# FINANCIAL STATEMENTS

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FISCAL 2001 COMPARED TO FISCAL 2000

Fiscal 2001 was a year in which the company realized significant profit improvements in both major segments of the business, despite somewhat lower sales than in fiscal 2000. Management believes that the company is well positioned for growth in the markets it serves and to continue improvements in its operating profits.

Transportation segment sales were lower by about 16% due to delays in new contract awards, customer requested production delays in San Francisco, and anticipated revenue declines in London and New York. The Company continued to make progress on the Prestige contract in London, and anticipates completion of the equipment installation phase in 2002. The Company is actively pursuing several large transportation systems projects and the market for automated fare collection equipment for public transportation systems continues to be very promising.

In spite of the decreased transportation sales volume in fiscal 2001, improved profit margins resulted in higher profits from this segment. Management believes that earnings in the segment have improved due to the maturity of its customer base and the substantial completion of several contracts with lower profit margins. Management expects operating profits from the transportation segment to continue to be strong in the next year.

Defense segment sales grew by nearly 4% for the year, with the most significant growth coming from its data link product line, which increased sales to the United Kingdom and U.S. governments during the year. In addition, acquisitions made in fiscal 2000 contributed to higher sales, as well as continued growth in defense related service activities, including the computerized battlefield simulation and operations and maintenance businesses. The growth from these products and services more than offset a decrease in revenues from the MILES 2000 contract with the U.S. government, which is nearing completion. The Company was awarded contracts for additional MILES work during the year, however, revenues from this product line in the near-term are not likely to be at the level they have been in recent years.

Operating profits in the defense segment improved significantly from the loss incurred in fiscal 2000, and it is expected that profits from this segment will continue to improve over the next year. Increased sales volume from data links and the computerized battlefield simulation business resulted in higher operating profits from those product lines. However, the most significant improvement from 2000 to 2001 was due to the loss provision for the MILES 2000 contract recorded in the fourth quarter of fiscal 2000 not being repeated this year. Competition for combat training systems contracts continues to be substantial, resulting in low profit margins from this business area in recent years. However, the Company believes that it is well positioned to win significant future contracts for both air and ground combat training systems and to improve its profit margins.

During fiscal 2001, the Company continued documentation and assessment of its entitlements with regard to the MILES 2000 contract. Management continues to believe, based on advice from its legal counsel, that it will ultimately be entitled to recover some or all of the cost overruns it incurred in performance of this contract. However, it continues to be management's assessment that the information currently available does not meet the criteria set forth in AICPA Statement of Position 81-1 to record estimated recoverable amounts as a receivable. Any amounts recoverable in the future will be recognized as revenue either upon realization of such amounts or satisfaction of the criteria of SOP 81-1, whichever comes earlier.

Cost of sales as a percentage of sales decreased from 84.6% in fiscal 2000 to 76.9% in fiscal 2001. The high ratio in 2000 was caused by the loss provision recorded on the MILES contract. The fiscal 2001 ratio also represents improvement from 79.1% in fiscal 1999, resulting from higher profit margins in the transportation segment during fiscal year 2001, as described above.

Selling, general and administrative (SG&A) expenses were virtually unchanged from 2000 to 2001, but increased to 15.2% of sales in fiscal 2001 from 14.3% of sales in fiscal 2000. SG&A expenses increased in the defense segment in proportion to the increase in sales. Although the transportation segment reduced SG&A spending slightly, the reductions were not as significant as the decrease in

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

sales volume, primarily due to increased selling and proposal spending in pursuit of transportation systems opportunities.

In 1997, the Company acquired a business in the United Kingdom, which at the time had a net operating loss carryforward (NOL) approximating $5.8 million. In 1998 the business incurred additional losses, giving rise to additional NOL amounts. Approximately $6 million of this additional NOL remained unused as of September 30, 2000, for a total NOL of $11.8 million at that date. The associated deferred tax asset amounted to approximately $3.5 million at September 30, 2000, against which the Company has maintained a valuation allowance of approximately $1.7 million, since the acquisition in 1997. In fiscal 2001, the Company was able to utilize all of the NOL, thereby realizing the full tax benefit and reducing the associated deferred tax asset to zero. As a result of this, the Company was able to reverse the $1.7 million valuation allowance and credit this amount to the goodwill balance established at the time of acquisition.

The Company has determined that a business it acquired in Denmark in 1996 has an NOL totaling approximately $7.5 million which may be utilized in the future. A deferred tax asset of $2.4 million related to this NOL was established as of September 30, 2001, however, an offsetting reserve was also recorded due to the uncertainty of ultimate realization. If the NOL is utilized in the future, any benefit will reduce income tax expense in the period realized, as there was no goodwill recorded at the time of acquisition of this business.

In June 2001, the Financial Accounting Standards board issued Statements of Financial Accounting Standards No. 141, *Business Combinations* and No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements.

As allowed by early adoption provisions, the Company began applying the new rules on accounting for goodwill and other intangible assets effective October 1, 2001. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of approximately $1.7 million net of taxes ($.19 per share) per year starting in fiscal 2002. The Company performed the first of the required impairment tests of goodwill as of October 1, 2001 and determined that there was no impairment at that date.

### Fiscal 2000 Compared to Fiscal 1999

Fiscal 2000 represented the Company's third consecutive year of growth in sales, setting a new record high for the Company. Defense segment sales increased by nearly 23%, while sales in the transportation segment decreased by 11%. The increase in defense sales came primarily from combat training range contracts won in previous years, and also reflected continued growth in the computerized battlefield simulation business. The decrease in transportation systems sales came primarily from European operations. Fiscal 1999 had seen a peak of activity as the PRESTIGE project got underway, with a significant amount of bus and underground gating equipment installed. In addition, there had been growth in sales of gating systems, in fiscal 1999, to train operating companies that service the London area. Although revenues from these activities continued strong in 2000, they decreased from the 1999 level.

Net income decreased from $14 million in 1999 to less than $1 million in 2000 due to a loss provision made in the fourth quarter on the MILES contract with the U.S. government. This resulted in an operating loss of $23.6 million in the defense segment for the year. Lower sales volume from the profitable JSTARS product line also contributed to lower profit margins in the Cubic Defense Systems subsidiary. The lower JSTARS sales were more than offset by higher sales from combat training range systems, however, at lower profit margins. The rest of the defense segment generated modestly increased operating profits for the year.

Operating profits in the transportation systems segment increased by 20% over the 1999 level. Profits from customer service activities and contracts in the Far East increased, while mature installations such as New York and Washington D.C. continued to provide a solid base of revenues and operating profits. Operating profits from the Company's European operations also increased modestly.

The discontinuance of the video E-mail segment in the fourth quarter of fiscal 1999 accounted for the segment operating losses in fiscal 1999 not being

repeated in fiscal 2000.

Cost of sales as a percentage of sales increased from 79.1% in 1999 to 84.6% in 2000. This increase is attributable to the loss provision recorded on the MILES contract, as described above. Interest expense decreased due to a reduction of short-term borrowings and a scheduled payment made against long-term borrowings. At the same time, interest and dividend income increased, due to higher levels of cash and cash equivalents available for investment in 2000.

SG&A expenses in 2000 increased modestly from 1999. Selling costs in the transportation systems segment were somewhat higher, as proposal and selling activities related to new business prospects increased over the prior year. Defense segment SG&A expenses also increased slightly due primarily to higher legal fees resulting from the MILES contract situation. SG&A expenses as a percentage of sales for 2000 dropped to 14.3% compared to 14.8% in 1999.

### *Financial Position and Liquidity*

In fiscal 2001, cash flows from operations were again positive, with cash flows from the transportation segment continuing to be very strong due to its profit performance. The defense business, while experiencing somewhat negative cash flows in FY 2001 due to growth in accounts receivable, is expected to turn that around in fiscal 2002 as profits improve and significant milestones are reached on certain contracts, triggering large customer payments.

The Company's net deferred tax asset was $21.6 million at September 30, 2001 compared to $19.4 million at September 30, 2000. It is expected that the Company will generate sufficient taxable income in the future such that this net deferred tax asset will be realized.

The Company recorded a charge of $2.3 million, net of applicable income taxes of $1.2 million, to Accumulated Other Comprehensive Income during the year ended September 30, 2001, due to the decline in market value of assets in its defined benefit pension plans. Pension accounting rules require that a minimum liability be recorded for the excess of the accumulated benefit obligation over the net assets of the plan, resulting in this charge. The Company believes that the decline in the value of pension plan assets is temporary, as it resulted from a steep decline in the stock market during the quarter ended September 30, 2001, and has improved considerably as of date of this report.

At September 30, 2001 the Company had working capital of $181 million and a current ratio of 2.9 to 1. The Company expects that cash on hand and its unused debt capacity will be adequate to meet its short and long-term financing needs.

Funded backlog at September 30, 2001 was $738,000,000 compared to $802,000,000 at September 30, 2000. Total backlog, including un-funded customer orders, was $1,095,000,000 at September 30, 2001 compared to $1,071,000,000 at September 30, 2000.

## CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | (amounts in thousands, except per share data) | | |
| Revenues: | | | |
| Sales | $ 501,679 | $ 531,516 | $ 510,759 |
| Interest and dividends | 3,915 | 3,819 | 1,602 |
| Other income | 3,129 | 3,890 | 3,160 |
| | 508,723 | 539,225 | 515,521 |
| Costs and expenses: | | | |
| Cost of sales | 385,569 | 449,913 | 404,144 |
| Selling, general and administrative expenses | 76,052 | 76,016 | 75,725 |
| Research and development | 9,755 | 6,999 | 7,727 |
| Goodwill amortization | 2,638 | 2,327 | 2,122 |
| Interest | 3,601 | 3,729 | 4,313 |
| | 477,615 | 538,984 | 494,031 |
| Income before income taxes | 31,108 | 241 | 21,490 |
| Income taxes (benefit) | 10,266 | (433) | 7,482 |
| Net income | $ 20,842 | $ 674 | $ 14,008 |
| Basic and diluted net income per common share | $ 2.34 | $ 0.08 | $ 1.57 |
| Average number of common shares outstanding | 8,907 | 8,907 | 8,907 |

*See accompanying notes.*

## *CONSOLIDATED BALANCE SHEETS*

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| | (in thousands) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 76,837 | $ 69,753 |
| Marketable securities, available-for-sale | 584 | 3,586 |
| Accounts receivable: | | |
| Trade and other receivables | 13,087 | 12,063 |
| Long-term contracts | 129,064 | 111,804 |
| Allowance for doubtful accounts | (635) | (457) |
| | 141,516 | 123,410 |
| Inventories | 30,386 | 29,499 |
| Deferred income taxes | 20,257 | 18,818 |
| Prepaid expenses and other current assets | 6,526 | 4,677 |
| TOTAL CURRENT ASSETS | 276,106 | 249,743 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land and land improvements | 12,838 | 12,838 |
| Buildings and improvements | 23,918 | 23,671 |
| Machinery and other equipment | 75,479 | 77,140 |
| Leasehold improvements | 2,856 | 2,803 |
| Allowance for depreciation and amortization | (81,715) | (77,983) |
| | 33,376 | 38,469 |
| OTHER ASSETS | | |
| Deferred income taxes | 1,309 | 595 |
| Goodwill, less amortization | 18,927 | 23,193 |
| Miscellaneous other assets | 11,629 | 10,350 |
| | 31,865 | 34,138 |
| TOTAL ASSETS | $ 341,347 | $ 322,350 |

| | September 30, | |
|---|---|---|
| | 2001 | 2000 |
| | (in thousands) | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Trade accounts payable | $ 11,889 | $ 18,749 |
| Customer advances | 30,479 | 29,976 |
| Accrued compensation | 21,011 | 18,519 |
| Accrued pension liability | 6,553 | 1,460 |
| Other current liabilities | 14,641 | 16,307 |
| Income taxes payable | 10,321 | 6,265 |
| TOTAL CURRENT LIABILITIES | 94,894 | 91,276 |
| LONG-TERM DEBT | 50,000 | 50,000 |
| OTHER LIABILITIES | | |
| Deferred compensation | 5,558 | 5,051 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no par value: | | |
| Authorized--20,000,000 shares | | |
| Issued--11,888,243 shares | 234 | 234 |
| Additional paid-in capital | 12,123 | 12,123 |
| Retained earnings | 221,095 | 203,637 |
| Accumulated other comprehensive loss | (6,494) | (3,908) |
| Treasury stock at cost: 2001 -- 2,981,579 shares | | |
| 2000 -- 2,981,554 shares | (36,063) | (36,063) |
| | 190,895 | 176,023 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 341,347 | $ 322,350 |

*See accompanying notes.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (in thousands except per share amounts) | Comprehensive Income (Loss) | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Additional Paid-in Capital | Common Stock |
|---|---|---|---|---|---|---|
| October 1, 1998 | | $ (36,056) | $ 1,527 | $ 195,724 | $ 12,123 | $ 234 |
| Comprehensive income: | | | | | | |
| Net income | $ 14,008 | | | 14,008 | | |
| Unrealized holding gains on marketable securities | 150 | | 150 | | | |
| Foreign currency translation adjustment | (1,360) | | (1,360) | | | |
| Comprehensive income | $ 12,798 | | | | | |
| Cash dividends paid -- $.38 per share of common stock | | | | (3,385) | | |
| September 30, 1999 | | (36,056) | 317 | 206,347 | 12,123 | 234 |
| Comprehensive income (loss): | | | | | | |
| Net income | $ 674 | | | 674 | | |
| Unrealized holding gains on marketable securities--net of applicable income taxes of $390 | 575 | | 575 | | | |
| Foreign currency translation adjustment | (4,800) | | (4,800) | | | |
| Comprehensive income (loss) | $ (3,551) | | | | | |
| Cash dividends paid -- $.38 per share of common stock | | | | (3,384) | | |
| Treasury stock purchases | | (7) | | | | |
| September 30, 2000 | | (36,063) | (3,908) | 203,637 | 12,123 | 234 |
| Comprehensive income: | | | | | | |
| Net income | $ 20,842 | | | 20,842 | | |
| Unrealized holding gains on marketable securities--net of applicable income taxes of $117 | 495 | | 495 | | | |
| Reclassification adjustment for gain on sale of marketable securities included in net income--net of applicable income taxes of $515 | (789) | | (789) | | | |
| Additional minimum pension liability--net of applicable income taxes of $1,222 | (2,270) | | (2,270) | | | |
| Foreign currency translation adjustment | (22) | | (22) | | | |
| Comprehensive income | $ 18,256 | | | | | |
| Cash dividends paid -- $.38 per share of common stock | | | | (3,384) | | |
| September 30, 2001 | | $ (36,063) | $ (6,494) | $ 221,095 | $ 12,123 | $ 234 |

*See accompanying notes.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | | (in thousands) | |
| Operating Activities: | | | |
| Net income | $ 20,842 | $ 674 | $ 14,008 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 12,795 | 11,378 | 10,236 |
| Deferred income taxes | 1,052 | (9,760) | 1,636 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable | (16,444) | 13,930 | 15,270 |
| Inventories | (871) | 10,828 | 2,798 |
| Prepaid expenses | (1,838) | 2,043 | (366) |
| Accounts payable and other current liabilities | (6,285) | 414 | 6,899 |
| Customer advances | 476 | 5,701 | (3,346) |
| Income taxes | 4,049 | 1,390 | 3,347 |
| Other items - net | (3,012) | 2,040 | (1,151) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 10,764 | 38,638 | 49,331 |
| Investing Activities: | | | |
| Acquisition of businesses, net of cash acquired | - | (11,738) | - |
| Sale of marketable securities | 3,557 | 21 | 434 |
| Purchases of property, plant and equipment | (4,375) | (4,505) | (11,511) |
| Other items - net | 27 | 97 | 1,778 |
| NET CASH USED IN INVESTING ACTIVITIES | (791) | (16,125) | (9,299) |
| Financing Activities: | | | |
| Change in short-term borrowings | - | (6,118) | (23,463) |
| Long-term borrowing | - | - | 50,000 |
| Principal payments on long-term debt | - | (5,000) | (5,000) |
| Purchases of treasury stock | - | (7) | - |
| Dividends paid to shareholders | (3,384) | (3,384) | (3,385) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (3,384) | (14,509) | 18,152 |
| Effect of exchange rates on cash | 495 | 209 | (144) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 7,084 | 8,213 | 58,040 |
| Cash and cash equivalents at the beginning of the year | 69,753 | 61,540 | 3,500 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 76,837 | $ 69,753 | $ 61,540 |

*See accompanying notes.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*September 30, 2001*

### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of the Business:** Cubic Corporation (the Company) designs, develops and manufactures products which are mainly electronic in nature and provides services related to products previously produced and products produced by others. The Company's principal lines of business are defense electronics and transportation fare collection systems. Principal customers for defense products and services are the United States and foreign governments. Transportation fare collection systems are sold primarily to large local government agencies in the United States and worldwide.

**Principles of Consolidation:** The consolidated financial statements include the accounts of Cubic Corporation and its majority-owned subsidiaries. All significant intercompany balances and transactions are eliminated.

The consolidation of foreign subsidiaries requires financial statement translation in accordance with FASB Statement No. 52. Assets and liabilities are translated into U.S. dollars at year-end exchange rates. Statements of income and cash flows are translated at the average exchange rates for each year. As of September 30, 2001, the effects of foreign currency translation have reduced shareholders' equity by approximately $4.4 million, due to the strength of the U.S. Dollar in relation to the British Pound, Danish Kroner and the New Zealand Dollar, while the impact on the Company's results of operations and cash flows has not been significant.

**Cash Equivalents:** The Company considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

**Concentration of Credit Risk:** The Company has established guidelines pursuant to which its cash and cash equivalents are diversified among various money market instruments and funds. These guidelines emphasize the preservation of capital by requiring minimum credit ratings assigned by established credit organizations. Diversification is achieved by specifying maximum investments in each fund type and issuer. The majority of these investments are not on deposit in federally insured accounts.

**Fair Value of Financial Instruments:** Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are carried at cost, which management believes approximates the fair value because of the short-term maturity of these instruments. Receivables consist primarily of amounts due from U. S. and foreign governments for defense products and local government agencies for transportation systems. Due to the nature of its customers, the Company generally does not require collateral.

**Marketable Securities, Available-for-Sale:** Marketable securities are classified as available-for-sale and are stated at fair market value. The excess of fair market value over cost at September 30, 2001 and 2000 is included in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet and amounted to $218,000 and $725,000 at September 30, 2001 and 2000, respectively, net of applicable income taxes.

**Inventories:** Inventories are stated at the lower of cost or market. Cost is determined using primarily the first-in, first-out (FIFO) method, which approximates current replacement cost. Work in process is stated at the actual production and engineering costs incurred to date, including applicable overhead, and is reduced by charging any amounts in excess of estimated realizable value to cost of sales. Although costs incurred for certain government contracts include general and administrative costs, the amounts remaining in inventory at September 30, 2001 and 2000 were immaterial.

**Property, Plant and Equipment:** Property, plant and equipment are carried at cost. Depreciation is provided in amounts sufficient to amortize the cost of the depreciable assets over their estimated useful lives. Straight-line and accelerated methods are each used for approximately one-half of the depreciable plant and equipment. Provisions for depreciation of plant and equipment amounted to $10,157,000, $9,045,000, and $8,037,000 in 2001, 2000 and 1999, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Goodwill:** Goodwill is amortized on a straight-line basis over periods ranging from 3 to 15 years. Accumulated amortization at September 30, 2001 and 2000 was $13,709,000 and $11,064,000, respectively.

**Impairment of Long-Lived Assets:** In accordance with FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, the Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

**Revenue Recognition:** Sales under long-term contracts are recognized as costs are incurred and fees are earned on cost-plus-fee contracts, and as costs are incurred and estimated profits are earned on long-term, fixed price contracts. Such estimated profits are computed by applying the various percentages of completion of the contracts to the estimated ultimate profits. Provisions are made on a current basis to fully recognize any anticipated losses on contracts. Cash received prior to revenue recognition is classified as customer advances.

**Derivative Financial Instruments:** The Company adopted Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) effective October 1, 2000. Adoption of SFAS 133 has not materially affected the results of operations or financial position of the Company. The Company's use of derivative financial instruments is limited to foreign exchange forward and option contracts used to hedge significant contract sales and purchase commitments that are denominated in currencies other than the functional currency of the subsidiary responsible for the commitment. At September 30, 2001, the Company had foreign exchange contracts with a notional value of $32.7 million outstanding. The net amount of deferred gains and losses at that date was immaterial.

**New Accounting Pronouncements:** In June 2001, the Financial Accounting Standards board issued Statements of Financial Accounting Standards No. 141, *Business Combinations* and No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements.

As allowed by early adoption provisions, the Company began applying the new rules on accounting for goodwill and other intangible assets effective October 1, 2001. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of approximately $1.7 million net of taxes ($.19 per share) per year starting in fiscal 2002. The Company performed the first of the required impairment tests of goodwill as of October 1, 2001 and determined that there was no impairment at that date.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Risks and Uncertainties:** The Company is subject to the normal risks and uncertainties of performing large, multi-year, often fixed-price contracts. In addition, certain contracts provide the customer with fixed-price options which, if exercised, could result in losses to the Company upon performance.

A portion of the Company's subcontract with Transys obligates the Company to produce and install, over a four-year period, equipment which is generally similar to that previously provided to London Transport (the ultimate customer). Under the terms of the subcontract, the revenue to be realized, and therefore the ultimate profitability of this portion of the subcontract, could vary substantially if the Company fails to meet the delivery and installation schedule. To date, the Company has met the delivery and installation schedule of the contract and believes it has the capability to continue to meet these performance requirements and to realize the expected profits from this subcontract.

**Reclassification:** Certain prior period amounts have been reclassified to conform to current period classifications.

## NOTE 2—INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

The Company owns 37.5% of the common stock of Transys, an unconsolidated joint venture company in the United Kingdom. This joint venture was formed to bid on a contract called "PRESTIGE" (Procurement of Revenue Services, Ticketing, Information, Gates and Electronics), the purpose of which is to privatize the London Transport fare collection system. In August 1998, Transys was awarded the contract and began operations. Through September 30, 2001, over $560 million of the work to be performed by Transys has been subcontracted to the Company as a part of the joint venture arrangement. The long-term debt of Transys is non-recourse to Cubic. Summarized financial information for this unconsolidated joint venture is as follows:

| September 30, | 2001 | 2000 |
|---|---|---|
| | (in millions) | |
| **Balance Sheets:** | | |
| Current assets | $ 39.2 | $ 27.7 |
| Non-current unbilled contract accounts receivable | 198.2 | 153.1 |
| Total Assets | $ 237.4 | $ 180.8 |
| Current liabilities | $ 16.8 | $ 13.4 |
| Long-term debt | 220.6 | 167.4 |
| Equity | - | - |
| Total Liabilities and Equity | $ 237.4 | $ 180.8 |

| Years ended September 30, | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in millions) | |
| **Statement of Income:** | | | |
| Sales | $ 118.8 | $ 146.0 | $ 126.9 |
| Operating profit | $ - | $ - | $ - |
| Net income | $ - | $ - | $ - |

The terms of Transys' subcontracts with the Company and other parties to the joint venture provide for the pass-through of virtually all revenues from London Transport. As a result, Transys has operated on a break-even basis and is expected to continue to do so.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3—ACCOUNTS RECEIVABLE

The components of accounts receivable under long-term contracts are as follows:

| September 30, | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| U.S. Government Contracts: | | |
| Amounts billed | $ 23,380 | $ 17,904 |
| Recoverable costs and accrued profits on progress completed--not billed | 23,173 | 26,567 |
| | 46,553 | 44,471 |
| Commercial Customers: | | |
| Amounts billed | 25,597 | 23,544 |
| Recoverable costs and accrued profits on progress completed--not billed | 56,914 | 43,789 |
| | 82,511 | 67,333 |
| | $ 129,064 | $ 111,804 |

A portion of recoverable costs and accrued profits on progress completed is billable under progress payment provisions of the related contracts. The remainder of these amounts is billable upon delivery of products or furnishing of services, with an immaterial amount subject to retainage provisions of the contracts. It is anticipated that substantially all of the unbilled portion of receivables will be billed under progress billing provisions of the contracts or upon completion of performance tests and/or acceptance by the customers during 2002.

### NOTE 4—INVENTORIES

Inventories are classified as follows:

| September 30, | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Finished products | $ 1,528 | $ 1,239 |
| Work in process | 19,020 | 17,699 |
| Materials and purchased parts | 9,838 | 10,561 |
| | $ 30,386 | $ 29,499 |

## NOTE 5—FINANCING ARRANGEMENTS

Long-term debt consists of the following:

| September 30, | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Unsecured notes payable to a group of insurance companies, with annual principal payments of $4,000,000 commencing November 2004. Interest at 6.31% is payable semi-annually in November and May. | $ 40,000 | $ 40,000 |
| Unsecured note payable to an insurance company, with annual principal payments of $1,429,000 commencing November 2002. Interest at 6.11% is payable semi-annually in November and May. | 10,000 | 10,000 |
| | $ 50,000 | $ 50,000 |

The terms of the notes payable include provisions that require and/or limit, among other financial ratios and measurements, the permitted levels of working capital, debt and tangible net worth and coverage of fixed charges. The Company has also provided certain performance guarantees to various parties related to the PRESTIGE contract and the Transys joint venture. As consideration for the performance guarantee, the Company has agreed to certain financial covenants including limits on working capital, debt, tangible net worth and cash flow coverage. At September 30, 2001, the most restrictive covenant under these agreements leaves consolidated retained earnings of $24.4 million available for the payment of dividends to shareholders, purchases of the Company's common stock and other charges to shareholders' equity. If the Company violates any of these covenants it may be required to provide collateral for the guarantees. To date, there have been no such violations and the Company believes it will be able to meet the covenant financial performance obligations described above.

The Company maintains a short-term borrowing arrangement totaling 10 million British Pounds (equivalent to approximately $14.7 million) with a United Kingdom financial institution to help meet the short-term working capital requirements of its subsidiary, Cubic Transportation Systems Ltd. Any outstanding balances are guaranteed by Cubic Corporation and are repayable on demand. At September 30, 2001, there was no amount outstanding under this borrowing arrangement.

Maturities of long-term debt for each of the five years in the period ending September 30, 2006, are as follows: 2002—$0; 2003—$1,429,000; 2004—$1,429,000; 2005—$5,429,000; 2006—$5,429,000; thereafter—$36,284,000.

Interest paid amounted to $3,631,000, $3,806,000, and $3,262,000 in 2001, 2000, and 1999, respectively.

As of September 30, 2001 the Company had letters of credit and bank guarantees outstanding totaling $21.6 million, which guarantee either the Company's performance or customer advances under certain contracts. In addition, the Company had financial letters of credit outstanding totaling $6.1 million as of September 30, 2001, which guarantee the Company's payment of certain self-insured liabilities. Management believes self-insurance liabilities recorded on the balance sheet as of September 30, 2001 are adequate to meet the underlying obligations. The Company has never had a drawing on a letter of credit instrument, nor are any anticipated; therefore, the fair value of these instruments is estimated to be zero.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6—COMMITMENTS

The Company leases certain office, manufacturing and warehouse space and miscellaneous computer and other office equipment under non-cancelable operating leases expiring in various years through 2009. These leases, some of which may be renewed for periods up to 10 years, generally require the lessee to pay all maintenance, insurance and property taxes. Several leases are subject to periodic adjustment based on price indices or cost increases. Rental expense, net of sublease income, for all operating leases amounted to $3,613,000, $3,777,000, and $4,172,000 in 2001, 2000, and 1999, respectively.

Future minimum payments, net of minimum sublease income, under non-cancelable operating leases with initial terms of one year or more consist of the following at September 30, 2001 (in thousands):

| | |
|---|---|
| 2002 | $ 2,736 |
| 2003 | 2,173 |
| 2004 | 1,819 |
| 2005 | 1,047 |
| 2006 | 637 |
| Thereafter | 385 |
| | $ 8,797 |

### NOTE 7—CONTINGENT GAIN

In the year ended September 30, 2000, the Company recorded a charge of $18.2 million, after applicable income taxes of $11.6 million, due to growth in estimated costs to complete its Multiple Integrated Laser Engagement System (MILES) contract with the U.S. government. The Company believes that this growth in costs was the result of contract changes and delays caused by the government and is pursuing recovery from the customer. Management believes that the contract provides a legal basis for a claim and that it may ultimately recover some or all of this amount. However, due to the complexity of the contract and the inherent uncertainties in the claims resolution process, it is not possible to reliably estimate the amount of recovery at this time. Therefore, in accordance with AICPA Statement of Position 81-1, the Company has not recorded revenues that are contingent upon the collection of claims. The Company will continue to pursue recovery of the costs through contract variations, equitable adjustments and/or claims. Any amounts recoverable in the future to offset these costs will be recognized as revenue and profits either upon realization of such amounts or satisfaction of the criteria of SOP 81-1, whichever comes earlier.

## NOTE 8—INCOME TAXES

Significant components of the provision (benefit) for income taxes are as follows:

| Years ended September 30, | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in thousands) | |
| Current (credit): | | | |
| Federal | $ 4,089 | $ 4,821 | $ 3,885 |
| State | 1,665 | (84) | 1,355 |
| Foreign | 3,460 | 4,590 | 606 |
| Total current | 9,214 | 9,327 | 5,846 |
| Deferred (credit): | | | |
| Federal | (2,369) | (8,543) | (2,911) |
| State | 149 | (1,241) | (116) |
| Foreign | 3,272 | 24 | 4,663 |
| Total deferred | 1,052 | (9,760) | 1,636 |
| Total income tax expense (benefit) | $ 10,266 | $ (433) | $ 7,482 |

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities are as follows:

| September 30, | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| Deferred tax assets: | | |
| Accrued employee benefits | $ 5,736 | $ 3,120 |
| Inventory reserves and long-term contract accounting | 13,502 | 13,679 |
| Self-insurance and other reserves | 2,665 | 2,738 |
| Deferred compensation | 2,034 | 1,850 |
| Foreign net operating loss carryforwards | 2,460 | 3,526 |
| Other | 1,593 | 1,040 |
| Total deferred tax assets | 27,990 | 25,953 |
| Valuation allowance for deferred tax assets | (2,460) | (1,770) |
| Net deferred tax assets | 25,530 | 24,183 |
| Deferred tax liabilities: | | |
| Tax over book depreciation | 194 | 471 |
| Leveraged lease accounting | 1,335 | 1,335 |
| Prepaid expenses | 670 | 642 |
| State taxes | 781 | 1,043 |
| Other | 984 | 1,279 |
| Total deferred tax liabilities | 3,964 | 4,770 |
| Net deferred tax assets | $ 21,566 | $ 19,413 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 1997, the Company acquired a business in the United Kingdom, which at the time had a net operating loss carryforward (NOL) approximating $5.8 million. In 1998 the business incurred additional losses, giving rise to additional NOL amounts. Approximately $6 million of this additional NOL remained unused as of September 30, 2000, for a total NOL of $11.8 million at that date. The associated deferred tax asset amounted to approximately $3.5 million at September 30, 2000, against which the Company has maintained a valuation allowance of approximately $1.7 million, since the acquisition in 1997. In fiscal 2001, the Company was able to utilize all of the NOL, thereby realizing the full tax benefit and reducing the associated deferred tax asset to zero. As a result of this, the Company was able to reverse the $1.7 million valuation allowance and credit this amount to the goodwill balance established at the time of acquisition.

In fiscal 2001 the Company determined that a business it acquired in Denmark in 1996 has an NOL totaling approximately $7.5 million which may be utilized in the future. A deferred tax asset of $2.4 million related to this NOL was established as of September 30, 2001, however, an offsetting valuation allowance was also recorded due to the uncertainty of ultimate realization. If the NOL is utilized in the future, any benefit will reduce income tax expense in the period realized, as there was no goodwill recorded at the time of acquisition of this business.

The reconciliation of income tax computed at the U.S. federal statutory tax rate to income tax expense is as follows:

| Years ended September 30, | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in thousands) | |
| Tax at federal statutory rate | $ 10,888 | $ 84 | $ 7,522 |
| State income taxes, net of federal tax benefit | 1,179 | (861) | 805 |
| Tax exempt interest and dividend income | (276) | (469) | (36) |
| Foreign sales corporation | (565) | (374) | (530) |
| Non-deductible expenses | 457 | 1,912 | 427 |
| Effect of change in tax rates on deferred tax asset | - | 321 | (176) |
| Tax effect from foreign subsidiaries | (565) | (545) | (386) |
| Tax credits and other | (852) | (501) | (144) |
| | $ 10,266 | $ (433) | $ 7,482 |

### NOTE 8—INCOME TAXES - (CONTINUED)

The Company made income tax payments, net of refunds, totaling $5,158,000, $7,782,000, and $2,513,000 in 2001, 2000, and 1999, respectively.

Income (loss) before income taxes includes the following components:

| Years ended September 30, | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in thousands) | |
| United States | $ 10,845 | $ (14,781) | $ 7,763 |
| Foreign | 20,263 | 15,022 | 13,727 |
| Total | $ 31,108 | $ 241 | $ 21,490 |

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $36.9 million at September 30, 2001. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes and withholding taxes payable to the foreign countries but would also be able to offset unrecognized foreign tax credit carryforwards. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation; however, the Company does not believe the amount would be material.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 9—PENSION, PROFIT SHARING AND OTHER RETIREMENT PLANS

The Company has profit sharing and other defined contribution retirement plans that provide benefits for most employees in the U.S. An employee is eligible to participate in these plans after six months to one year of service, and may make additional contributions to the plans from their date of hire. These plans provide for full vesting of benefits over five years. A substantial portion of Company contributions to these plans is discretionary with the Board of Directors. Company contributions to the plans aggregated $7,998,000, $7,422,000 and $7,225,000 in 2001, 2000 and 1999, respectively.

Approximately one-half of the Company's non-union employees in the U.S. are covered by a non-contributory defined benefit pension plan. Approximately one-half of the Company's European employees are covered by a contributory defined benefit pension plan. The Company's funding policy provides that contributions will be at least equal to the minimum amounts mandated by statutory requirements. The following table sets forth changes in the benefit obligation and plan assets for this plan and the net amount recognized in the Consolidated Balance Sheet:

| September 30, | 2001 | 2000 |
|---|---|---|
| | (in thousands) | |
| **Change in benefit obligation:** | | |
| Net benefit obligation at the beginning of the year | $ 64,810 | $ 57,743 |
| Service cost | 4,027 | 3,695 |
| Interest cost | 4,971 | 4,486 |
| Actuarial loss | 804 | 965 |
| Participant contributions | 636 | 663 |
| Gross benefits paid | (1,134) | (1,434) |
| Foreign currency exchange rate changes | 46 | (1,308) |
| Net benefit obligation at the end of the year | 74,160 | 64,810 |
| **Change in plan assets:** | | |
| Fair value of plan assets at the beginning of the year | 69,697 | 64,015 |
| Actual return on plan assets | (10,435) | 6,021 |
| Employer contributions | 1,713 | 1,662 |
| Participant contributions | 636 | 663 |
| Gross benefits paid | (1,134) | (1,434) |
| Administrative expenses | (46) | (63) |
| Foreign currency exchange rate changes | 6 | (1,167) |
| Fair value of plan assets at the end of the year | 60,437 | 69,697 |
| **Net amount recognized:** | | |
| Funded status | (13,723) | 4,887 |
| Unrecognized net actuarial loss (gain) | 10,665 | (6,342) |
| Unrecognized prior service cost | (3) | (5) |
| Net amount recognized | $ (3,061) | $ (1,460) |
| **Amounts recognized in the Consolidated Balance Sheets:** | | |
| Accrued benefit cost | $ (3,061) | $ (1,460) |
| Additional minimum liability | (3,492) | - |
| Deferred tax asset | 1,222 | - |
| Accumulated other comprehensive loss | 2,270 | - |
| Net amount recognized | $ (3,061) | $ (1,460) |

### NOTE 9—PENSION, PROFIT SHARING AND OTHER RETIREMENT PLANS - (CONTINUED)

The components of net periodic pension cost for these plans are as follows:

| Years ended September 30, | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in thousands) | |
| Service cost | $ 4,027 | $ 3,695 | $ 3,821 |
| Interest cost | 4,971 | 4,486 | 3,826 |
| Expected return on plan assets | (5,721) | (5,222) | (4,571) |
| Amortization of: | | | |
| Transition asset | - | - | (21) |
| Prior service cost | (2) | (2) | (3) |
| Actuarial (gain) loss | (139) | (35) | 33 |
| Administrative expenses | 171 | 158 | 196 |
| Net pension cost | $ 3,307 | $ 3,080 | $ 3,281 |
| Weighted-average assumptions: | | | |
| Discount rate | 7.2% | 7.6% | 7.5% |
| Expected return on plan assets | 8.4% | 8.3% | 8.3% |
| Rate of compensation increase | 4.9% | 5.0% | 4.6% |

### NOTE 10—RELATED PARTY TRANSACTION

In October 1992, a trust established by Mr. and Mrs. Walter J. Zable entered into an agreement with the Company whereby the Company agreed to make advances of premiums payable on a split-dollar life insurance policy purchased by the trust on the life of Mrs. Zable. The agreement is so designed that if the assumptions made as to mortality experience, policy dividends and other factors are realized, at the death of Mrs. Zable the Company will recover all of its insurance premium payments as well as other costs associated with the policy. The advances are secured by a collateral assignment of the policy to the Company. The agreement is intended to prevent the possibility of a large block of the Company's common shares being put on the market, to the detriment of the share price, in order for the beneficiaries to pay estate taxes. The Company may cause the agreement to be terminated and the policy to be surrendered at any time. The difference between policy premiums and other payments, and the increase in the cash surrender value of the policy has been expensed or added to income in the year incurred. The amount added to income in 2001, 2000 and 1999 was $482,000, $45,000 and $254,000, respectively. As of September 30, 2001, the cash surrender value of the policy exceeded the total of all premium payments made by the Company through that date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 11—LEGAL MATTER

In 1991, the government of Iran commenced an arbitration proceeding against the Company seeking $12.9 million for reimbursement of payments made for equipment that was to comprise an Air Combat Maneuvering Range pursuant to a sales contract and an installation contract executed in 1977, and an additional $15 million for unspecified damages. The Company contested the action and brought a counterclaim for compensatory damages of $10.4 million. In May 1997, the arbitral tribunal awarded the government of Iran a decision in the amount of $2.8 million, plus simple interest at the rate of 12% per annum from September 21, 1991 through May 5, 1997.

In December 1998, the United States District Court granted a motion by the government of Iran confirming the arbitral award. The Company believes the Court did not follow case law precedent established by the Ninth Circuit Court in reaching its decision and has appealed on that basis. The Company believes that the ultimate outcome of the matter will not have a material effect on its financial statements and, to date, no expense has been accrued.

### NOTE 12—BUSINESS SEGMENT INFORMATION

**Description of the types of products and services from which each reportable segment derives its revenues:**

The Company has two primary business segments: transportation systems and defense, and one segment, software development, which is reportable due to the significance of losses incurred in 1999. The transportation systems segment designs, produces, installs and services electronic and mechanical revenue collection systems for mass transit projects, including railways and buses. The defense segment consists of five operating units that perform work under U.S. and foreign government contracts relating to electronic defense systems and equipment, computer simulation training, development of training doctrine and field operations and maintenance. Products include customized range instrumentation and training systems, communications and surveillance systems, avionics systems, transceivers and receivers. The software development segment had developed high-speed video and audio compression software for applications including electronic mail and surveillance. The Company discontinued this business in 1999 and does not expect significant revenues or expenses to be generated by it in the future.

**Measurement of segment profit or loss and segment assets:**

The Company evaluates performance and allocates resources based on total segment operating profit or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are immaterial.

**Factors management used to identify the Company's reportable segments:**

The Company's reportable segments are business units that offer different products and services. The reportable segments are each managed separately because they develop and manufacture distinct products with different customer bases.

## NOTE 12—BUSINESS SEGMENT INFORMATION - (CONTINUED)

Business segment financial data is presented below:

| Years ended September 30, | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in millions) | |
| **Revenues:** | | | |
| Transportation systems | $ 204.9 | $ 243.8 | $ 274.1 |
| Defense | 282.1 | 271.7 | 219.5 |
| Software development | - | - | 1.8 |
| Other | 14.7 | 16.0 | 15.4 |
| Total segment revenues | 501.7 | 531.5 | 510.8 |
| Other | 7.0 | 7.7 | 4.7 |
| Total consolidated revenues | $ 508.7 | $ 539.2 | $ 515.5 |
| **Operating profit (loss):** | | | |
| Transportation systems | $ 23.3 | $ 21.5 | $ 17.9 |
| Defense | 7.6 | (23.6) | 9.7 |
| Software development | - | - | (4.8) |
| Other | 0.5 | 1.3 | 1.2 |
| Total segment operating profit (loss) | 31.4 | (0.8) | 24.0 |
| Other | 3.3 | 4.7 | 1.8 |
| Interest expense | (3.6) | (3.7) | (4.3) |
| Income before income taxes | $ 31.1 | $ 0.2 | $ 21.5 |
| **Assets:** | | | |
| Transportation systems | $ 83.9 | $ 91.6 | $ 125.5 |
| Defense | 148.4 | 131.2 | 121.4 |
| Software development | - | - | 0.2 |
| Other | 3.4 | 3.1 | 3.6 |
| Total segment assets | 235.7 | 225.9 | 250.7 |
| Other | 105.6 | 96.5 | 79.3 |
| Total consolidated assets | $ 341.3 | $ 322.4 | $ 330.0 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| Years ended September 30, | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in millions) | |
| **Depreciation and amortization:** | | | |
| Transportation systems | $ 4.6 | $ 5.4 | $ 4.5 |
| Defense | 7.5 | 5.3 | 4.8 |
| Other | 0.1 | 0.1 | 0.2 |
| Total segment depreciation and amortization | 12.2 | 10.8 | 9.5 |
| Other | 0.6 | 0.6 | 0.7 |
| Total consolidated depreciation and amortization | $ 12.8 | $ 11.4 | $ 10.2 |
| **Expenditures for long-lived assets:** | | | |
| Transportation systems | $ 1.5 | $ 2.4 | $ 5.0 |
| Defense | 2.2 | 1.6 | 5.9 |
| Other | 0.1 | 0.3 | 0.1 |
| Total segment expenditures | 3.8 | 4.3 | 11.0 |
| Other | 0.6 | 0.2 | 0.5 |
| Total consolidated expenditures for long-lived assets | $ 4.4 | $ 4.5 | $ 11.5 |
| **Geographic Information:** | | | |
| Revenues (a): | | | |
| United States | $ 279.3 | $ 289.2 | $ 259.3 |
| United Kingdom | 149.8 | 166.7 | 183.6 |
| Far East | 32.5 | 36.4 | 43.0 |
| Other foreign countries | 47.1 | 46.9 | 29.6 |
| Total consolidated revenues | $ 508.7 | $ 539.2 | $ 515.5 |

(a) Revenues are attributed to countries or regions based on the location of customers.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Long-lived assets, net: | | | |
| United States | $ 50.4 | $ 54.4 | $ 59.8 |
| United Kingdom | 10.6 | 14.2 | 19.0 |
| Other foreign countries | 2.9 | 3.4 | 0.4 |
| Total consolidated long-lived assets, net | $ 63.9 | $ 72.0 | $ 79.2 |

Defense segment revenues include $183.5 million, $197.2 million and $168.6 million in 2001, 2000 and 1999, respectively, of sales to United States Government agencies. Transportation systems revenues include $76.3 million, $91.3 million, and $104.5 million of sales to Transys in 2001, 2000 and 1999, respectively. No other single customer accounts for 10% or more of the Company's revenue.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 13—SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended September 30, 2001 and 2000:

| | Quarter Ended | | | |
|---|---|---|---|---|
| | December 31 | March 31 | June 30 | September 30 |
| | (in thousands, except per share data) | | | |
| **Fiscal 2001** | | | | |
| Net sales | $ 120,334 | $ 122,826 | $ 127,289 | $131,230 |
| Gross profit | 25,841 | 29,285 | 28,129 | 32,855 |
| Net income | 4,669 | 4,965 | 5,324 | 5,884 |
| Net income per share | 0.52 | 0.56 | 0.60 | 0.66 |
| **Fiscal 2000** | | | | |
| Net sales | $ 115,398 | $ 144,933 | $ 133,064 | $138,121 |
| Gross profit (loss) | 27,186 | 28,211 | 27,343 | (1,137) |
| Net income (loss) | 4,127 | 4,556 | 4,714 | (12,723) |
| Net income (loss) per share | 0.46 | 0.51 | 0.53 | (1.42) |

## REPORT OF MANAGEMENT

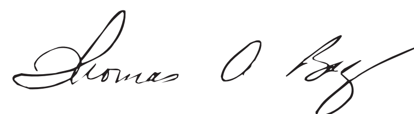
The Company's management is responsible for the preparation and integrity of the financial information contained in this annual report. Management is also responsible for maintaining a system of internal financial controls designed to provide reasonable assurance that financial records are adequate and can be relied upon to produce consolidated financial statements in accordance with generally accepted accounting principles. Management has assessed its system and believes these financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and the other financial information in this annual report is consistent with these statements. In preparing the financial statements, management makes informed judgements and estimates where necessary to reflect the expected effects of events and transactions that have not been completed.

The system of internal financial controls is supported by written policies and guidelines, by careful selection and training of financial management personnel, and by an internal audit staff which coordinates its activities with the Company's independent auditors. To foster a strong ethical climate in the conduct of the Company's affairs, the Company has embodied a code of ethics in its Corporate policies which are publicized throughout the Company. This code of ethics addresses, among other things, compliance with all laws and the accuracy and integrity of books and records. The Company maintains a systematic program to assess compliance.

The Audit and Compliance Committee of the Board of Directors is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to discuss internal accounting controls, the quality of financial reporting and other relevant matters. Financial management, as well as the internal auditors and the independent auditors, have full and free access to the Audit and Compliance Committee.

Walter J. Zable
Chairman of the Board
President and Chief Executive Officer

William W. Boyle
Vice President and
Chief Financial Officer



Thomas A. Baz
Vice President and
Corporate Controller

## REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

### BOARD OF DIRECTORS AND SHAREHOLDERS
### CUBIC CORPORATION

We have audited the accompanying consolidated balance sheets of Cubic Corporation as of September 30, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cubic Corporation at September 30, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States.

San Diego, California
November 20, 2001

## SHAREHOLDER INFORMATION

**Listing:**
American Stock Exchange

**Shareholders of Record:**
1,400

**Symbol:**
CUB

**Registrar and Transfer Agent:**
Computershare Investor Services
Los Angeles, California

**Auditors:**
Ernst & Young LLP

**Annual Meeting:**
The 2001 Annual Meeting will be held in the main conference room at the headquarters of the company:

Cubic Corporation
9333 Balboa Avenue
San Diego, California 92123

February 13, 2002
10:30 a.m. PST

Shareholders of record on December 19, 2001 are being sent formal notice of the meeting, together with the proxy form and statement.

Form 10-K will be furnished to shareholders upon request by contacting:

**Investor Relations**
Kelly Williams
9333 Balboa Avenue
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Chief Executive Officer

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General Manager
Tom Scott
Managing Director

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