$ 91,276 | \$ 119,082 |

See accompanying notes.

CUBIC CORPORATION

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

December 31, 2008

Note 1 Basis for Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared 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 opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2008 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended September 30, 2008.

The preparation of the financial statements in conformity with U. S. generally accepted accounting principles requires management 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

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

| | December 31, 2008 (unaudited) | September 30, 2008 |
|--|-------------------------------------|-----------------------|
| Trade and other receivables | \$ 8,352 | \$ 9,014 |
| Long-term contracts: | | |
| Billed | 121,440 | 107,225 |
| Unbilled | 158,678 | 177,453 |
| Allowance for doubtful accounts | (626) | (4,878) |
| Total accounts receivable | 287,844 | 288,814 |
| Less estimated amounts not currently due | (12,500) | (19,930) |
| Current accounts receivable | \$ 275,344 | \$ 268,884 |

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, 2008 under transportation systems contracts in Australia and the U.K. and a defense contract in Canada. The non-current balance at September 30, 2008 represented non-current amounts due from transportation systems contracts in the U.S., Australia and the U.K. and a defense contract in Canada.

Note 2 Balance Sheet Details - Continued

Inventories consist of the following (in thousands):

| | December 31, 2008 (unaudited) | September 30, 2008 |
|---|--|-------------------------------|
| Finished products | \$ 47 | \$ 172 |
| Work in process and inventoried costs under long-term contracts | 62,711 | 64,179 |
| Customer advances | (21,605) | (20,783) |
| Raw material and purchased parts | 1,505 | 1,550 |
| Total inventories | \$ 42,658 | \$ 45,118 |

At December 31, 2008, work in process and inventoried costs under long-term contracts includes approximately \$2.4 million in costs incurred in advance of contract award or outside the scope of work on several contracts in the defense segment, compared to \$1.6 million as of September 30, 2008. Management believes it is probable that these costs, plus appropriate profit margin, will be recovered under contract change orders or upon the award of new contracts within the next year.

Note 3 Comprehensive Income

Comprehensive income is as follows (in thousands):

| | Three Months Ended December 31, 2008 | 2007 |
|--|---|-------------|
| Net income | \$ 14,183 | \$ 10,676 |
| Foreign currency translation adjustments | (13,545) | (1,058) |
| Net unrealized gain (loss) from cash flow hedges | (74) | 34 |
| Comprehensive income | \$ 564 | \$ 9,652 |

Note 4 Segment Information

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

| | Three Months Ended December 31, | |
|---------------------------------|--|-------------|
| | 2008 | 2007 |
| Sales: | | |
| Defense | \$ 169.8 | \$ 146.2 |
| Transportation systems | 74.4 | 56.5 |
| Corporate and other | 0.7 | |
| Total sales | \$ 244.9 | \$ 202.7 |
| Operating income (loss): | | |
| Defense | \$ 12.7 | \$ 9.8 |
| Transportation systems | 10.0 | 7.3 |
| Corporate and other | (1.6) | |
| Total operating income | \$ 21.1 | \$ 17.1 |

Note 5 Financing Arrangements

The Company has a committed five-year revolving credit agreement with a group of financial institutions in the amount of \$150 million, expiring in March 2010. As of December 31, 2008, there were no borrowings under this agreement; however, there were letters of credit outstanding under the agreement totaling \$20.3 million.

Note 6 Pension Plans

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

| | Three Months Ended December 31, | |
|--------------------------------|--|-------------|
| | 2008 | 2007 |
| Service cost | \$ 594 | \$ 888 |
| Interest cost | 2,550 | 2,518 |
| Expected return on plan assets | (2,455) | (3,261) |
| Amortization of: | | |
| Actuarial loss (gain) | 105 | (53) |
| Administrative expenses | 44 | 30 |
| Net pension cost | \$ 838 | \$ 122 |

Note 7 New Accounting Pronouncements

During the quarter ended December 31, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. As of December 31, 2008, the Company had foreign exchange forward contracts that are valued based on inputs that are observable in the market. These assets and liabilities fall in the Level 2 hierarchy established by SFAS 157, and are immaterial. Therefore, the adoption of SFAS 157 did not have a material impact on the Company's results of operations or financial position.

During the quarter ended December 31, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The adoption of SFAS 159 did not have a material impact on the Company's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (revised 2007)*, which is effective for fiscal years beginning after December 15, 2008, which for the Company is the fiscal year beginning October 1, 2009. This statement applies to all transactions or other events in which an entity obtains control of one or more businesses. This statement applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. Following adoption, the resolution of existing balances related to uncertain tax positions from prior acquisitions that differ from recorded amounts will be adjusted through earnings, rather than goodwill. Management does not expect that the adoption of SFAS 141(R) will have a material impact on the Company's results of operations or financial position. Adoption of this statement is, however, expected to have a significant effect on how acquisition transactions subsequent to October 1, 2009, are reflected in the financial statements.

In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which is effective for fiscal years beginning after December 15, 2008, which for the Company is the fiscal year beginning October 1, 2009. This statement requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. Management does not expect that the adoption of SFAS 160 will have a material impact on the Company's consolidated results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, which is effective for fiscal years and interim periods beginning after November 15, 2008, which for the Company is the quarter ending March 31, 2009. This statement requires enhanced disclosures about an entity's financial position, financial performance, and cash flows. The statement requires that objectives for using derivative instruments be disclosed in terms of underlying risks and accounting designation. Management does not expect that the adoption of SFAS 161 will have a material impact on the Company's results of operations or financial position.

Note 8 Income Taxes

The amount of unrecognized tax benefits determined in accordance with Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), increased by \$0.1 million during the first three months of fiscal 2009 to \$5.9 million, exclusive of interest. The total amount of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate is \$3.0 million at December 31, 2008.

As of December 31, 2008, the Company's open tax years in significant jurisdictions include 2005-2008 in both the U.S. and the U.K. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

The Company continues to report income tax-related interest income or expense and penalties in income tax expense in the Condensed Consolidated Statement of Income. The amount of net interest and penalties recognized as a component of income tax expense during the three months ended December 31, 2008 was not material. Interest and penalties accrued at December 31, 2008 amounted to \$0.5 million.

During the three months ended December 31, 2008, the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 reinstated the U.S. federal Research and Experimentation (R&E) tax credit, retroactive to January 1, 2008. As a result, the effective tax rate for the three months ended December 31, 2008 reflected a \$0.8 million tax benefit related to fiscal 2008 R&E expenditures.

Note 9 Legal Matters

In December 2008, the Company was named in a purported class-action suit in the U.S. District Court, Southern District, CA, seeking reclassification of certain employees working on a U.S. Government subcontract from salaried to hourly, overtime pay, back pay and damages under a variety of theories for violation of California and Federal labor and employment laws. The complaint alleges the value of these claims could exceed \$5 million. Management believes the allegations have little, if any, merit and plans to vigorously defend the Company against these claims. No court date has been established while the court reviews jurisdictional issues. Management has made an indemnification demand on the prime contractor for damages that may arise from this action. Management intends also to work with the U.S. Government to rectify this litigation. No liability for this claim has been recorded as of December 31, 2008.

CUBIC CORPORATION

**ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

December 31, 2008

Our two 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.

Our defense segment is a diversified supplier of constructive, live and virtual military training systems, services 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 engagement and virtual simulation systems; and precision gunnery solutions. Our services are focused on training, mission support, computer simulation training, distributed interactive simulation, development of military training doctrine, force modernization services for NATO entrants and field operations and maintenance. Our communications products are aimed at intelligence, surveillance, and search and rescue markets.

Our transportation systems segment develops and delivers innovative fare collection systems for public transit authorities worldwide. We provide hardware, software and multi-agency, multimodal transportation integration technologies and 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.

Consolidated Overview

Sales for the first quarter ended December 31, 2008 increased to \$244.9 million compared to \$202.7 million last year, an increase of 21%. Defense sales increased 16% compared to last year, and transportation systems sales increased by 32%. Of the increase in total sales, \$17.5 million, came from the company we acquired in late fiscal 2008, Omega Training Group (Omega), and is included in the defense segment results. See the segment discussions following for further analysis of segment sales.

Operating income increased 23% to \$21.1 million in the first quarter compared to \$17.1 million in the first quarter of last year. Defense operating income increased 30% while transportation systems operating income increased 37%. Also included in operating income were corporate and other costs of \$1.6 million this year, compared to zero in the first quarter of last year. These costs included a \$0.8 million investment in the development and marketing of new security related technologies. Of the increase in total operating income for the quarter, \$1.2 million came from Omega and is included in the defense segment results. See the segment discussions following for further analysis of segment operating income.

Selling, general and administrative (SG&A) expenses increased in the first quarter of this year to \$26.6 million compared to \$24.8 million last year, but as a percentage of sales, decreased from 12.2% to 10.9%. All of the increase in SG&A expenses came from the newly acquired company mentioned above, including amortization of purchased intangibles of \$1.4 million. Company funded research and development expenditures were up only slightly in the first quarter compared to last year, however, the focus shifted to transportation and security related projects with less invested this year in defense related technologies.

Our projected effective tax rate for fiscal 2009 is 37.3%, including expected benefits from the research and experimentation (R&E) credit that was reinstated by the U.S. Congress in October 2008. The first quarter tax provision also benefited from the retroactive reinstatement of the R&E credit to January 1, 2008, which reduced the provision by approximately \$0.8 million. The effective rate for fiscal 2009 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.

Net income for the first quarter of fiscal 2009 increased to \$14.2 million, or 53 cents per share, compared to \$10.7 million, or 40 cents per share last year as a result of the increase in operating income and the tax benefit described above, partially offset by a decrease in investment income resulting primarily from lower interest rates, as most of our cash is now invested in government-backed obligations.

Defense Segment

| | Three Months Ended December 31, | |
|--|------------------------------------|----------|
| | 2008 | 2007 |
| | (in millions) | |
| <u>Defense Segment Sales</u> | | |
| Mission support services | \$ 103.8 | \$ 72.3 |
| Training systems | 53.8 | 62.9 |
| Communications | 11.9 | 8.8 |
| Tactical systems and other | 0.3 | 2.2 |
| | \$ 169.8 | \$ 146.2 |
| <u>Defense Segment Operating Income</u> | | |
| Mission support services | \$ 7.5 | \$ 5.5 |
| Training systems | 6.1 | 5.5 |
| Communications | | (0.8) |
| Tactical systems and other | (0.9) | (0.4) |
| | \$ 12.7 | \$ 9.8 |

Mission Support Services

Sales from Mission Support Services increased 44% to \$103.8 million in the first quarter of this year, from \$72.3 million last year. Of this increase \$17.5 million came from Omega, the company acquired late last fiscal year. Higher sales also came from an increase in activity during the first quarter at the Joint Readiness Training Center (JRTC) in Fort Polk, LA. and from a contract at the U.S. Army's Quartermaster Center and School.

Mission Support Services operating income increased 36% to \$7.5 million in the first quarter of this year from \$5.5 million in the first quarter of last year. Of this increase, \$1.2 million came from Omega, net of amortization of purchased intangibles of \$1.4 million. Higher sales from the JRTC also resulted in higher operating income; however, this was more than offset by lower profits from our U.S. Marine Corp. program, as we started a new five year contract cycle with lower margins than previously realized. During the quarter we received a contract modification related to the completed U.S. Marine Corp. contract that reimbursed us for out-of-scope costs expensed last year, adding \$1.2 million to operating income.

Training Systems

Training systems sales decreased from \$62.9 million in the first quarter of last year to \$53.8 million this year, a decrease of 14%. Sales were lower from the Joint Strike Fighter (JSF) development contract and the P5 air combat training system contract. Sales were also lower from several ground combat training systems and electro-optics (laser-based tactical engagement systems) contracts during the quarter. Sales increased for the quarter from small arms training systems.

Training systems operating income increased 11% from \$5.5 million in the first quarter of last year to \$6.1 million this year. The increase in sales of small arms training systems added to operating profits for the quarter, in addition to the sale of spare parts for an air combat training system in the Far East. Last year's first quarter had also included costs incurred during a plant shutdown resulting from the San Diego fires in October 2007. Partially offsetting these profit improvements were additional costs incurred on two electro-optics contracts during the first quarter of this year.

Communications

Communications sales were \$11.9 million in the first quarter of 2009, an increase of 35% from \$8.8 million in the same quarter last year. A settlement agreement reached in the first quarter with the U.S. Navy on a data link development contract added \$3.3 million to sales for the quarter, accounting for the increase. Sales decreased from the sale of personnel locator systems, partially offset by higher sales from data link contracts, in addition to the settlement mentioned above.

Operating results from communications were break-even for the first quarter of this year compared to an operating loss of \$0.8 million for the first quarter of last year. The operating loss last year came primarily from a data link development contract for unmanned aerial vehicles in the U.K. In the current year, operating income from the sale of power amplifiers was offset by cost growth from a data link development contract in the U.S. and a loss from personnel locator systems due to very low sales volume in the quarter. The settlement agreement with the U.S. Navy referred to above had no significant impact on operating income for the quarter.

Transportation Systems Segment

| | | |
|---------------|--|-------------|
| | Three Months Ended December 31, | |
| 2008 | | 2007 |
| (in millions) | | |

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| | | | | |
|---|----|------|----|------|
| Transportation Segment Sales | \$ | 74.4 | \$ | 56.5 |
| Transportation Segment Operating Income | \$ | 10.0 | \$ | 7.3 |

Transportation segment sales increased from \$56.5 million in the first quarter of last year to \$74.4 million this year, an increase of 32%. Sales increased primarily in North America from a fare collection development contract awarded last year and from the sale of spare parts. Sales to train operating companies in the U.K. also increased over the first quarter of last year.

Operating income from transportation systems increased 37% in the first quarter from \$7.3 million last year to \$10.0 million this year. Higher profits came from increased spares sales in the U.S. and increased sales to train operating companies in the U.K. During the first quarter, Transport for London (TfL) awarded Cubic directly a new three year contract for the period from August 2010 to August 2013 that includes virtually all of the services currently being performed under the PRESTIGE contract by our 37.5% owned subsidiary, TranSys, through Cubic and the other primary shareholder. At the same time, an agreement was reached that resolves several disputed issues with the other primary shareholder of TranSys. Settlement agreements were also reached during the quarter with two other customers to restructure our contracts with them. The two contract restructurings and the dispute resolution added a net \$1.6 million to operating income for the quarter. As a result of one of the contract restructurings, we wrote off accounts receivable of \$4.0 million against the associated allowance for doubtful accounts, resulting in no impact on operating income.

A lower average exchange rate between the British Pound and the U.S. Dollar in the current quarter compared to the first quarter of 2008, decreased sales by \$9.6 million and operating income by \$2.5 million in the quarter.

Backlog

| | December 31, 2008 | September 30, 2008 |
|--------------------------------|----------------------|-----------------------|
| | (in millions) | |
| Total backlog | | |
| Transportation systems | \$ 653.6 | \$ 480.6 |
| Defense: | | |
| Mission support services | 799.5 | 880.0 |
| Training systems | 341.8 | 363.6 |
| Communications and electronics | 45.4 | 45.9 |
| Tactical systems and other | 2.4 | 2.4 |
| Total defense | 1,189.1 | 1,291.9 |
| Total | \$ 1,842.7 | \$ 1,772.5 |

| | | |
|--------------------------------|------------|------------|
| Funded backlog | | |
| Transportation systems | \$ 653.6 | \$ 480.6 |
| Defense: | | |
| Mission support services | 160.8 | 180.6 |
| Training systems | 341.8 | 363.6 |
| Communications and electronics | 45.4 | 45.9 |
| Tactical systems and other | 2.4 | 2.4 |
| Total defense | 550.4 | 592.5 |
| Total | \$ 1,204.0 | \$ 1,073.1 |

As reflected in the table above, total backlog increased \$70.2 million at December 31, 2008 compared to September 30, 2008. Transportation systems backlog increased \$173.0 million and defense backlog decreased \$102.8 million during the quarter. The new contract awarded by TfL added \$255 million (£170 million) to transportation systems backlog during the quarter, however, a lower exchange rate between the British Pound and the U.S. Dollar as of the end of the quarter decreased backlog by approximately \$50 million compared to September 30, 2008. Funded backlog increased \$130.9 million during the period, with transportation systems increasing \$173.0 million and defense funded backlog decreasing by \$42.1 million.

In defense, the difference between total backlog and funded backlog represents options under multi-year 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 nor are indefinite delivery, indefinite quantity contracts until an order is received.

Liquidity and Capital Resources

Operating activities provided cash of \$4.5 million for the first quarter. Net income for the period was partially offset by a reduction in customer advances and other current liabilities and an increase in accounts receivable. Positive operating cash flows came from the transportation systems segment while defense cash flows were negative for the quarter. A receipt of \$9.8 million that was due from the U.S. Government during the quarter was delayed due to an administrative error. This amount was received subsequent to the end of the quarter.

Investing activities for the three-month period consisted of capital expenditures of \$1.4 million and the final payment related to our fiscal year 2008 acquisition of Omega, amounting to \$6.1 million. Financing activities for the quarter consisted of scheduled payments on our long-term debt of \$5.6 million.

A significantly lower exchange rate between foreign currencies, especially the British Pound, and the U.S. Dollar resulted in a decrease of \$12.8 million to our cash balance as of December 31, 2008 compared to September 30, 2008, and a decrease to Accumulated Other Comprehensive Income of \$13.5 million during the quarter. Although this does not directly impact liquidity, if these exchange rates remain low or continue to decrease, there will be an impact on our sales and operating income, as noted in the transportation systems section above. This may also influence our future decisions to pay dividends from our foreign subsidiaries to the U.S. parent company and potentially decrease working capital available in the U.S.

Our financial condition remains strong with working capital of \$286.7 million and a current ratio of 2.7 to 1 at December 31, 2008. We expect that cash on hand 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 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 the Company's annual report on Form 10-K for the year ended September 30, 2008.

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 phrases. These statements involve estimates, assumptions and uncertainties, including those discussed in Risk Factors in the Company's annual report on Form 10-K for the year ended September 30, 2008, 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, including internal control over financial reporting, which are designed to ensure that information required to be disclosed in our periodic filings with the SEC is reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded. 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 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.

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2008. 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, 2008.

The Company has made changes to its internal control over financial reporting in connection with a transition to a new accounting software system in its Mission Support Services business. During fiscal 2009, the Company established additional temporary compensating controls to support the Company's internal control over financial reporting while the transition to the new accounting software system is in process. The Company expects to maintain certain of these additional temporary compensating controls until implementation of the new system is complete. Except for those made in connection with the new accounting software system, there were no other changes in the Company's internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, its 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 | Bylaws. Incorporated by reference to Form 10-K filed for the fiscal year ended September 30, 2004, file No. 1-8931, Exhibit 3. |
| 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 March 10, 2005. Incorporated by reference to Form 10-Q for the quarter ended March 31, 2005, file No. 1-8931, Exhibit 10. |
| 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 |
| 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 |

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 February 4, 2009

/s/ William W. Boyle
William W. Boyle
Senior Vice President and CFO

Date February 4, 2009

/s/ Mark A. Harrison
Mark A. Harrison
Vice President and Corporate Controller