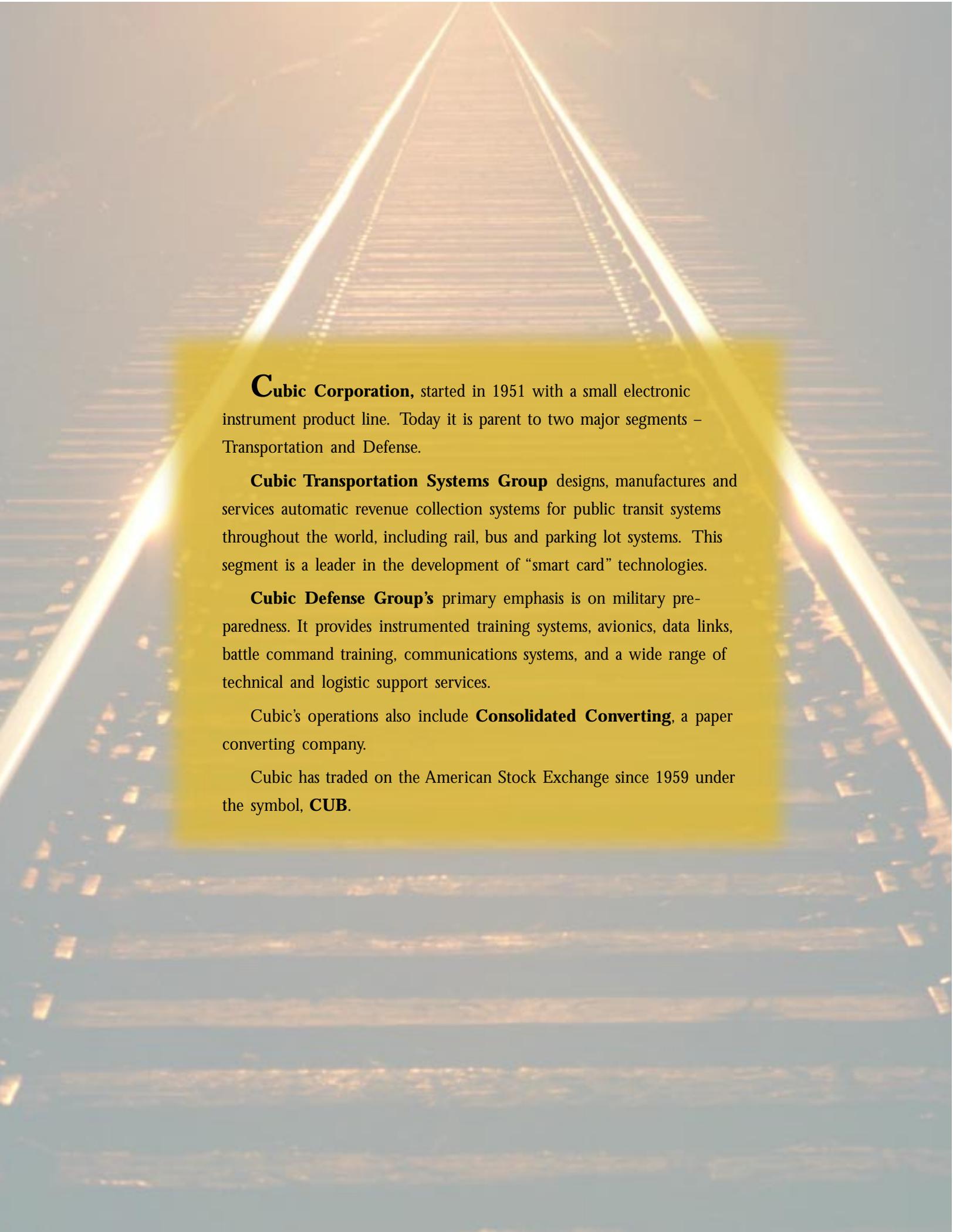


2001 ANNUAL REPORT



50

YEARS

An aerial photograph of a multi-lane highway stretching into the distance under a clear sky. A semi-transparent yellow rectangular box is centered over the middle of the road, containing text. The perspective is from a high angle, looking down the length of the highway.

Cubic Corporation, started in 1951 with a small electronic instrument product line. Today it is parent to two major segments – Transportation and Defense.

Cubic Transportation Systems Group designs, manufactures and services automatic revenue collection systems for public transit systems throughout the world, including rail, bus and parking lot systems. This segment is a leader in the development of “smart card” technologies.

Cubic Defense Group’s primary emphasis is on military preparedness. It provides instrumented training systems, avionics, data links, battle command training, communications systems, and a wide range of technical and logistic support services.

Cubic’s operations also include **Consolidated Converting**, a paper converting company.

Cubic has traded on the American Stock Exchange since 1959 under the symbol, **CUB**.

DIRECTORS and OFFICERS

WALTER J. ZABLE
*Chairman of the Board,
President and Chief Executive Officer
(Executive Committee)*

WALTER C. ZABLE
*Vice Chairman of the Board,
Vice President
(Executive Committee)*

WILLIAM W. BOYLE
*Director
Vice President and
Chief Financial Officer*

RICHARD C. ATKINSON
*Director
President of the University of California
(Audit and Compliance Committee)*

ROBERT T. MONAGAN
*Director
Counselor
(Executive Compensation Committee,
Nominating Committee,
Audit and Compliance Committee)*

**VICE ADM. RAYMOND E. PEET,
USN (RET.)**
*Director
(Executive Committee,
Nominating Committee,
Audit and Compliance Committee)*

THOMAS A. BAZ
Vice President and Corporate Controller

MICHAEL DAVID
*Vice President - International Business
Development*

RAYMOND L. deKOZAN
Chairman, Cubic Transportation Systems

GERALD R. DINKEL
*Vice President and Chief Executive
Officer, Defense Group*

MARK A. HARRISON
*Vice President - Financial Planning and
Accounting*

KENNETH A. KOPF
Vice President and General Counsel

BERNARD A. KULCHIN
Vice President - Human Resources

WILLIAM C. STEWART, JR.
Vice President and Secretary

JOHN D. THOMAS
Vice President Finance and Treasurer

FEATURES 2001

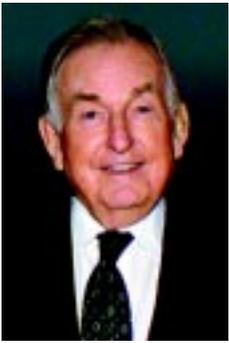


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From the Chairman



Events of 2001, particularly the tragic acts of terrorism on September 11, renewed our resolve at Cubic to provide products and

services that ensure our military's preparedness and seal our nation's sense of security at home. Cubic is

ened focus since September 11, coupled with Cubic's unique position of having the largest installed base of contactless smart card users in the U.S., this presents a significant opportunity for the company to expand into this new business area.

Our Defense Group is similarly positioned to answer the nation's need for improved readiness and warfighting equip-

basis of significant future business opportunities.

Throughout the year, Cubic won important new business and continued to make progress on projects initiated in prior years. Cubic Applications, Inc. won a contract earlier in the fiscal year, valued at \$80 million, to provide mission support for the Joint Readiness Training Center at Fort Polk, La. Under the contract, we



uniquely positioned to provide the kinds of products and services that have perhaps never been more important to citizens of the United States and our allies. It is, indeed, a matter of course that we should undertake projects that strengthen our military and tighten homeland security.

Even prior to the events of September 11, we began work to pursue applications of our smart card technology beyond transit. It involved using Cubic's GO CARD® technology for access control and identification purposes on several small pilot projects for government customers. We are developing a new, larger capacity smart card capable of incorporating biometric features such as fingerprint and facial recognition. Given the height-

ment and technologies. Cubic's products and services are already playing a critical role in the war on terrorism. I am proud to say Cubic's Personnel Locator System is flying aboard nearly all of the search-and-rescue aircraft used by the U.S. military. The jam-resistant Cubic-built data link used by the Joint Surveillance Target Attack Radar system (Joint STARS) is allowing intelligence and targeting data to be transferred securely between Joint STARS aircraft and Army mobile ground stations. Cubic Defense Systems won additional business this year under its contract to provide data links for Joint STARS and introduced new data link products, which form the

will provide advanced collective training to light infantry, airborne, air assault and special operations forces.

There is continued interest in Cubic's MILES laser-based ground combat training system and the company's next-generation products. This year, we received contracts totaling \$21 million for additional MILES 2000 equipment, to be delivered to the U.S. Army installation at Fort Lewis, Washington, and the U.S. Air Force. While we continue to work to resolve issues that accounted for last year's reserve, we are moving forward, anticipating continued demand for our product, and I am delighted that customers are pleased with Cubic's MILES systems.

Our work in London is progressing on schedule. Under the PRESTIGE contract, we are upgrading and adding to the automated fare collection system which we installed in the late 1980's. This results in a new, modern, state-of-the art system employing smart cards for many applications and provides a seamless link between the London Underground, buses and com-

contract awarded this year has put us in the first phase of a plan to integrate electronic ticketing technology in the Rhein-Main Region of Germany, one of that country's most populous regions. We are excited that this contract has given us entrée into Germany, which could represent a significant growth opportunity for us. In the U.S., Cubic strengthened its position as an industry leader with

and build on existing business. Cubic is well positioned to win both transit and non-transit based access control business into the future.

When people ask why things are looking good for the company, I give them a simple answer: "good management." I am pleased that our leadership is focused on the bottom line. Our future is bright. As our nation puts re-



When people ask why things are looking good for the company, I give them a simple answer: "good management."



muter railways. Most of the system, passenger gates, touch screen ticket vendors, and bus equipment have been completed and in operation for a year or more. Extensive testing has been conducted on the smart card in operational service, and the system, including introduction of the smart cards into revenue service, will be completed in 2002. But this is not the end and, in fact, is just a beginning. With PRESTIGE in place and fully operational, the door will be open to substantial new opportunities.

Our transportation segment also won a fare collection contract for the city of Hanau in Germany, which could lead to another PRESTIGE-type contract. The

the win of contracts linking, on a regional basis, multiple transit agencies in the Washington-Baltimore area.

This year, both segments of our business experienced profit improvements. The company's defense segment is well positioned to win future contracts for air and ground combat training systems and services, avionics, data links and other communications products.

Demand for automatic revenue collection systems for public transit has never been greater. With our leadership in the market, particularly in the smart card arena and regional fare collection expansion, we expect to win important new contracts next year

sources into homeland security and the war against terrorism, Cubic's technologies have never been more in demand. Our competitive position is very strong, and our operations are running more efficiently, as reflected in our earnings.

Walter J. Zable

Walter J. Zable
December 17, 2001

FINANCIAL HIGHLIGHTS AND SUMMARY OF CONSOLIDATED OPERATIONS

(amounts in thousands, except per share data)

	Years Ended September 30,				
	2001	2000	1999	1998	1997
Results of Operations:					
Sales	\$ 501,679	\$ 531,516	\$ 510,759	\$ 414,136	\$ 388,154
Cost of sales	385,569	449,913	404,144	325,138	296,991
Selling, general and administrative expenses	76,052	76,016	75,725	77,721	66,349
Interest expense	3,601	3,729	4,313	1,962	1,837
Income taxes (benefit)	10,266	(433)	7,482	154	6,598
Net income	20,842	674	14,008	889	12,193
Average number of shares outstanding	8,907	8,907	8,907	8,917	8,975
Per Share Data:					
Net income	\$ 2.34	\$ 0.08	\$ 1.57	\$ 0.10	\$ 1.36
Cash dividends	0.38	0.38	0.38	0.38	0.38
Year-End Data:					
Shareholders' equity	\$ 190,895	\$ 176,023	\$ 182,965	\$ 173,552	\$ 175,320
Equity per share	21.43	19.76	20.54	19.48	19.60
Total assets	341,347	322,350	330,161	293,991	282,282
Long-term debt	50,000	50,000	50,000	5,000	10,000

This summary should be read in conjunction with the related consolidated financial statements and accompanying notes.

MARKET AND DIVIDEND INFORMATION

Quarter ended:	<u>Sales Price of Common Shares</u>				<u>Dividends per Share</u>	
	<u>2001</u>		<u>2000</u>		<u>2001</u>	<u>2000</u>
	High	Low	High	Low		
December 31	\$37.50	\$23.88	\$23.00	\$19.00		
March 31	30.25	23.00	27.13	21.00	\$.19	\$.19
June 30	31.85	25.50	24.44	17.63		
September 30	34.50	27.25	26.00	19.38	\$.19	\$.19



50 YEARS AND NOT COUNTING...

Ask Cubic President and CEO Walter J. Zable when he plans to retire, and you'll get a one-liner. "What do you mean? Retire at 39!"

The man who founded Cubic Corporation 50 years ago is still the corporation's president and chief executive officer. A College Football Hall of Famer who graduated the College of William and Mary with majors in physics and math, Zable is a classic self-made man. He is the picture of the American work ethic, physically fit and tenacious as ever.

"The electronics technology that supports our products, whether defense or transportation related, is exciting," Zable said. "There's always a new application or product that keeps me interested in seeing how it will help us grow the business." Zable appreciates and rewards innovative ideas.

"We're doing a lot of good things in terms of getting both groups – defense and transportation – to see how they can produce more and become more efficient by working together, particularly in the areas of communications and smart card-based security applications," he said.

Cubic Corporation is firmly entrenched in the defense and public transit automated fare collection

markets. Good instinct, guts and Depression era conservatism guide Zable's business decisions. The company has always focused on using innovative engineering and technology to solve tough problems for its customers.

"We are proud of our accomplishments. Through calculated risk and good management, we built our transit business from one contract in 1972 into the number one provider of automated fare collection in the world. Today, this business segment contributes significantly to the corporation and shareholder value," Zable said. "In defense, our breakthrough innovations in air combat maneuvering instrumentation and high performance, jam-resistant data links have led to nearly 30 years of solid business, and the end is still not in sight."

The way Zable sees the business, every day presents a new opportunity. His 2002 calendar is already filling with domestic and international visits — not for leisure, mind you, but for trade shows and meetings with company management and customers.

"There's too much to do to rest," he said. "Doing well on a program is no time to put your feet up on the desk. That's when you should be asking, 'What's next?'"

If business and nature have anything in common, one might make an analogy between successful companies and plant or animal species that survive evolutionary challenges. In the story of business evolutionism, Cubic Transportation Systems is the “fittest,” the single end-to-end public transit fare collection provider that has seen competition — large and small — come and go, and over the years has remained the market leader.

Ask those who were there in the beginning, 30 years ago, when Cubic Corporation acquired Western Data Products, a small Los Angeles spin-off of Litton Industries. Those who are still with Cubic today will tell you Cubic Transportation Systems, which that small company has become, is a classic business example of Darwin’s

“Automatic fare collection is not for amateurs. It is serious business that has significant ramifications for the infrastructure of major cities,” said Ray deKozan, chairman, Cubic Transportation Systems. “The bigger companies thought it would be easy. They were wrong. The smaller companies simply did not have the resources to survive and serve the customer’s needs.”

“During the past fiscal year, we watched another company, a truly

Years of Commitment Make

CUBIC TRANSPORTATION SYSTEMS

the Clear Market Leader

theory of survival. Three years after Cubic acquired Western Data Products, the transportation systems subsidiary won a contract to install an automated fare collection (AFC) system for the Bay Area Rapid Transit (BART) district in San Francisco. Although many companies provide one or two products — turnstiles or ticket vending machines, software, fareboxes, etc. — Cubic remains the only full service public transit fare collection company in the world. Cubic is the world leader in public transit fare collection technology, systems and service.

Automatic fare collection provides sales distribution points, access control, accounting data, and passenger usage statistics — information that is the life blood of a transit authority.

great company, leave the market after a brief fling. The fact is, public transit authorities are very tough customers,” deKozan added.

Today, fare collection remains Cubic Transportation Systems’ core business.

“We do it all; we are a full service company providing AFC systems end-to-end, from design to software creating, manufacturing to installation, integration to maintenance,” deKozan said. “It’s a specialized business. We understand how to apply the technology. It’s why we’re number one, because along the way, we learned the business better than our competition did.”





“Automatic fare collection is not for amateurs. It is serious business that has significant ramifications for the infrastructure of major cities.”

—Ray deKozan



Cubic’s systems are customized from a set of proven reliable building blocks. Using those fundamental engineering designs, the company provides custom-configured, packaged, stylized equipment and unique applications software to support each of its customer’s operational objectives.

“Moving forward, we will do as we have this year and in the past. We will adhere to our principles of building long-term relationships with our customers by serving them well, never promising the unrealistic and always keeping our commitments,” deKozan said.

“After working with customers over a long period of time, you build confidence. “You must enter a job for the long haul. That’s the way to ensure customers keep coming back,” deKozan said.

Cubic planted roots in San Francisco 27 years ago, Washington, D.C. 25 years

ago, New York 23 years ago, Chicago 15 years ago, and began working in London in the late 1970’s. The Company, since its inception, has received contracts totaling more than \$3 billion.

New Office in Boston

Cubic Transportation Systems recently opened an office in Boston. The company is positioning itself to support potential opportunities for “smart” transit ticketing systems, in anticipation of a request for proposal from Massachusetts Bay Transportation Authority to upgrade ticketing for the Boston “T,” the nation’s oldest and fourth largest transportation system.

A Pilot Program in Germany’s Frankfurt Region

Earlier this year, the company began phase one of a plan to integrate electronic ticketing technology in the Rhein-Main Region of Germany, one of that country’s most populous regions.

“The award of the contract to Cubic is a key milestone of our objective to serve the German market,” deKozan said.

As part of Germany’s policy to improve mobility and public transport, the Rhein-Main Verkehrsverbund (RMV), the region’s transport agency (serving 1.2 billion passengers-a-year) is implementing various advanced technology projects. One of the most important projects is a state-of-the-art electronic ticketing system for the city of Hanau. Hanau is 20 km east of Frankfurt and forms the eastern end of a vital transportation corridor for the Rhein-Main region.



Cubic Transportation Systems, together with its partner, T Systems (Deutsche Telecom) is providing the ticketing system for Hanau.

Smart Relationship Reaps Rewards for Washington Metro Area

The Washington Metropolitan Area Transportation Authority (WMATA) received global recognition for its Cubic-developed smart card-based fare collection system. The Smart Card Alliance awarded WMATA the “2001 Outstanding Smart Card Application Award” for the system the transit authority calls, “SmarTrip®.”

Put in place by Cubic Transportation Systems nearly three years ago, the SmarTrip program, which utilizes Cubic’s GO CARD®, is the nation’s first smart card-based mass transit fare collection system. It already has

In January, it won a \$20 million contract that put in place the foundation for the nation’s first regional interstate “touchless” mass transit ticketing system. WMATA named Cubic the prime contractor for a new regional program, linking the transit authority’s buses serving Washington, D.C. and parts of Maryland and Virginia with the Metro’s existing SmarTrip fare collection system.

A few months later, Cubic announced it had won a \$22 million contract to provide Maryland’s buses with a new fare collection system compatible with the popular SmarTrip system. The Maryland Transit Administration (MTA) named Cubic the prime contractor for the new automatic fare collection program, which will link fare collection for 950 buses serving suburban Maryland commuters. The MTA contract also will provide the agency’s subway system



Fiscal 2001 proved the value of performance with customers. “It means they keep coming back, even after sampling the competition.”
—Walter C. Zable



attracted 200,000 smart card users. SmarTrip represents a new milestone in Cubic’s relationship with WMATA, which began when the company installed the transit authority’s magnetic ticketing system in the mid-1970s.

Now, with the Cubic-developed SmarTrip technology, commuters have the option of using magnetic ticketing or entering the subway by simply waving their SmarTrip cards over Cubic’s Tri-Reader™, one of Cubic’s Nextfare™ Solution Suite advanced smart card technology tools, developed to plug into new and existing mass transit systems. (The Cubic Tri-Reader is the transit industry’s only card reader that processes multiple card technologies, including ISO 14443 Types A and B, as well as the Cubic GO CARD.)

Commuters’ SmarTrip cards also allow them to use “fast” lanes at WMATA’s park-and-ride facilities. In addition, Cubic recently helped WMATA implement “SmartBenefits,” a program that allows participating federal and private sector employees to receive transit benefits automatically on their SmarTrip cards.

The company had several significant contract wins beginning early in the year with a deal to expand SmarTrip.

with entry gate upgrades. The gates will have new magnetic card “swipe” readers so that they are also linked with the new bus fare collection system.

In the fall, Cubic Transportation Systems won approximately \$15 million in contracts from regional bus operators in the Washington/Baltimore area. The contracts were the result of a decision by Virginia and Maryland bus operators to join WMATA and the MTA to link all regional public transit fare collection to WMATA’s popular SmarTrip card system. They include bus companies in Maryland (Annapolis Transit, Corridor Transit Corporation, Frederick Transit, Harford County Transit, Howard County Transportation System, Montgomery County Ride-On, Ocean City Transit and Prince Georges County Transit) and Virginia (Arlington Crystal City Trolley [ART], Alexandria Transit Company [DASH], PRTC Omni-Ride, Fairfax County Connector and City of Fairfax CUE Bus).

Under the new contracts, the regional buses will get new fareboxes and validators equipped with Cubic’s high-tech smart card readers for riders to pay their fares.

With the regional bus companies joining WMATA to equip their buses with Cubic's Tri-Reader technology, Cubic has paved the way for a variety of future opportunities.

Repeat Business

This year proved the value of performance with customers. "It means they keep coming back, even after sampling the competition," said Walter C. Zable, president and CEO, Cubic Transportation Systems.

San Francisco

The San Francisco Bay Area Rapid Transit District (BART) this year awarded Cubic a contract to replace fare collection equipment at the transit authority's five extension stations with Cubic's new advanced electronic ticketing system.

electronic ticketing systems. These successful installations position Cubic to capture other projects in China's emerging mass transit market, including Beijing, host city for the 2008 Olympic Games, which will be investing in significant transportation infrastructure. Additionally, Nanjing, Chongqin, and Tianjing plan to build major metros over the next ten years.

Chicago

With the successful completion of a trial run for its SmartCard (Cubic's GO CARD), the Chicago Transit Authority (CTA) awarded a contract to Cubic Transportation Systems that will boost the number of SmartCards available for distribution to Chicago riders from 3,500 to 300,000, starting in early 2002. Cubic is the supplier of the CTA's integrated ticket-



We will adhere to our principles of building long-term relationships with our customers by serving them well, never promising the unrealistic and always keeping our commitments."

—Ray deKozan



"This was a contract addition to replace a competitor's system that's only four years old," deKozan said. "BART, of course, was one of our first customers, so it is especially pleasing to have that customer back again."

The new agreement represents a decision by BART to have a complete Cubic solution for ticket vending machines, faregates and "add fare" machines throughout the BART system.

Shanghai

During the year, Cubic received an additional order from Shanghai Metro for gating. The transit authority has experienced increased ridership since Cubic completed installation of the original automated fare collection system last year.

This new order increased Cubic's Shanghai Metro sales to more than \$31 million in fare collection equipment, keeping Cubic positioned to obtain more business in one of the World's largest metropolitan areas.

Shanghai and Guangzhou (where Cubic also is the system supplier) can claim China's most advanced

ing and automated payment system that has been operational since 1997. Initially a magnetic ticket only system, CTA last summer began offering full-fare customers a smart card that also links CTA's bus and rail operations with neighboring suburban bus operator Pace.

New York

Cubic received two contracts totaling \$8 million supporting New York City Transit's (NYCT) popular MetroCard® system.

These contracts included 250 new High Barrier Entry/Exit Turnstiles, the protective gating system installed throughout the subway system, and a three-year software maintenance contract for the NYCT's central computer system.

The central computer system stores all data collected on the transit system's MetroCard reloadable magnetic stripe card, including entries, transfers, fares and discounts. It handles more than 6,500,000 transactions daily for New York City Transit's bus and rail

systems, Long Island Bus, and the New York City Department of Transportation, which contracts with seven independent bus operators.

Cubic has provided every building block of NYCT's vast MetroCard fare collection system and is working to ensure that the relationship continues.

Vancouver

Early in the year, Cubic won a contract for approximately \$18

million from TransLink, of Vancouver, B.C., for 160 new touchscreen-enabled ticket vending machines. The Cubic machines will issue tickets good across the region's rail, bus and ferry public transit systems.

Passengers will be able to use the same magnetically encoded ticket to ride the Expo Line and Millennium Line, currently under construction by the Rapid Transit Project 2000 (RTP), which is owned by the Province

of British Columbia. The two lines also share intermodal compatibility with the bus and ferry systems operated by TransLink's subsidiaries.

The vending machines will be installed on Vancouver's two rail lines, the Expo Line and the expansion Millennium Line, both operated by B.C. Rapid Transit Co., a division of TransLink. The new rapid rail line has 13 stations, and the Expo Line has 20 stations.

GO CARD® and Tri-Reader® are registered trademarks of Cubic Transportation Systems, Inc. Nextfare™ is a trademark of Cubic Transportation Systems, Inc. SmarTrip® is a registered trademark of Washington Metropolitan Area Transit Authority. MetroCardSM is a service mark of MTA New York City Transit.



GEARING UP FOR

Opening Day LONDON

provide a new smart card based ticketing and fare collection system for the London Underground and city buses. Cubic is providing all of the ticketing equipment, infrastructure and maintenance. Cubic also has contracts with most of the Train Operating Companies in the UK to supply gates, smart card processors and smart card validators. This all contributes to providing a "one ticket" seamless system.

The company has been busy gearing up for "opening day" in London. London's public transportation system provides service to an estimated 2.5 million London Underground passengers a day and more than 3.5 million bus riders. In 1998, London Transport awarded the TransSys consortium a contract to

During the year, in-service testing of smart card processing was conducted extensively using multiple card types including the Cubic Go Card. The success of this testing combined with the fact that most of the system infrastructure has been operational for a year or more should allow the system to be completed on time in 2002.

STRATEGIC FOCUS

THE CUBIC DEFENSE GROUP

THINKING OUT OF THE 'CUBE'
AND INTO A NEW ERA

A Heritage of Innovation and Value to Customers

Nearly 30 years ago, Cubic entered the military training market in a big way when it pioneered the first air combat training system. The system revolutionized fighter pilot training, gave Cubic international stature, and laid the foundation for a business continuing to this day.

Today, the Cubic Defense Group – the world leader in warfighter training – is helping U.S. and allied militaries train to meet 21st century threats through a wide range of products and services.

At the same time, the Group's other main line of business — communications — has progressed to include a broader spectrum of high-performance military data links, advanced digital receivers and software definable radios, all offering customers distinct performance advantages at very competitive cost.

Training for the Warfighter

“Combat readiness is our top priority, and no other company has a broader impact than Cubic,” said Gerry Dinkel, president and CEO of the Defense Group. “We own more pieces of the training process than any other contractor – not only with systems and technology, but also with our educational services and training support. We train everyone in the chain of command, from individual soldiers to senior leaders.”

As America wages a war on terrorism, combat readiness takes on new significance, underscoring the importance of joint and combined training and flexible, deployable training capability.

Meeting the Most Demanding Communications Needs

Cubic's communications focus extends from highly sophisticated, jam-resistant military data links, to

embedded solutions for a broad range of low data rate military and commercial networks and advanced digital receivers. Today, the company is applying a mix of commercial and custom hardware and leading-edge software to meet customer requirements. As either a prime contractor or committed partner, Cubic is “there” with affordable solutions to tough problems.

Transforming for the Future

The Defense Group has been undergoing a major transformation to more effectively serve customers. Defense Group leaders are “thinking out of the cube” to enhance total effectiveness and, at the same time, increase the potential for expanding the business.

“Our solution is to integrate the collective strengths of our five Defense Group companies across complementary markets. In training, the strategy is to position Cubic as a full-service company, providing ‘one-stop shopping’ solutions for our customers,” Dinkel said.

“In communications, the strategy is to offer unique and affordable solutions to demanding problems, integrating our technology with others as required to meet customer needs,” Dinkel said.

The Defense Group companies, all of which are leaders in their respective markets, are Cubic Defense Systems, Inc. (CDS), Cubic Applications, Inc. (CAI), Cubic Worldwide Technical Services, Inc. (CWTS), Cubic Communications, Inc. (CCI) and Osmar International, Ltd.

“This new synergistic relationship is a real benefit to our customers and healthy for the corporation. By working together, we expect increased efficiency, more value delivered to customers and improved financial performance,” added Dinkel.

“Combat readiness is our top priority....”

—Gerry Dinkel

CUBIC DEFENSE SYSTEMS

SETTING THE STAGE FOR THE INTEGRATED BATTLESPACE

Cubic Defense Systems, Inc. (CDS) – the worldwide leader of live combat training systems for force-on-force exercises – expanded its support to the military to meet the complex challenges of next-generation warfare. With the development of new products, successful performance and the integrated strategy of the Defense Group companies, the stage is set for continued profitability.

Cubic Defense Systems today has the largest installed base of air and ground combat training systems around the globe. It also supplies tactical communications data links and avionics products for U.S. forces and its allies on five continents.

The company continues to provide innovative electronic solutions for the military, transforming training to complement the digital world, creating an “integrated battlespace” environment, where forces interact simultaneously in real time across multiple air-and-ground platforms.

“We’re building on our 30 years’ experience in the industry, our proven technologies and the synergy of the Cubic Defense Group companies to support the military’s transformation,” said Bruce Roberts, CDS president and CEO.

“We’ve focused heavily on developing new joint and combined

arms training systems that are interoperable, rapidly deployable and adaptable to tomorrow’s weapons,” Roberts said. “At the same time, we’re expanding our presence in the world of information management and tactical communications.”

Tapping the Resources of the Cubic Defense Group

As Cubic integrates the capabilities of the Defense Group companies, CDS is finding new opportunities to expand its presence across complementary markets.

In the past year, CDS has developed a strong, synergistic bond with Cubic Applications, Inc. (CAI) — a world-class organization that trains battle commanders, supports senior-level constructive simulation exercises and performs force modernization efforts for Eastern European countries working toward NATO membership.

“Cubic can provide a totally integrated solution to the Army, for instance, by reinforcing CAI’s doctrine and training programs with CDS’ live training systems,” Roberts said. “By merging our expertise, Cubic will be of even greater value to our customers.”

With this new synergy, Cubic has again become a major contributor at the Army’s Joint Readiness Training Center (JRTC) in Fort

“We’ve focused heavily on developing new joint and combined arms training systems that are interoperable, rapidly deployable and adaptable to tomorrow’s weapons.”

—Bruce Roberts



Polk, La. This year, Cubic Applications Inc. won an \$80 million contract – the largest in its history – to provide mission support and advanced collective training at JRTC. CDS in 1997 completed development and installation of the JRTC instrumentation system, the

most advanced system of its kind for joint, light infantry training.

Also this year, CDS teamed with Osmar to offer more comprehensive combat training solutions to key international customers.

JOINT, COMBINED ARMS SYSTEMS TODAY— FOR TOMORROW'S DIGITAL BATTLESPACE

As the military moves to the digital world, Cubic is developing systems that not only ensure combat readiness – but also provide real-time situational awareness and information dominance on the battlefield.

Cubic's new digital technologies and interoperable products are designed for simultaneous communication among joint/collective forces.

"This will enable infantry, combat vehicles, artillery, helicopters and aircraft to share the same near-real-time picture of the battlefield," said Roberts, "and also consolidate their training missions for joint and combined training."

With Cubic's interoperable data links, forces can process information faster and more accurately for increased force effectiveness. Cubic's new data link products are uniquely interoperable and offer customers advanced, reliable and low-cost technologies.

These include the jam-resistant data link for Joint STARS, the broadcast link Cubic is developing for the UK's Airborne Stand-Off Radar (ASTOR) System, and the newly developed digital Tactical Common Data Link for communications between UAVs and Navy ships.

Cubic has applied the same core technology to support joint and combined arms training. These include interoperable training systems for fixed and rotary wing aircraft; ground forces including tanks, assault and transport vehicles; and combat arms, crews and individual soldiers.



CDS PRODUCTS and PROGRAMS

The Difference Between Life
or Death; Victory or Defeat

Cubic's training and tactical products prepare forces for combat and increase their chances of survival during war. The training systems let soldiers, marines and pilots experience the "fog of war."

"You need realism to ensure survivability. The soldier must understand the capabilities of his weapon, and how to use it properly, before he goes in harm's way. If a pilot executes a proper maneuver, it will save his life. If he tries to fool the systems during training, the outcome won't be successful in real combat," Roberts said.

The group's products are used for both peacekeeping and combat missions. They have played a significant role in the Persian Gulf War, the Balkans, Somalia – and today, Operation Enduring Freedom.

Cubic Defense Systems' new products feature commercially available components, wherever possible, keeping costs low and performance high.

"Our new generation systems are more capable, user-friendly and transportable than ever," said Roberts. "Our training systems, in particular, are designed to meet requirements for deployable training – now."

This year, CDS introduced a number of new products, including:

■ **TACTICAL COMMON DATA LINK (TCDL)** — Cubic's new, low-cost Tactical Common Data Link relies on commercial high-speed Digital Signal Processing (DSP) technology to transfer radar data, video and other sensor information from UAV surveillance aircraft to analysts on the ground or Navy ships. It has been proven in tests conducted by the U.S. Department of Defense – a major milestone that positions CDS as a viable competitor in the \$300 million annual Common Data Link market.

■ **URX-3000 SURVIVAL HANDHELD RADIO** — The URX-3000 GPS Survival Radio is Cubic's new-generation radio for combat search and rescue missions. The handheld radio combines the benefits of GPS technology and Cubic's AN/ARS-6(V) Personnel Locator System. It is smaller, lighter and has better range performance than any other survival radio. The Spanish Navy was the first to purchase the radio under a \$1 million contract awarded in Oct. 2001.

NEW PRODUCTS

Smaller, Better and More Mobile

■ **PRECISION COMBAT TRAINING SYSTEM** — Cubic's new Precision Combat Training System (PCTS) is a superior and cost-effective dual-simulation system for both tactical training and precision gunnery. It is the world's first dual-simulation system that has both the reliability to withstand rugged combat maneuver environments and the precision necessary for gunnery training. PCTS is also the only system that provides unrestricted "fire-and-forget" capabilities.

■ **THE DEPLOYABLE SYSTEM FOR TRAINING AND READINESS (DSTAR)** — DSTAR is the world's first fully equipped, PC-based mobile system for joint combat training missions. DSTAR offers the complete functionality of an instrumented ground Combat Training Center and Rangeless Air Combat Training System. Functions such as tracking and event reporting can be conducted on standard PCs, laptops or an expandable after-action review theater with a large-screen display.

■ **INDIVIDUAL COMBAT AIRCREW DISPLAY SYSTEM (ICADS)** — ICADS allows pilots and instructors to see in-flight events and data on standard PCs or laptops. The ICADS software features the familiar windows-like and user-friendly interface. It can be installed in most PCs and incorporates commercial off-the-shelf components.

PRODUCT & PROGRAM MILESTONES

Cubic Defense Systems this year achieved a number of milestones on existing programs and product lines, including:

■ **THE AREA WEAPONS EFFECTS SIMULATOR (AWES)** — Cubic has completed the infrastructure for AWES — the most sophisticated and realistic combat training system in the world today. Cubic is providing ground combat training systems for the Salisbury Plain Training Area in the UK and at the British Army Training Unit at Suffield in Canada. AWES incorpo-

rates the best features from Cubic's world-class ground combat training systems. It features a fully integrated Tactical Engagement Simulation system, including automated exercise data collection, direct-fire simulation effects and area weapons effects. It also includes both fixed and mobile After Action Review facilities.

■ **WAH-64 TRAINING SYSTEM** — Cubic has successfully completed initial testing for advanced attack helicopter live training system on Westland Helicopters for the UK Ministry of Defence.

■ **CANADIAN CF-18 AIR COMBAT MANEUVERING INSTRUMENTATION (ACMI) SYSTEM** — Cubic has delivered the components for Canada's first-ever "rangeless" air combat training system. The new Canadian CF-18 ACMI system will replace an existing system used by fighter pilots at Canadian Forces Base Cold Lake, Alberta, providing both fully autonomous and tethered ACMI training capability.

■ **MULTIPLE INTEGRATED LASER ENGAGEMENT SYSTEM (MILES 2000)** — CDS won a \$19 million contract to provide MILES 2000 equipment to the U.S. Army installation at Fort Lewis, Washington. A MILES 2000 shipment supported U.S. Marine Corps' efforts to better evaluate tactics for needed urban combat training. CDS also won a \$2 million contract to provide equipment that will help U.S. Air Force security teams train for urban combat.

■ **AIRBORNE STAND-OFF RADAR (ASTOR) SYSTEM** — Scheduled to enter service in 2005, the U.K.'s ASTOR system was successfully tested on Bombardier Aerospace Global Express jets. Cubic's ASTOR data link is similar to the Joint STARS data link. The system offers long-range surveillance and imagery of ground vehicles, troop movements, airfields and transportable launchers.

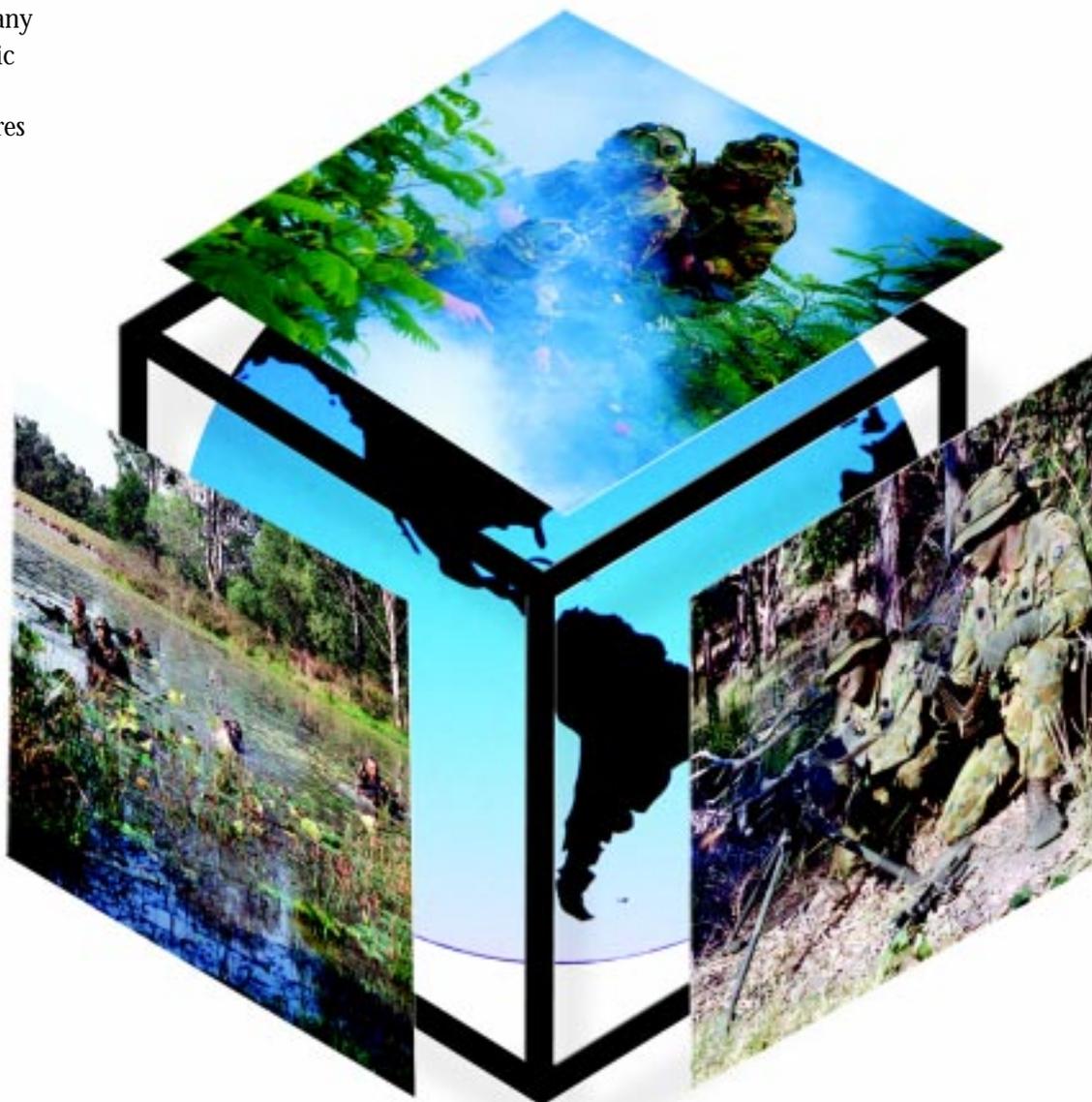
EXPANSION

OSCMAR INTERNATIONAL

NEWEST MEMBER
EXPANDS GROUP'S
MARKET SHARE

This New Zealand company became part of the Cubic Defense Group in 2000.

Oscmar develops and manufactures precision instruments for use in military simulation systems, instrumentation and control equipment. It has more than 70,000 simulators in service serving military customers in 17 countries worldwide. Oscmar and CDS are collaborating to address specific customer requirements for training equipment, strengthening the corporation's position in the marketplace.



CUBIC APPLICATIONS

CONTINUES ITS LEGACY OF TRAINING AND LEADERSHIP DEVELOPMENT



This year, Cubic Applications, Inc. (CAI) continued its legacy of strong support to the Department of Defense in the areas of training and exercise support, program development, simulations development, intelligence and information operations, educational technologies application, force modernization, and consulting and commercial services.

Based in Lacey, Washington, CAI employs more than 1600 employees at 54 U.S. and international locations. The most significant highlight of the last fiscal year was the award of an \$80 million Joint Readiness Training Center (JRTC) contract. The JRTC, in Fort Polk, Louisiana, emphasizes joint training for U.S. Army forces and integrates other services to provide unique “real-world” training scenarios. This new contract, the largest ever awarded to CAI, resulted in a 60 percent increase in personnel for CAI from the previous year.

During the year, CAI strengthened its presence in Central and Eastern Europe with two more contract wins with NATO aspirant countries. Since the award of its first Force Modernization contract in Hungary in

1998, CAI has rapidly become a significant contributor to the US Government’s support of those countries in central and eastern Europe seeking NATO entrance. The company added the Government of Romania, and as a subcontractor to SAIC, the Government of Albania, to its already impressive resume of clients in Hungary, the Slovak Republic and the Czech Republic. The company anticipates that Central/Eastern Europe will be an area of continued presence and expansion.

In addition to continuing its support to the I Corps Battle Simulation Center contract, the company expanded its presence at Fort Lewis, Washington, with two additional awards. CAI received a subcontract award for the Mission Support Training Facility, which supports the I Corps Commander’s training program by providing Digital Battle Staff Trainer simulation support services for the Interim Brigade Combat Team. The company also received the award of the Digital Warrior School, to provide an overarching individual school capability to train I Corps personnel in networking systems, as well as all other computer certifications required and not provided by the U.S. Army school system.

CAI received the Officer Education System contract for conducting the needs analysis for officer, warrant officer, and non-commissioned officer education systems. This contract is a result of CAI’s continuing expansion and support to the Combined Arms Center (CAC) omnibus contract. Also, under the CAC contract, CAI’s Intermediate Level Education work to restructure the Command and General Staff Officers

Course was expanded to include distance learning. CAI competed and won task order-based contracts for 1st and 5th Armies in support of their senior mentor program to continue CAI's contribution to training and shaping the officers of our armed forces.

Over the past year, CAI broadened its experience with diversified contract wins outside the company's typical base business. In April, the government awarded CAI a small contract at Air University's Air Force Officer Accessions and Training School for the design, development and delivery of advanced distributed learning products. This effort is a product demonstration in creation of advanced distributed learning (ADL) lessons that are part of the Air Force Reserve Officer Training Corps' Aerospace Studies curriculum. CAI will turn two existing lessons ("Introduction to Military Correspondence" and "Air and Space Power Defined") into ADL products. In July, the government awarded CAI two important subcontracts. As a subcontractor to Information Systems Solution, CAI was awarded the Center of Excellence for Complex Humanitarian Disaster and Response / Recovery contract. The customer is Tripler Army Hospital in Oahu, Hawaii, and the focus is logistics training for providing the most effective support,



relief and recovery help to victims of natural disasters or those in need of humanitarian aid worldwide. CAI also successfully recaptured the Support Services for Wargames and Doctrine Education contract as a subcontractor to Northrop Grumman Corporation. This is a 10-year contract (including options) to support the Air University at Maxwell AFB, Alabama. In September, CAI was awarded the Office of Personnel Management contract for technical and management services. This is a five-year contract with task orders. Although initially these represent small contract wins, each is in an area with potential growth.

CAI closed out the year with the award of the competitive follow-on contract at the US Joint Forces Command Joint Warfighting Center in Suffolk, Virginia. As a subcontractor to TRW, CAI will assist in providing technical and general services to the Joint Training Program over the next five years.

CAI had a successful year and is well positioned and prepared to contribute to the nation's homeland defense and security missions. The company's involvement in development of future models, simulations and doctrine, and industry leadership in joint training, exercise planning and support position the company to continue to make a major contribution to national security.

CUBIC WORLDWIDE TECHNICAL SERVICES

EXPERIENCES GROWTH

Cubic Worldwide Technical Services (CWTS) is a valued Department of Defense partner in preparing America's warfighters for combat. CWTS operates and maintains air combat training systems at 16 instrumented ranges around the globe, and operates and provides instruction on aviation, warship and submarine simulators at 19 additional locations. CWTS also provides complete logistics support for simulators, training devices, and combat training systems and instrumentation as well as engineering and technical services to ensure maximum system availability and training effectiveness.

CWTS experienced good growth in 2001. The company was awarded major new contracts, primarily

by the Naval Air Warfare Center Training Systems Division. CWTS is a member of a seven-company bidding pool and has won five of eleven contract awards offered to the pool of bidders. The contracts were awarded based on quality, best value and customer satisfaction.

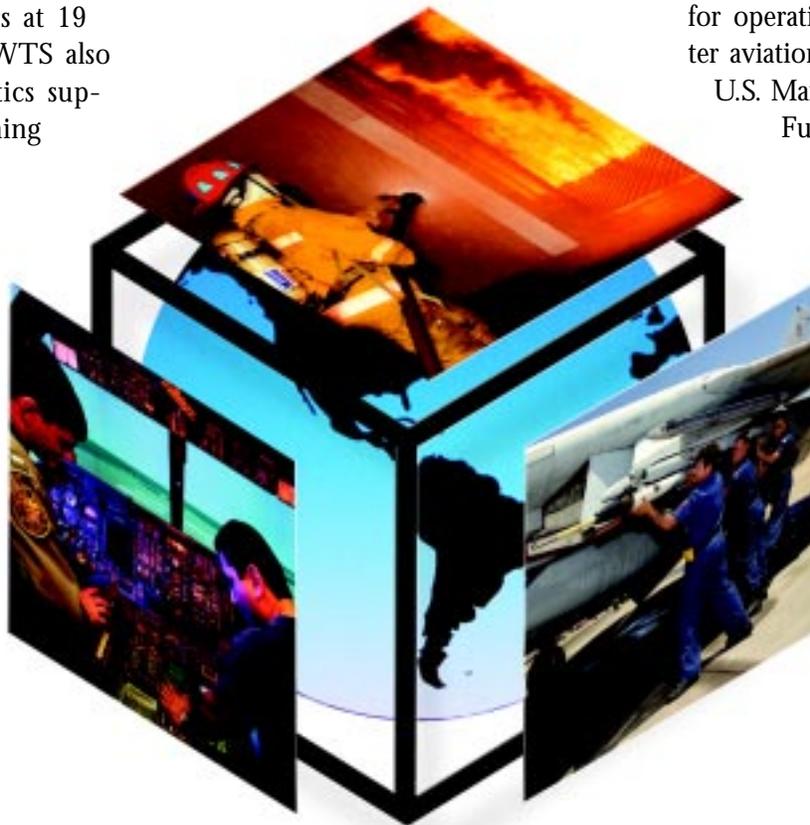
Contracts awarded during this year include:

- Contractor Simulator Instruction – Atlantic (CSI-LANT) five-year contract to provide flight

simulator instruction at seven military installations on the East Coast. CWTS instructors provide simulator training for 13 different aircraft including cargo, fighter, surveillance and anti-submarine warfare aircraft along with attack and transport helicopters. This contract represents a 20 percent increase in the company's business base and added about 100 new employees.

- Three-year extension on an existing contract to provide operations and maintenance for BAe Systems' North Sea Range Air Combat Maneuvering Instrumentation (ACMI) system.
- U.S. Navy five-year contract for operational support of helicopter aviation training devices at the U.S. Marine Corps Air Station Futenma in Okinawa, Japan.

- 22-month contract to operate and maintain SH-60B Seahawk helicopter trainers at NAS North Island, CA and Naval Station Mayport, FL.
- Egypt (FMS) ACMI two-year sole source extension contract performing operation and maintenance at five locations within Egypt.



INNOVATION

CUBIC COMMUNICATIONS

EXPANDS PRODUCT RANGE

Cubic Communications, Inc. significantly broadened its horizons in 2001.

In September, the company acquired the RF power amplifier product line of Advanced Analog, Inc. This product line will strengthen CCI's already extensive product line, and position the company to compete cost-effectively in existing and evolving markets.

CCI also aggressively pursued commercialization of certain technologies it has marketed for years to U.S. and foreign defense and intelligence customers. Toward this end, CCI expanded and added research and development programs focused on software definable radio and low data rate, self-organizing wireless networks for asset tracking and sensor applications.

Other 2001 highlights include:

- Federal Communications Commission certification of CCI's MTC-100 radio transceiver, a key component of the planned maritime wireless communications network for providing wireless voice, fax and email access to boaters along the entire U.S. coastline and inland waterways.

- Continued sales to the FAA of CCI's ATC-100 radio for the Gulf of Mexico buoy communications system.

- Initial development of next generation DSP receivers for signal monitoring, measuring and direction-finding applications.

- Development of a new airborne transceiver

for use in CDS' CF-18 Canadian Air Range System that provides improved data rate and coverage capabilities compared to previous generation products.

- Development of new software definable radio for air traffic control applications.

- Expansion of its international sales representative base resulted in new orders for spectrum monitoring systems used for verifying compliance of operators in commercial wireless and other civil communications applications.

"Cubic Communications will continue to work closely with its expanding customer base and other Cubic companies to promote the Corporation's extensive expertise in software definable radio and communications systems design for military, civil and commercial wireless markets worldwide," said Rick Lober, president and CEO Cubic Communications, Inc.



CONSOLIDATED CONVERTING COMPANY

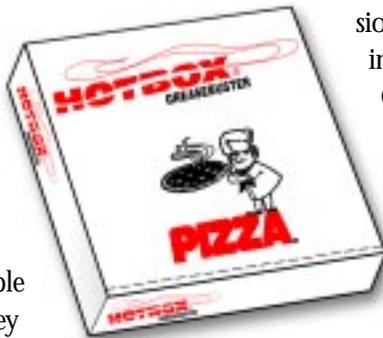
A Consistent
Source of Earnings

What do data links, ticketing machines, pizza boxes and toilet seat covers have in common? They're all Cubic products, and they all generate a healthy profit for the company.

The corrugated boxes and tissue products may be of only fleeting notice to most people, but for the company, they have provided a high return on investment. The subsidiary this year enjoyed more than \$15 million in sales.

"We've been quite successful over the years, despite the increased competition in Southern California for corrugated manufacturing. We have very low overhead and maintain a highly skilled workforce," said George Richter, president of Consolidated Converting. "Our average employee has been with us for 15 years, which means our people are happy, fast and efficient. And they produce quality products on time."

Consolidated Converting Company of Whittier, Calif., joined Cubic's family of companies in 1969 as the originator and world's leading manufacturer of toilet seat covers. The company is also known for its corrugated pizza boxes that feature the familiar "HOTBOX" logo.



"We have a niche in a unique market, enabling a quick response for our Southern California customers," said General Manager John Rangel.



The company has two major segments: the tissue division and its corrugated box business. The tissue division converts between 250 to 300 tons of roll tissue stock into toilet seat covers and toilet tissue each week for Georgia Pacific, a multibillion-dollar paper company.

"We manufacture approximately 60 percent of all toilet seat covers in the world," said Rangel. "But most people aren't aware that they're produced by Cubic, because they're sold under several brand names."

The second division converts corrugated cardboard box material to produce items ranging from stock pizza boxes to cake circles and paper liners used in the baking industry.

These include its HOTBOX® pizza box line as well as customized boxes for hundreds of private pizza businesses. Additionally, the company produces boxes of all sizes for point-of-purchase displays.

FORWARD LOOKING STATEMENTS

In addition to historical matters, this report contains forward-looking statements. They can be identified by sentences that contain words such as *anticipate, hope, estimate, plan, potential, feel, expect, should, and confident*. These forward-looking statements are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Investors are cautioned that forward-looking statements involve risks and uncertainties

which may affect the Company's business and prospects. These include the effects of politics on negotiations and business dealings with government entities, reductions in defense budgets, economic conditions in the various countries in which the Company does or hopes to do business, competition and technology changes in the defense and transportation industries, and other competitive and technological factors.



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A Salute to our Armed Forces

