Financial Statements

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Our two primary businesses are in the defense and transportation industries. For the year ended September 30, 2005, 68% of sales were derived from defense, while 32% were derived from transportation fare collection systems and other commercial operations. These are high technology businesses that design, manufacture and integrate complex systems to meet the needs of various federal and regional government agencies in the U.S. and other nations around the world. The U.S. Government remains our largest customer, accounting for approximately 53% of sales in 2005 compared to 50% in 2004 and 44% in 2003.

Cubic Defense Applications is a diversified supplier of constructive, live and virtual military training systems, services and communication systems and products to the U.S. Department of Defense, other government agencies and allied nations. We design instrumented range systems for fighter aircraft, armored vehicles and infantry force-on-force live training; weapons effects simulations; laser-based tactical and communication systems; and precision gunnery solutions. Our services are focused on training mission support, computer simulation training, distributed interactive simulation, development of military training doctrine, force modernization services for NATO entrants and field operations and maintenance. Our communications products are aimed at intelligence, surveillance, and search and rescue markets.

Cubic Transportation Systems develops and delivers innovative fare collection systems for public transit authorities worldwide. We provide hardware, software and multiagency, multimodal transportation integration technologies and services that allow the agencies to efficiently collect fares, manage their operations, reduce shrinkage and make using public transit a more convenient and attractive option for commuters.

Consolidated Overview

Sales in fiscal 2005 were $804 million compared to $722 million in 2004, an increase of 11%, and the fourth consecutive year of double-digit sales growth. Sales of $722 million in 2004 represented a 14% increase over 2003 sales of $634 million. All of the sales growth in both 2004 and 2005 came from the defense segment, while transportation systems sales were virtually flat for the three year period from 2003 to 2005. The growth in 2005 defense sales all came from existing businesses, while nearly $40 million of the growth in fiscal 2004 defense sales came from the training systems business we acquired at the end of 2003. Transportation systems made two small acquisitions, one at the end of 2004 and one early in 2005, which added about $9 million to fiscal 2005 transportation systems sales. See the segment discussions following for further analysis of segment sales.

Operating income fell to $13.1 million in 2005 compared to $54.2 million in 2004, representing a 76% decrease. Operating income in 2004 increased by 13% over 2003 operating income of $48.0 million. The primary cause of the decrease in operating income in 2005 was an operating loss of $13.8 million incurred in the transportation systems segment, compared to operating income for the segment of $28.2 million in 2004. Defense operating income decreased from $34.5 million in 2004 to $30.1 million in 2005 primarily due to a change in sales from mature to newer systems with significant research and development content. Operating income was also impacted in 2005 by the costs of initial year compliance with Section 404 of the Sarbanes-Oxley Act of 2002. These costs, which are included in corporate and other costs in our segment reporting, amounted to $1.4 million and included consultants, software and additional audit fees. In 2004, both segments posted operating income improvements over 2003, with the

bigger increase coming from the defense segment. Operating income in 2004 was impacted by a $6 million provision for a legal matter that arose from a contract with the government of Iran in 1977. Although this was a defense related contract, we did not include this provision in the defense segment due to the remote connection of this matter to our current defense operations, since the events in question occurred more than 25 years ago. See the segment discussions following for further details of segment operating results.

Net income in 2005 was $11.6 million ($0.44 per share), down 69% from $36.9 million ($1.38 per share) in 2004. Net income in 2004 was nearly the same as 2003 net income of $36.5 million ($1.37 per share). The drop in net income in 2005 was primarily because of the operating loss in the transportation systems segment, and was further impacted by the decrease in defense segment operating income. Approximately $2.8 million of the 2005 net income was from a reduction in tax contingency reserves in the fourth quarter, while $2.3 million, after taxes, of the 2004 net income was from a gain on the sale of a life insurance policy in the third quarter. The loss provision for the Iran legal matter described above reduced 2004 net income in the fourth quarter by approximately $3.8 million after taxes. Approximately $5.3 million, after taxes, of the 2003 net income was from gains on the sale of two parcels of real estate, which were no longer used in the business. The following table provides insight into our results of operations by summarizing the effects of these items on our net income:

	2005	2004	2003
		(in millions)	
Earnings before certain identified items	$ 8.8	$ 38.4	$ 31.2
Gains on sale of assets	-	2.3	5.3
Provision for litigation (Iran)	-	(3.8)	-
Reversal of tax contingency reserves	2.8	-	-
Net income as reported	$ 11.6	$ 36.9	$ 36.5

The gross margin fell to 16.4% in 2005 compared to 23.9% in 2004 and 22.2% in 2003. This decrease in 2005 reflects the losses incurred on contracts in the transportation systems segment and lower margins from the defense segment due to a loss in the Communications and Electronics Business Unit.

Selling, general and administrative (SG&A) expenses decreased to 13.8% of sales compared to 14.8% in 2004 and 13.9% in 2003. SG&A expenses in the defense segment increased in both 2004 and 2005 in support of the higher sales volume, but decreased as a percentage of sales in 2005. Transportation systems SG&A expenses decreased in 2005, after having increased in 2004 due to legal, consulting and engineering support costs incurred that year related to a contractual dispute with a former subcontractor.

Company sponsored research and development (R&D) spending increased in 2005 over the 2004 level, however, R&D costs continued to be incurred primarily in connection with customer funded activities. We do not rely heavily on company sponsored R&D, as most of our new product development occurs in conjunction with the performance of work on our contracts. The amount of contract required development activity increased in 2005 to $65 million, compared to $51 million in 2004 and $46 million in 2003; however, these costs are included in cost of sales as they are directly related to contract performance.

Interest and dividend income increased in 2005 over both 2004 and 2003 due to somewhat higher cash balances available for investment and higher interest rates. Other income increased in 2005 compared to 2004, primarily because of increased foreign currency exchange gains on intercompany advances to our U.K. subsidiary, primarily in the first quarter. Interest expense increased in both 2004 and 2005 due to higher amounts of short-term borrowings during each year than in the previous year.

Our effective tax rate for 2005 was 3.7% of pretax income compared to 34.4% in 2004 and 33.6% in 2003. The decrease in our effective rate in 2005 was due primarily to the reversal of tax contingency provisions related to a foreign and a domestic state tax matter, each of which was resolved in our favor during, or subsequent to, the fourth quarter. Our effective tax rate could be affected in future years by, among other factors, the mix of business between U.S. and foreign jurisdictions, our ability to take advantage of available tax credits, and audits of our records by taxing authorities.

Tax legislation enacted in 2004 repealed the Extraterritorial Income (ETI) exclusion relating to export sales. Over a transition period which began in 2005, the new tax rules phase-out the ETI exclusion benefit and provide for a new tax deduction in computing profits from the sale of products manufactured in the United States. The tax benefit we realize from the new legislation is expected to be substantially equivalent to the benefit we realized under the repealed ETI exclusion.

We are continuing to evaluate the impact of tax legislation enacted in 2004 that provides incentives for repatriation of capital to the U.S. We must determine if it will be beneficial to take advantage of the provisions of the legislation by reinvesting some amount of capital in the United States in fiscal 2006. We believe that if the decision is made to reinvest a portion of this capital in the U.S., the related tax liability will not have a material impact on Cubic's results of operations or financial position.

DEFENSE SEGMENT

Years ended September 30,	2005	2004	2003
		(in millions)	
Defense Segment Sales			
Communications and electronics	$ 52.5	$ 65.5	$ 55.0
Training systems	227.9	181.6	160.1
Government services	257.0	202.4	148.8
Other	6.0	3.4	1.2
	$ 543.4	$ 452.9	$ 365.1
Defense Segment Operating Income			
Communications and electronics	$ (4.9)	$ 6.6	$ 4.2
Training systems	17.0	14.5	12.3
Government services	19.2	13.2	8.2
Tactical systems and other	(1.2)	0.2	(0.1)
	$ 30.1	$ 34.5	$ 24.6

Defense sales grew to $543 million in 2005 from $453 million in 2004, a 20% increase. All of the increase in 2005 sales was "organic," coming from businesses we owned in 2004. The biggest sales increase came from the government services business unit, which increased 27% from $202 million in 2004 to $257 million in 2005. The increase in government services sales came both from new contracts and the expansion of existing programs. The most significant growth came from a contract at the Joint Readiness Training Center (JRTC) in Fort Polk, LA, in support of combat training exercises and from contracts for modeling the effects of weapons of mass destruction. Training systems sales increased by 25%, from $182 million to $228 million, as a result of growth in sales of air and ground combat training systems and laser engagement systems to the U.S. and allied governments. Air combat training sales increased in 2005 as activity on the major IDIQ contract we won in 2003 expanded. Ground combat training sales also increased due to training ranges we are building in Canada, Australia and the Middle East. We received new orders during the year for multiple integrated laser engagement systems (MILES), resulting in higher sales from this product line as well. Communications and electronics sales decreased 20% from $66 million in 2004 to $53 million in 2005, as sales of legacy data link and avionics products declined. We are encouraged by orders we received recently for our new communications and electronics products, which we expect will generate higher sales for this product line in the future.

Defense sales of $453 million in 2004 represented an increase of 24% over 2003 sales of $365 million. Of the increase in 2004 sales, nearly $40 million came from the Simulation Systems Division (SSD) acquired in September 2003, which is included with training systems in the foregoing table. Not including SSD, defense sales would have increased 13% from 2003 to 2004. This growth came despite a decrease of nearly $20 million in training systems sales, other than from SSD, due primarily to a decline in air combat training sales from the 2003 level. MILES sales also decreased in 2004, but this decrease was more than offset by higher sales from ground combat training systems. Communications and Electronics Business Unit sales were also higher in 2004 because of a contract we won in 2003 to develop a common data link subsystem (CDLS) for the U.S. Navy. Government services sales increased by $54 million in 2004, a 36% increase. As in 2005, the most significant sales increase in government services came from the JRTC contract. Other than from JRTC, government services sales grew by 20% in 2004.

Operating income in the defense segment fell to $30.1 million in 2005 from $34.5 million in 2004, a 13% decrease, after having increased 40% in 2004. Higher operating income from training systems and government services was more than offset by an operating loss in communications and electronics and start up expenses for the joint venture we entered into early in the year. This 50/50 joint venture arrangement with the U.S. subsidiary of Rafael Armament Development Authority Ltd. (Rafael), an Israeli company, will manufacture certain Rafael products for sale to the U.S. and Israeli defense forces. This new company began operations during the second quarter this year, but did not receive its first contract award until shortly before the close of the fiscal year and, therefore, had no sales in fiscal 2005. The business incurred approximately $1.3 million in expenses in 2005, which are included in the table above under the caption "Tactical Systems and Other." Cubic is the primary beneficiary of the venture, as defined in FIN 46 "*Consolidation of Variable Interest Entities,*" therefore, we consolidated this joint venture in our financial statements. As a result, all of the income and expenses of this business are included in the calculation of operating income even though it is only 50% owned by Cubic. Minority interest in the net loss from this business is reflected on the income statement and minority interest in the net assets is included on the balance sheet.

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

The operating loss in communications and electronics in 2005 was primarily due to cost growth totaling nearly $5 million on two contracts, one a program involving a new intelligence application of our data link and receiver technology and the other the CDLS contract mentioned above. In addition, approximately $2 million in overstocked or obsolete communications products inventory was written down in value to zero. This inventory valuation adjustment was due primarily to the transition of this product line from building predominately surveillance receivers to building power amplifiers. In addition, the decrease in sales of legacy data link and avionics products reduced operating income by more than $6 million. With the transition to the new communications and electronics products now complete, we are optimistic that this business unit can return to profitability in fiscal 2006.

Operating income in communications and electronics improved in 2004 over 2003 primarily because 2003 was impacted by a loss provision of $3 million related to our investment in new communications technology for the CDLS contract. In addition, communications and electronics operating income was bolstered in 2004 by performance on another data link contract with a foreign customer. Avionics products, such as personnel locator systems, generated higher operating income in 2004; however, this was offset by operating losses from the surveillance receiver product line.

Training systems operating income increased in 2005, compared to 2004, because of higher sales from ground combat training and MILES contracts. However, operating income as a percentage of sales decreased slightly because a portion of the sales growth came from ground combat training ranges in Canada, Australia and the Middle East that have low profit margins. In addition, two new contracts for laser engagement and combat training systems were in the early stages of completion in 2005, with little or no profit recognized until they are further along toward completion. Operating income in training systems increased in 2004 over 2003 because of the acquisition of SSD late in 2003. SSD added $2.3 million to training systems operating income in 2004. Higher operating income from ground combat training systems in 2004 offset the profit impact of lower sales volume from air combat training systems and MILES products.

Government services operating income in 2005 increased over 2004 due to higher sales volume and improved operating performance. Operating income as a percentage of sales increased from 6.5% in 2004 to nearly 7.5% in 2005, as SG&A expenses did not increase in proportion to the sales increase, thereby improving the profit margin. Government services operating income improved in 2004 compared to 2003 primarily because of higher sales volume, but also because of improved performance from operations and maintenance (O&M) contracts. The O&M business recorded a loss in 2003 on one particular contract which had experienced cost growth that year.

TRANSPORTATION SYSTEMS SEGMENT

Transportation systems sales were nearly flat for the 2003 to 2005 period, with 2003 and 2004 virtually equal, at $253 million, while 2005 decreased about 3% to $246 million. North American sales in 2005 decreased from the 2004 level by 15%, while sales in Australia and Europe increased about 14%. The decrease in North America was in contrast to 2004, when North American sales increased by 8% over 2003. Sales from European service contracts also increased in 2004, as well as sales in Australia. These increases in 2004 were offset by an expected $47 million decrease in sales from the PRESTIGE contract in London between 2003 and 2004 due to completion of the initial system installation. Sales from the PRESTIGE contract increased about $9 million in 2005 over the 2004 level due to increased service activities and work on contract change orders. Transportation systems made acquisitions of two small parking system companies, one at the end of 2004 and one early in 2005, which added about $9 million to fiscal 2005 transportation product sales.

Transportation systems incurred an operating loss in 2005 of $13.8 million, compared to operating income in 2004 of $28.2 million. Projected costs to complete fare collection systems in five cities increased by $27.9 million more than we had estimated last year; therefore, a loss of that amount was recorded on these contracts during the year. The primary cause of the cost growth was an increase in engineering hours incurred to complete the projects. We made progress toward completion of these projects during the year, and a significant amount of the equipment has been installed; however, the costs of accomplishing this were higher than we were previously able to anticipate. The new cost estimates are our best estimates of the most likely costs to complete these contracts, three of which are substantially complete and two of which should be substantially complete by mid-2006. Remaining tasks on the contracts are now on schedule for completion in 2006 and we expect the transportation systems segment to return to profitability in fiscal 2006.

Unrelated to these contracts, in the second quarter we provided an allowance of $4.2 million for doubtful collection of an accounts receivable balance with a customer that terminated its contract with us. This provision is included in SG&A expenses in the consolidated statement of income. We believe that we have substantially performed the requirements of the contract such that this payment is due to us and we believe the termination attempt by this customer is unwarranted. We also incurred an operating loss of $4.5 million from the parking company we acquired last year. This was the result of cost growth on two contracts as well a lack of sufficient sales volume to absorb the overhead costs of the business. A restructuring plan has been developed and will be implemented by the end of the first quarter of fiscal year 2006. Costs of the restructuring and additional unabsorbed overhead expenses will result in a loss from the parking company in the first quarter of 2006.

Transportation Systems operating income of $28.2 million in 2004 increased 16% from the 2003 level of $24.4 million. The increased operating income in 2004 compared to 2003 resulted from higher sales and improved operating performance on service contracts in Europe and from a contract in the Far East. Higher profits from the PRESTIGE contract in 2004 were offset by costs associated with claim settlement proceedings.

Backlog

September 30,	2005	2004
	(in millions)	
Total backlog		
Transportation systems	$ 733.3	$ 733.9
Defense		
Communications and electronics	57.3	61.5
Training systems	318.9	317.6
Government services	344.1	377.0
Tactical systems	7.4	-
Total defense	727.7	756.1
Total	$ 1,461.0	$ 1,490.0
Funded backlog		
Transportation systems	$ 733.3	$ 733.9
Defense		
Communications and electronics	57.3	61.5
Training systems	318.9	317.6
Government services	92.0	72.7
Tactical systems	7.4	-
Total defense	475.6	451.8
Total	$ 1,208.9	$ 1,185.7

In addition to the amounts identified above, the company has been selected as a participant in or, in some cases, the sole contractor for several substantial Indefinite Delivery, Indefinite Quantity (IDIQ) contracts. IDIQ contracts are not included in backlog until an order is received.

The difference between total backlog and funded backlog represents options under multiyear service contracts. Funding for these contracts comes from annual operating budgets of the U.S. government and the options are normally exercised annually. Options for the purchase of additional systems or equipment are not included in backlog until exercised.

New Accounting Standards

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, an amendment of ARB No. 43, Chapter 4, Inventory Costs (SFAS No. 151). This accounting standard, which is effective for annual periods beginning after June 15, 2005, requires that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. The adoption of SFAS No. 151 is not expected to have a material effect on the Company's financial position or results or operations.

Liquidity and Capital Resources

Cash flows from operations totaled $55 million in 2005, offsetting negative cash flows from operations in the previous two years of $28 million in 2004 and $26 million in 2003. The greatest contributor to positive cash flows in 2005 was a $38 million decrease in accounts receivable. Both the defense and transportation systems segments generated positive cash flows in 2005, with the total split nearly equally between them. Operating cash flows from the defense segment were positive in all three years, while transportation systems operating cash flows were negative in 2003 and 2004, before turning positive in 2005.

A portion of the transportation systems positive cash flows in 2005 came from an $18 million claim settlement received in October 2004 related to the PRESTIGE project, with the remainder coming from normal contractual payments. We expect transportation systems cash flows to continue to be positive in fiscal 2006, as contract milestones are reached, triggering customer payments that have been deferred due to the contract performance issues described in the transportations systems discussion above. Growth in accounts receivable due to these deferred milestone payments accounted for the majority of the increase in accounts receivable and the negative cash flows in 2004. In fiscal 2003, $55 million in negative cash flows came from the PRESTIGE project; however, this contract generated positive cash flows in both 2004 and 2005, in addition to the claim settlement mentioned above.

We have classified certain unbilled accounts receivable balances as noncurrent because we do not expect to receive payment within one year from the balance sheet date. At September 30, 2005, $19 million of the $23 million related to the PRESTIGE project, while at September 30, 2004, $30 million of the $33 million balance related to PRESTIGE.

Cash flows used in investing activities in 2005 included $8 million in capital expenditures, partially offset by the liquidation of $6 million in marketable securities that had been held for sale. Investing activities in 2004 included a $14 million cash receipt from the sale of a life insurance policy, $7 million in capital expenditures, $7 million used for acquisitions and the net purchase of marketable securities held for sale of $3 million. In 2003, investing activities included $12 million in proceeds from the sale of two pieces of real estate which were no longer used in the business. In addition, a net amount of $3 million was used to purchase marketable securities, $34 million was used for an acquisition and $8 million was used for capital expenditures.

Financing activities in 2005 included scheduled debt payments of $6 million, dividends paid to shareholders of $5 million (18 cents per share) and net borrowings of $1 million on a short-term basis. Short-term borrowings in New Zealand of $9 million were repaid in 2005, while $4 million was borrowed on a short-term basis in Canada to fund transportation systems operations there and a net of $6 million was added to short-term borrowings in the U.S.

In 2004 we obtained a mortgage on our facility in the U.K. and used the proceeds to repay $6 million of short-term borrowings made in fiscal 2003 in the U.K. We borrowed $9 million in New Zealand in 2004 on a short-term basis to fund working capital growth in our defense subsidiary in that country and borrowed $16 million in the U.S. on a short-term basis to fund domestic working capital requirements. Other financing activities included scheduled debt payments of $2 million in 2004 and $1 million in 2003, and the payment of $4 million in dividends to shareholders in both 2004 and 2003.

Accumulated other comprehensive income decreased by $8 million in 2005 because of foreign currency translation adjustments of $4 million and an increase in the minimum liability for our pension plan of $4 million. This leaves a positive balance of $2 million in accumulated other comprehensive income as of September 30, 2005 compared to $10 million at September 30, 2004.

The pension plan under-funded balance increased from the September 30, 2004 balance of $34 million to a September 30, 2005 balance of $41 million. The plan assets generated a healthy return again this year; however, growth in the net benefit obligation, caused primarily by lower long-term interest rates, caused the under funded balance to increase. Pension expense decreased from $9.7 million in 2004 to $8.7 million in 2005 due to an increase in plan assets available for investment and a lower actuarial loss than in 2004. We expect our pension expense to increase in fiscal 2006 by about $1 million, back to the 2004 level, due primarily to the increased actuarial loss experienced in fiscal 2005. We contributed $8.2 million to the plans in 2005 and expect to make contributions of at least $8 million during fiscal 2006.

The net deferred tax asset was $28 million at September 30, 2005 compared to $18 million at September 30, 2004. Of these amounts, $6 million and $4 million at September 30, 2005 and 2004, respectively, resulted from the tax effect of recording an additional minimum pension liability. We expect to generate sufficient taxable income in the future such that the net deferred tax asset will be realized.

Our financial condition remains strong with working capital of $242 million and a current ratio of 2.3 at September 30, 2005. We expect that cash on hand and our ability to access the debt markets will be adequate to meet our working capital requirements for the foreseeable future. In addition to the short-term borrowing arrangements we have in the U.K., New Zealand and Canada, we have a committed five year credit facility from a group of financial institutions in the U.S., aggregating $150 million. As of September 30, 2005, $22 million of this amount was used, with approximately another $29 million available under a technical financial ratio calculation. Our total debt to capital ratio at September 30, 2005 was 20%, which is at a conservative level and well below industry averages.

The following is a schedule of our contractual obligations outstanding as of September 30, 2005:

	Total	Less than 1 Year	1 - 3 years	4 - 5 years	After 5 years
	(in millions)				
Long-term debt	$ 49.8	$ 6.0	$ 12.1	$ 10.7	$ 21.0
Interest payments	13.4	2.8	4.6	3.1	2.9
Operating leases	22.9	6.1	8.1	4.8	3.9
Deferred compensation	8.7	1.1	1.3	0.6	5.7

Critical Accounting Policies, Estimates and Judgments

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

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

This discussion of critical accounting policies, estimates and judgments should be read in conjunction with other disclosures included in this discussion, and the Notes to the Consolidated Financial Statements related to estimates, contingencies and new accounting standards. Significant accounting policies are identified in Note 1 to the Consolidated Financial Statements. We have discussed each of the "critical" accounting policies and the related estimates with the audit committee of the Board of Directors.

Revenue Recognition

Most of our business is derived from long-term development, production and system integration contracts which we account for consistent with the American Institute of Certified Public Accountants' (AICPA) audit and accounting guide, *Audits of Federal Government Contractors*, and the AICPA's Statement of Position No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. We consider the nature of these contracts, and the types of products and services provided, when we determine the proper accounting for a particular contract. Generally, we record revenue for long-term fixed price contracts on a percentage of completion basis using the cost-to-cost method to measure progress toward completion. Most of our long-term fixed-price contracts require us to deliver minimal quantities over a long period of time or to perform a substantial level of development effort in relation to the total value of the contract. Under the cost-to-cost method of accounting, we recognize revenue based on a ratio of the costs incurred to the estimated total costs at completion. Amounts representing contract change orders, claims or other items are included in the contract value only when they can be reliably estimated and realization is considered probable. Provisions are made on a current basis to fully recognize any anticipated losses on contracts.

Management's Discussion and Analysis of Financial Condition and Results of Operations

We record sales under cost-reimbursement-type contracts as we incur the costs. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profits, and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase or decrease earnings based solely on a single significant event are not recognized until the event occurs. We have accounting policies in place to address these and other complex issues in accounting for long-term contracts.

Sales of products are recorded when a firm sales agreement is in place, delivery has occurred and collectibility of the fixed or determinable sales price is reasonably assured. Sales of services are recorded when performed in accordance with contracts or service agreements. Sales and profits on contracts that specify multiple deliverables are allocated to separate units of accounting when there is objective evidence that each accounting unit has value to the customer on a stand-alone basis. Separate units of accounting are based upon values assigned under the terms of such contracts.

Income Taxes

Significant judgment is required in determining our income tax provisions and in evaluating our tax return positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may not prevail. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements and are referred to as timing differences. In addition, some expenses are not deductible on our tax return and are referred to as permanent differences. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which we have already recorded the benefit in our income statement. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent deductions we have taken on our tax return but have not yet recognized as expense in our financial statements. We have not recognized any United States tax expense on undistributed earnings of our foreign subsidiaries since we intend to reinvest the earnings outside the United States for the foreseeable future. These undistributed earnings totaled approximately $70 million at September 30, 2005.

Valuation of Goodwill

We evaluate our recorded goodwill balances for potential impairment annually by comparing the fair value of each reporting unit to its carrying value, including recorded goodwill. We have not yet had a case where the carrying value exceeded the fair value; however, if it did, impairment would be measured by comparing the derived fair value of goodwill to its carrying value, and any impairment determined would be recorded in the current period.

To date there has been no impairment of our recorded goodwill. Goodwill balances by reporting unit are as follows:

September 30,	2005	2004
	(in millions)	
Defense systems and products	$ 16.6	$ 17.5
Defense services	9.7	9.7
Transportation systems	8.2	8.0
Total goodwill	$ 34.5	$ 35.2

Determining the fair value of a reporting unit for purposes of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. We currently perform internal valuation analysis and consider other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and comparisons with recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rate reflecting the inherent risk in future cash flows, perpetual growth rate and determination of appropriate market comparables.

Pension Costs

The measurement of our pension obligations and costs is dependent on a variety of assumptions used by our actuaries. These assumptions include estimates of the present value of projected future pension payments to plan participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

The assumptions used in developing the required estimates include the following key factors:

- Discount rates
- Inflation
- Salary growth
- Expected return on plan assets
- Retirement rates
- Mortality rates

We base the discount rate assumption on investment yields available at year-end on high quality corporate long-term bonds. Our inflation assumption is based on an evaluation of external market indicators. The salary growth assumptions reflect our long-term actual experience in relation to the inflation assumption. The expected return on plan assets reflects asset allocations, our historical experience, our investment strategy and the views of investment managers and large pension sponsors. Retirement and mortality rates are based primarily on actual plan experience. The effects of actual results differing from our assumptions are accumulated and amortized over future periods, and therefore, generally affect our recognized expense in such future periods.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement About Forward-Looking Information

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to the "safe harbor" created by those sections. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or our future financial and/or operating performance are not historical and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "may," "will," "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "predict," "potential," "opportunity" and similar words or phrases or the negatives of these words or phrases. These statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in these statements, so you should not place undue reliance on any forward-looking statements. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended September 30,		
	2005	2004	2003
	(amounts in thousands, except per share data)		
Net sales	$ 804,372	$ 722,012	$ 634,061
Costs and expenses:			
Cost of sales	672,541	549,170	493,377
Selling, general and administrative expenses	110,644	107,139	87,888
Research and development	8,083	5,494	4,819
Provision for litigation	-	6,000	-
	791,268	667,803	586,084
Operating income	13,104	54,209	47,977
Other income (expenses):			
Gain on sale of assets	-	4,510	8,448
Interest and dividends	1,046	431	1,161
Interest expense	(5,386)	(4,658)	(3,659)
Other income	2,668	1,813	1,106
Minority interest in loss of subsidiary	649	-	-
Income before income taxes	12,081	56,305	55,033
Income taxes	453	19,394	18,514
Net income	$ 11,628	$ 36,911	$ 36,519
Basic and diluted net income per common share	$ 0.44	$ 1.38	$ 1.37
Average number of common shares outstanding	26,720	26,720	26,720

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

	September 30, 2005	September 30, 2004
	(in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 48,860	$ 10,622
Marketable securities, available-for-sale	-	6,200
Accounts receivable:		
Trade and other receivables	11,085	29,771
Long-term contracts	304,688	314,286
Allowance for doubtful accounts	(5,002)	(860)
	310,771	343,197
Inventories	21,530	23,967
Deferred income taxes	24,798	15,816
Prepaid expenses and other current assets	17,871	13,494
TOTAL CURRENT ASSETS	423,830	413,296
LONG-TERM CONTRACT RECEIVABLES	22,900	33,000
PROPERTY, PLANT AND EQUIPMENT		
Land and land improvements	14,990	15,039
Buildings and improvements	41,154	39,660
Machinery and other equipment	79,713	81,029
Leasehold improvements	3,665	3,155
Accumulated depreciation and amortization	(87,345)	(86,524)
	52,177	52,359
OTHER ASSETS		
Deferred income taxes	3,293	2,108
Goodwill	34,473	35,173
Miscellaneous other assets	10,607	6,988
	48,373	44,269
TOTAL ASSETS	$ 547,280	$ 542,924

See accompanying notes.

	September 30,	
	2005	2004
	(in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 26,302	$ 25,048
Trade accounts payable	30,256	28,317
Customer advances	41,239	51,182
Accrued compensation	36,601	28,651
Accrued pension liability	7,953	8,618
Other current liabilities	27,270	25,007
Income taxes payable	6,571	5,908
Current maturities of long-term debt	6,040	6,057
TOTAL CURRENT LIABILITIES	182,232	178,788
LONG-TERM DEBT	43,776	50,037
OTHER LIABILITIES		
Accrued pension liability	16,179	9,009
Deferred compensation	7,584	6,323
MINORITY INTEREST	351	-
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY		
Common stock, no par value:		
Authorized--50,000,000 shares		
Issued--35,664,729 shares, outstanding--26,719,845 shares	234	234
Additional paid-in capital	12,123	12,123
Retained earnings	319,200	312,381
Accumulated other comprehensive income	1,667	10,095
Treasury stock at cost--8,944,884 shares	(36,066)	(36,066)
	297,158	298,767
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 547,280	$ 542,924

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands except per share amounts)	Comprehensive Income	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Additional Paid-in Capital	Common Stock
October 1, 2002		$ (36,066)	$ (10,096)	$ 246,968	$ 12,123	$ 234
Comprehensive income:						
Net income	$ 36,519	-	-	36,519	-	-
Unrealized holding gains on marketable securities	57	-	57	-	-	-
Reduction of minimum pension liability	1,581	-	1,581	-	-	-
Foreign currency translation adjustment	6,918	-	6,918	-	-	-
Net unrealized gains from cash flow hedges	795	-	795	-	-	-
Comprehensive income	$ 45,870					
Cash dividends paid -- $.14 per share of common stock		-	-	(3,741)	-	-
September 30, 2003		(36,066)	(745)	279,746	12,123	234
Comprehensive income:						
Net income	$ 36,911	-	-	36,911	-	-
Realized gains on marketable securities	(160)	-	(160)	-	-	-
Reduction of minimum pension liability	2,568	-	2,568	-	-	-
Foreign currency translation adjustment	8,788	-	8,788	-	-	-
Net unrealized losses from cash flow hedges	(356)	-	(356)	-	-	-
Comprehensive income	$ 47,751					
Cash dividends paid -- $.16 per share of common stock		-	-	(4,276)	-	-
September 30, 2004		(36,066)	10,095	312,381	12,123	234
Comprehensive income:						
Net income	$ 11,628	-	-	11,628	-	-
Increase in minimum pension liability	(4,027)	-	(4,027)	-	-	-
Foreign currency translation adjustment	(3,970)	-	(3,970)	-	-	-
Net unrealized losses from cash flow hedges	(431)	-	(431)	-	-	-
Comprehensive income	$ 3,200					
Cash dividends paid -- $.18 per share of common stock		-	-	(4,809)	-	-
September 30, 2005		$ (36,066)	$ 1,667	$ 319,200	$ 12,123	$ 234

See accompanying notes.

Consolidated Statements of Cash Flows

	Years Ended September 30,		
	2005	2004	2003
		(in thousands)	
Operating Activities:			
Net income	$ 11,628	$ 36,911	$ 36,519
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,631	7,466	6,483
Deferred income taxes	(7,967)	52	5,405
Provision for doubful accounts	4,136	(193)	738
Gain on sale of assets	-	(4,510)	(8,448)
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	38,480	(84,534)	(94,425)
Inventories	3,048	2,638	6,256
Prepaid expenses	(4,865)	(3,327)	(4,934)
Accounts payable and other current liabilities	12,122	8,948	14,730
Customer advances	(9,893)	9,047	9,236
Income taxes	885	(129)	3,438
Other items - net	(1,492)	(556)	(1,115)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	54,713	(28,187)	(26,117)
Investing Activities:			
Acquisition of businesses, net of cash acquired	(358)	(7,141)	(33,949)
Proceeds from sale of assets	-	13,610	12,038
Decrease (increase) in marketable securities	6,200	(3,206)	(2,588)
Purchases of property, plant and equipment	(8,311)	(6,949)	(8,184)
Other items - net	(3,256)	(784)	-
NET CASH USED IN INVESTING ACTIVITIES	(5,725)	(4,470)	(32,683)
Financing Activities:			
Change in short-term borrowings	683	17,876	6,254
Proceeds from issuance of long-term debt	-	9,026	-
Principal payments on long-term debt	(6,069)	(1,902)	(1,429)
Dividends paid to shareholders	(4,809)	(4,276)	(3,741)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(10,195)	20,724	1,084
Effect of exchange rates on cash	(555)	185	1,430
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,238	(11,748)	(56,286)
Cash and cash equivalents at the beginning of the year	10,622	22,370	78,656
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 48,860	$ 10,622	$ 22,370

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of the Business: Cubic Corporation ("Cubic" or "the Company") designs, develops and manufactures products which are mainly electronic in nature, provides government services and services related to products previously produced by Cubic and 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, its majority-owned subsidiaries and a 50% owned joint venture of which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidation of foreign subsidiaries requires translation of their assets and liabilities 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.

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 investment 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 instrument 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 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. The fair value of long-term debt is based upon quoted market prices for the same or similar debt instruments and approximates the carrying value of the debt. 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. The Company has limited exposure to credit risk as the Company has historically collected substantially all of its receivables from government agencies. The Company generally requires no allowance for doubtful accounts for these customers unless specific contractual circumstances warrant it.

Marketable Securities, Available-for-Sale: Marketable securities include highly liquid, investment grade, institutional money market debt and preferred stock instruments and are stated at fair market value. The net excess of fair market value over cost is included in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheets.

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 as allowed by government cost accounting standards, the amounts remaining in inventory at September 30, 2005 and 2004 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. Generally, straight-line methods are used for real property over estimated useful lives ranging from 15 to 39 years or the term of the underlying lease for leasehold improvements. Accelerated methods are used for machinery and equipment over estimated useful lives ranging from five to seven years. Provisions for depreciation of plant and equipment amounted to $8,096,000, $6,979,000, and $6,483,000 in 2005, 2004 and 2003, respectively.

Goodwill: Goodwill is evaluated for potential impairment annually by comparing the fair value of a reporting unit to its carrying value, including recorded goodwill. If the carrying value exceeds the fair value, impairment is measured by comparing the derived fair value of goodwill to its carrying value, and any impairment determined would be recorded in the current period. To date there has been no impairment of the Company's recorded goodwill. The changes in the carrying amount of goodwill for the two years ended September 30, 2005 are as follows:

	Transportation Segment	Defense Segment	Total
		(in thousands)	
Balances October 1, 2003	$ 7,144	$ 26,167	$ 33,311
Goodwill acquired during the year	176	-	176
Adjustments to purchase price	-	657	657
Foreign currency exchange rate changes	631	398	1,029
Balances September 30, 2004	7,951	27,222	35,173
Goodwill acquired during the year	358	-	358
Utilization of net operating loss carryforwards acquired	-	(968)	(968)
Foreign currency exchange rate changes	(159)	69	(90)
Balances September 30, 2005	$ 8,150	$ 26,323	$ 34,473

Impairment of Long-Lived Assets: The carrying values of long-lived assets other than goodwill are generally evaluated for impairment only if events or changes in facts and circumstances indicate that carrying values may not be recoverable. Any impairment determined would be recorded in the current period and would be measured by comparing the fair value of the related asset to its carrying value. Fair value is generally determined by identifying estimated undiscounted cash flows to be generated by those assets. No impairments have been recorded for the years ended September 30, 2005, 2004, and 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income: Comprehensive income and its components are presented in the statement of changes in shareholders' equity. Accumulated comprehensive income (loss) consisted of the following:

September 30,		2005		2004
		(in thousands)		
Minimum pension liability	$	(11,069)	$	(7,042)
Foreign currency translation		12,728		16,698
Net unrealized gains from cash flow hedges		8		439
	$	1,667	$	10,095

The minimum pension liability is shown net of tax benefits of $5,960,000 and $3,792,000 at September 30, 2005 and 2004, respectively. Deferred income taxes are not recognized for translation-related temporary differences of foreign subsidiaries whose undistributed earnings are considered to be permanently invested. The net unrealized gain from cash flow hedges is shown net of tax liabilities of $4,000 and $236,000 in 2005 and 2004, respectively.

Revenue Recognition: Sales and profits under the Company's long-term fixed-price contracts, which generally require a significant amount of development effort in relation to total contract value, are recognized using the cost-to-cost percentage of completion method of accounting. Sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. In the early stages of contract performance, profit is not recognized until progress is demonstrated or contract milestones are reached.

Sales under cost-reimbursement type contracts are recorded as costs are incurred. Applicable estimated profits are included in earnings based on the ratio of costs incurred to the estimated total costs at completion. Sales of products are recorded when a firm sales agreement is in place, delivery has occurred and collectibility of the fixed or determinable sales price is reasonably assured. Sales of services are recorded when performed in accordance with contracts or service agreements.

Amounts representing contract change orders, claims or other items are included in the contract value only when they can be reliably estimated and realization is considered probable. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profits, and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase or decrease earnings based solely on a single significant event are not recognized until the event occurs.

Sales and profits on contracts that specify multiple deliverables are allocated to separate units of accounting when there is objective evidence that each accounting unit has value to the customer on a stand-alone basis. Separate units of accounting are based upon values assigned under the terms of such contracts.

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 on the balance sheet.

Income taxes: The provision for income taxes includes federal, state, local, and foreign taxes. Tax credits, primarily for research and development and export programs are recognized as a reduction of the provision for income taxes in the year in which they are available for tax purposes. Deferred income taxes are provided on temporary differences between assets and liabilities for financial reporting and tax purposes as measured by enacted tax rates expected to apply when the temporary differences are settled or realized. Valuation allowances are established for deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent deductions that have been taken on tax returns but have not yet been recognized as expense in the financial statements. The Company has not recognized any United States tax expense on undistributed earnings of its foreign subsidiaries since it intends to reinvest the earnings outside the United States for the foreseeable future. Such undistributed earnings totaled approximately $70 million at September 30, 2005.

Earnings Per Share: Per share amounts are based upon the weighted average number of shares of common stock outstanding.

Derivative Financial Instruments: 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 and to hedge net advances to foreign subsidiaries. The purpose of the Company's foreign currency hedging activities is to fix the dollar value of specific commitments and payments to foreign vendors, and the value of foreign currency denominated receipts from customers. At September 30, 2005, the Company had foreign exchange contracts with a notional value of $147.3 million outstanding.

The Company accounts for derivatives pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. This standard requires that all derivative instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on the intended use of the derivative and its resulting designation. The change in fair value of the ineffective portion of a hedge, and changes in fair values of derivatives that are not considered highly effective hedges are immediately recognized in earnings. If the derivative is designated as a fair value hedge, the changes in the estimated fair value of the derivative and the underlying hedged item are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are subsequently recognized in earnings when the hedged item affects earnings. Ineffectiveness between the change in fair value of the derivatives and the change in fair value of hedged items was immaterial for the years ended September 30, 2005, 2004 and 2003. At September 30, 2005 net gains of $12,000 ($8,000 net of taxes) were recorded in accumulated other comprehensive income associated with cash flow hedging transactions.

Accounting Standards: In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, an amendment of ARB No. 43, Chapter 4, Inventory Costs (SFAS No. 151). This accounting standard, which is effective for annual periods beginning after June 15, 2005, requires that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. The adoption of SFAS No. 151 is not expected to have a material effect on the Company's financial position or results or operations.

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies (continued)

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the estimated total costs at completion of the Company's long-term contracts, and the estimated rates of return and discount rates related to the Company's defined benefit pension plans. Actual results could differ from those estimates.

Risks and Uncertainties: The Company is subject to the normal risks and uncertainties of performing large, multiyear, often fixed-price contracts. In addition, the Company is subject to audit of incurred costs related to many of its U.S. Government contracts. These audits could produce different results than the Company has estimated; however, the Company's experience has been that its costs are acceptable to the government.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year classifications.

Note 2—Investments in Joint Ventures

In December 2004, the Company entered into a 50/50 joint venture arrangement with the U.S. subsidiary of Rafael Armament Development Authority Ltd. (Rafael), an Israeli company, to manufacture certain of their products for sale to the U.S. and Israeli defense forces. The agreement requires the Company to invest up to $15 million in the joint venture over the first three years of operation, while Rafael will provide certain of its intellectual property to the joint venture in a royalty-free arrangement. The joint venture commenced operations and the Company invested $2 million in the year ended September 30, 2005. In fiscal 2005, the joint venture incurred approximately $1.3 million in expenses and did not generate any sales.

The Company analyzed this joint venture under the provisions of FIN 46 "*Consolidation of Variable Interest Entities,*" and concluded that it is the primary beneficiary of the arrangement. Therefore, the joint venture was consolidated in the Company's financial statements beginning in the quarter ended March 31, 2005. Minority interest in the net loss from this business is reflected in the consolidated income statements and minority interest in the net assets of the joint venture is included in the consolidated balance sheets.

The Company owns 37.5% of the common stock of Transaction Systems Limited (TranSys), an unconsolidated joint venture company in the United Kingdom. This joint venture company was formed to bid on a contract called "PRESTIGE" (Procurement of Revenue Services, Ticketing, Information, Gates and Electronics), the purpose of which is to outsource most of the functions of the London Transport (LT) fare collection system for a period of seventeen years. In August 1998, TranSys was awarded the contract and began operations. Cubic and the other parties to the joint venture participate in the PRESTIGE contract solely through subcontracts from TranSys. All of the work to be performed by TranSys is subcontracted to the joint venture partners and the joint venture provides for the pass-through of virtually all revenues from London Transport to the joint venture partners. As a result, TranSys has operated on a break-even basis and is expected to continue to do so. If TranSys were to eventually generate a net income or loss, the joint venture partners would share in this income or loss in accordance with their percentage ownership in the joint venture. The Company's investment in the joint venture is immaterial.

LT elected to finance the project through private financing rather than incurring public debt. Financing for the project was provided by a syndicate of banks which participated in creating the project's financial structure. During the first four years of the project, through August 2002, the banks provided financing to TranSys totaling 200 million British Pounds (approximately $353 million). Debt servicing began in 2003 and will continue until the debt is fully paid in 2013. This debt is guaranteed by LT and is nonrecourse to the joint venture partners.

The Company has also provided certain performance guarantees to various parties related to the PRESTIGE contract and the TranSys joint venture, including LT, the banks and the joint venture partners. The joint venture partners have also provided similar performance guarantees to the same parties and to Cubic.

Summarized unaudited financial information for this unconsolidated joint venture is as follows:

September 30,	2005	2004
	(in millions)	
Balance Sheets:		
Cash	$ 49.7	$ 37.5
Other current assets	54.8	63.6
Noncurrent unbilled contract accounts receivable	240.2	274.6
Total Assets	$ 344.7	$ 375.7
Current liabilities	$ 36.7	$ 31.3
Long-term debt	308.0	344.4
Equity	-	-
Total Liabilities and Equity	$ 344.7	$ 375.7

Years ended September 30,	2005	2004	2003
		(in millions)	
Statement of Operations:			
Sales	$ 132.0	$ 136.0	$ 109.6
Operating profit	$ -	$ -	$ -
Net income	$ -	$ -	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3—ACCOUNTS RECEIVABLE

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

September 30,	2005	2004
	(in thousands)	
US Government Contracts:		
Amounts billed	$ 43,381	$ 50,497
Recoverable costs and accrued profits on progress completed--not billed	88,490	56,104
	131,871	106,601
Commercial Customers:		
Amounts billed	26,237	34,559
Recoverable costs and accrued profits on progress completed--not billed	169,480	206,126
	195,717	240,685
	327,588	347,286
Less estimated amounts not currently due-- commercial customers	(22,900)	(33,000)
	$ 304,688	$ 314,286

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. As identified above, a portion of the amount not billed under commercial contracts is not expected to be collected within one year from September 30, 2005, and therefore, has been classified as a noncurrent asset. This amount relates primarily to the contract with TranSys for the PRESTIGE system in London. The customer has been paying the Company in accordance with the terms of the contract and it is expected that all amounts due under the contract will ultimately be collected. It is anticipated that substantially all of the unbilled portion of receivables identified as current assets will be billed and collected under progress billing provisions of the contracts or upon completion of performance tests and/or acceptance by the customers during fiscal 2006.

NOTE 4—INVENTORIES

Inventories are classified as follows:

September 30,	2005	2004
	(in thousands)	
Finished products	$ 471	$ 510
Work in process and inventoried costs under long-term contracts	17,113	16,491
Materials and purchased parts	3,946	6,966
	$ 21,530	$ 23,967

At September 30, 2005, work in process and inventoried costs under long-term contracts included approximately $5.8 million in costs incurred outside the scope of work on several contracts in the defense segment. Such costs were not significant as of September 30, 2004. Management believes it is probable these costs, plus appropriate profit margin, will be recovered under contract change orders within the next year.

NOTE 5—FINANCING ARRANGEMENTS

Long-term debt consists of the following:

September 30,	2005	2004
	(in thousands)	
Unsecured notes payable to a group of insurance companies, with annual principal payments of $4,000,000 due in November. Interest at 6.31% is payable semiannually in November and May.	$ 36,000	$ 40,000
Unsecured note payable to an insurance company, with annual principal payments of $1,429,000 due in November. Interest at 6.11% is payable semiannually in November and May.	5,714	7,143
Mortgage note from a UK financial institution, with quarterly installments of principal and interest at 6.5%	8,102	8,951
	49,816	56,094
Less current portion	(6,040)	(6,057)
	$ 43,776	$ 50,037

The terms of the notes payable and other financial instruments 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, 2005, the most restrictive covenant under these agreements leaves consolidated retained earnings of $104.0 million available for the payment of dividends to shareholders, purchases of the Company's common stock and other charges to shareholders' equity. To date, there have been no covenant violations and the Company believes it will be able to meet the covenant financial performance obligations described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5—FINANCING ARRANGEMENTS (continued)

The Company maintains a short-term borrowing arrangement totaling 10 million British pounds (equivalent to approximately $17.6 million) with a U.K. 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, are repayable on demand, and bear interest at the bank's base rate, as defined, plus one percent. Such interest rate was 5.5% at September 30, 2005. At September 30, 2005, no amounts were outstanding under this borrowing arrangement.

The Company maintains short-term borrowing arrangements in New Zealand and Canada to help meet the short-term working capital requirements of its subsidiaries in those countries. Borrowings under such lines of credit totaled $4.3 million at September 30, 2005 with interest at 4.0%

The Company has a $150 million revolving line of credit arrangement with a group of U.S. banks which expires in March 2010. As of September 30, 2005, the Company had $22 million outstanding under this line of credit at an interest rate of 4.6%. Technical financial ratio covenants under this agreement restrict the total available amount to approximately $51 million as of September 30, 2005.

Maturities of long-term debt for each of the five years in the period ending September 30, 2010, are as follows: 2006 – $6.0 million; 2007 – $6.0 million; 2008 – $6.0 million; 2009 – $6.0 million; 2010 – $4.6 million.

Interest paid amounted to $5.5 million, $4.6 million, and $3.7 million in 2005, 2004, and 2003, respectively.

As of September 30, 2005 the Company had letters of credit and bank guarantees outstanding totaling $45.1 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 $5.4 million as of September 30, 2005, which guarantee the Company's payment of certain self-insured liabilities. 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.

The Company's self-insurance arrangements are limited to certain workers' compensation plans, automobile liability, and product liability claims primarily related to a business the Company sold in 1993. Under these arrangements, the Company self-insures only up to the amount of a specified deductible for each claim. Self-insurance liabilities included in other current liabilities on the balance sheet amounted to $3.1 million and $2.9 million as of September 30, 2005 and 2004, respectively.

NOTE 6—COMMITMENTS

The Company leases certain office, manufacturing and warehouse space, and miscellaneous computer and other office equipment under noncancelable operating leases expiring in various years through 2013. 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 $6.8 million, $5.4 million, and $3.5 million in 2005, 2004, and 2003, respectively.

Future minimum payments, net of minimum sublease income, under noncancelable operating leases with initial terms of one year or more consist of the following at September 30, 2005 (in thousands):

2006	$ 6,066
2007	4,311
2008	3,769
2009	2,927
2010	1,906
Thereafter	3,925
	$ 22,904

Note 7—Income Taxes

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

Years ended September 30,	2005	2004	2003
		(in thousands)	
Current:			
Federal	$ 725	$ 11,069	$ 4,805
State	1,224	2,516	2,587
Foreign	6,471	5,757	5,717
Total current	8,420	19,342	13,109
Deferred (credit):			
Federal	(5,534)	(298)	5,323
State	(1,274)	152	820
Foreign	(1,159)	198	(738)
Total deferred	(7,967)	52	5,405
Total income tax expense	$ 453	$ 19,394	$ 18,514

NOTE 7—INCOME TAXES (continued)

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,	2005	2004
	(in thousands)	
Deferred tax assets:		
Accrued employee benefits	$ 5,236	$ 3,895
Additional minimum pension liability	5,960	3,792
Allowance for doubtful accounts	1,962	232
Long-term contracts and inventory valuation reductions	10,281	4,331
Allowances for loss contingencies	4,119	4,933
Deferred compensation	3,103	2,612
Book over tax depreciation	1,919	-
Other	1,042	3,720
Deferred tax assets	33,622	23,515
Deferred tax liabilities:		
Tax over book depreciation	-	1,304
Amortization of goodwill and intangibles	2,370	2,107
Prepaid expenses	1,268	1,224
State taxes	1,079	266
Other	814	690
Deferred tax liabilities	5,531	5,591
Net deferred tax asset	$ 28,091	$ 17,924

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,	2005	2004	2003
		(in thousands)	
Tax at federal statutory rate	$ 4,228	$ 19,707	$ 19,262
State income taxes (benefit), net of federal tax effect	(32)	1,734	2,215
Income exclusion on export sales	(437)	(946)	(945)
Nondeductible expenses	291	288	359
Reversal of reserve accrued for tax contingencies	(2,788)	-	-
Tax effect from foreign subsidiaries	(647)	(668)	(349)
Tax credits and other	(162)	(721)	(2,028)
	$ 453	$ 19,394	$ 18,514

The Company is subject to ongoing audits from various taxing authorities in the jurisdictions in which it does business. The Company believes it has adequately provided for uncertain tax issues not yet resolved with federal, state and foreign tax authorities. Although not probable, the most adverse resolution of these issues could result in additional charges to earnings in future periods. Based upon a consideration of all relevant facts and circumstances, the company does not believe the ultimate resolution of uncertain tax issues for all open tax periods will have a materially adverse effect upon its results of operations or financial condition.

As indicated in the table above, in 2005 the Company was able to reverse $2.8 million of tax reserves established in previous years. This was due to the resolution of an uncertain foreign tax issue and an uncertain domestic state issue during, or subsequent to, the quarter ended September 30, 2005.

The Company made income tax payments, net of refunds, totaling $6.9 million, $18.7 million, and $9.9 million in 2005, 2004, and 2003, respectively.

Income before income taxes includes the following components:

Years ended September 30,	2005	2004	2003
		(in thousands)	
United States	$ (1,151)	$ 37,383	$ 40,318
Foreign	13,232	18,922	14,715
Total	$ 12,081	$ 56,305	$ 55,033

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $70.0 million at September 30, 2005. 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.

The Company is continuing to evaluate the impact of tax legislation enacted in 2004 that provides incentives for repatriation of capital to the U.S. The Company must determine if it will be beneficial to take advantage of the provisions of the legislation in fiscal 2006 by reinvesting some amount of capital in the United States. Management believes that if the decision is made to reinvest a portion of this capital in the U.S., the related tax liability will not have a material impact on the Company's results of operations or financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8—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 $11.5 million, $9.9 million and $9.4 million in 2005, 2004 and 2003, respectively.

Approximately one-half of the Company's nonunion employees in the U.S. are covered by a noncontributory 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 these plans and the net amount recognized in the Consolidated Balance Sheets:

September 30,	2005	2004
	(in thousands)	
Change in benefit obligations:		
Net benefit obligation at the beginning of the year	$ 130,728	$ 112,140
Service cost	7,347	6,610
Interest cost	7,902	6,940
Plan amendments	-	165
Actuarial loss	16,288	3,892
Participant contributions	1,079	927
Gross benefits paid	(3,649)	(2,797)
Foreign currency exchange rate changes	(1,687)	2,851
Net benefit obligation at the end of the year	158,008	130,728
Change in plan assets:		
Fair value of plan assets at the beginning of the year	96,473	76,141
Actual return on plan assets	16,566	10,332
Employer contributions	8,170	10,494
Participant contributions	1,079	927
Gross benefits paid	(3,649)	(2,797)
Administrative expenses	(545)	(495)
Foreign currency exchange rate changes	(1,188)	1,871
Fair value of plan assets at the end of the year	116,906	96,473
Net amount recognized:		
Funded status	(41,102)	(34,255)
Unrecognized net actuarial loss	33,999	27,463
Unrecognized prior service cost	164	190
Net amount recognized	$ (6,939)	$ (6,602)

September 30,	2005	2004
	(in thousands)	
Amounts recognized in the Consolidated Balance Sheets:		
Accrued benefit cost	$ (6,939)	$ (6,602)
Additional minimum liability	(17,193)	(11,025)
Deferred tax asset	5,960	3,792
Intangible asset	164	191
Accumulated other comprehensive loss	11,069	7,042
Net amount recognized	$ (6,939)	$ (6,602)
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	$ 158,008	$ 130,728
Accumulated benefit obligation	137,763	113,883
Fair value of plan assets	116,906	96,473

Components of net periodic benefit cost:

Years ended September 30,	2005	2004	2003
		(in thousands)	
Service cost	$ 7,347	$ 7,129	$ 5,741
Interest cost	7,902	7,512	6,073
Expected return on plan assets	(8,216)	(7,110)	(4,989)
Amortization of:			
Prior service cost	26	23	4
Actuarial (gain) loss	1,565	2,098	2,238
Administrative expenses	99	94	82
Net pension cost	$ 8,723	$ 9,746	$ 9,149

Assumptions:			
Weighted-average assumptions used to determine benefit obligation at September 30:			
Discount rate	5.5%	6.0%	6.0%
Rate of compensation increase	4.5%	4.1%	4.0%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30:			
Discount rate	6.0%	6.0%	6.4%
Expected return on plan assets	8.2%	8.2%	8.3%
Rate of compensation increase	4.1%	4.0%	4.6%

NOTE 8—PENSION, PROFIT SHARING AND OTHER RETIREMENT PLANS (continued)

The Company's pension plans weighted average asset allocations by asset category as of September 30 were as follows:

	2005	2004
Equity securities	75%	77%
Debt securities	18%	17%
Real estate	4%	4%
Other	3%	2%
Total	100%	100%

The Company has the responsibility to formulate the investment policies and strategies for the plans' assets. The overall policies and strategies include: maintain the highest possible return commensurate with the level of assumed risk, preserve the benefit security for the plans' participants, and minimize the necessity of Company contributions by maintaining a ratio of plan assets to liabilities in excess of 1.0.

The Company does not involve itself with the day-to-day operations and selection process of individual securities and investments, and, accordingly, has retained the professional services of investment management organizations to fulfill those tasks. The investment management organizations have investment discretion over the assets placed under their management. The Company provides each investment manager with specific investment guidelines relevant to its asset class. The table below presents the ranges for each major category of the plans' assets at September 30, 2005:

Asset Category	Allocation Range
Equity securities	50% to 85%
Debt securities	10% to 60%
Other, primarily cash and cash equivalents	0% to 15%

The pension plans held no positions in Cubic Corporation common stock as of September 30, 2005 and 2004.

The Company expects to contribute a minimum of $8 million to its pension plans in 2006.

Estimated future benefit payments:

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2006	$ 4,876
2007	5,389
2008	5,880
2009	6,471
2010	7,440
2011-2015	46,420

NOTE 9—LEGAL MATTERS

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 $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 but denied Iran's request for additional interest and costs. Both parties have appealed. In October 2004, the 9th Circuit Court of Appeals issued a decision in the case of two interveners who are attempting to claim an attachment on the amount that was awarded to Iran in the original arbitration. The Court denied one of the intervener's liens but confirmed the second one's lien. Iran has asked the U.S. Supreme Court to review the 9th Circuit decision. Pending any such review, the matter is on hold in the 9th Circuit and the obligation upon Cubic to pay is stayed. Under current United States law and policy, any payment to the Revolutionary Government of Iran must first be licensed by the U.S. government. The Company is unaware of the likelihood of the U.S. government granting such a license. The Company is continuing to pursue its appeal in the 9th Circuit case against Iran, and management believes that a license from the U.S. government would be required in any case to make payment to or on behalf of Iran. However, in light of the 9th Circuit Court's decision in the intervener's case, in 2004 the Company established a reserve of $6 million for the estimated potential liability and will continue to accrue interest on this amount until the ultimate outcome of the case is determined.

In January 2005, a bus fare collection system customer in North America issued a "cure notice" to the Company, alleging that its performance was not in accord with the contract. After unsuccessful negotiations with the customer, in March 2005, the Company filed for a temporary restraining order requesting that the customer be restrained from further interfering with the Company's performance and from issuing a termination notice. The next business day, the customer issued a letter terminating the contract for default. In April 2005, the customer filed a claim for breach of contract, seeking damages for "all actual, consequential and liquidated damages sustained" as well as attorney's fees. The contract limits liability to the contract value of $8.2 million, but the customer appears to be attempting to avoid that limitation. In May 2005, the Company filed an answer and general denial and subsequently filed a verified petition alleging breach of contract and other substantive claims, claiming the amount owed under the contract of $4.2 million, plus interest and attorney's fees. Management believes that both the customer's default notice and claim for damages are unsupported and the Company is vigorously defending against the allegations. Based on the advice of counsel, management believes the Company had substantially completed the contract prior to termination and that the remaining contract value is due and that the Company will prevail at trial; however, due to the uncertainty of collecting the outstanding receivable balance an allowance for doubtful accounts of $4.2 million was established and all costs incurred in the performance of the contract and costs incurred outside the scope of the contract were expensed in the year ended September 30, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9—LEGAL MATTERS (continued)

In June 2005, a company that Cubic had an alleged agreement with to potentially bid on a portion of automated fare collection contracts filed a court claim for breach of contract, fraud, negligent misrepresentation, theft of trade secrets, and other related allegations. The claim seeks $15.0 million in compensatory damages, punitive damages, disgorgement of profits and a permanent injunction. In accordance with the underlying contract arbitration clause, in July 2005 the Company filed a claim with the American Arbitration Association and requested the court case be stayed or dismissed. The Court denied the Company's motion to transfer the case to arbitration. The Company has appealed that decision to the California Court of Appeals. Based on information currently available, management believes there is no merit to the claim and that it will prevail in this matter. Therefore, no liability has been recorded as of September 30, 2005.

The Company is not a party to any other pending proceedings, other than ordinary litigation incidental to the business. Management believes the outcome of these proceedings and the proceedings described above will not have a materially adverse effect on the Company's financial position.

NOTE 10—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. The transportation systems segment designs, produces, installs and services electronic revenue collection systems for mass transit projects, including railways and buses. The defense segment performs 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, simulators, communications and surveillance systems, avionics systems, power amplifiers and receivers.

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.

Business segment financial data is as follows:

Years ended September 30,	2005	2004	2003
		(in millions)	
Sales:			
Transportation systems	$ 245.8	$ 253.5	$ 253.4
Defense	543.4	452.9	365.1
Other	15.2	15.6	15.6
Total sales	$ 804.4	$ 722.0	$ 634.1
Operating income:			
Transportation systems	$ (13.8)	$ 28.2	$ 24.4
Defense	30.1	34.5	24.6
Provision for litigation	-	(6.0)	-
Unallocated corporate expenses and other	(3.2)	(2.5)	(1.0)
Total operating income	$ 13.1	$ 54.2	$ 48.0
Assets:			
Transportation systems	$ 211.8	$ 241.1	$ 186.7
Defense	255.2	245.0	220.5
Corporate and other	80.3	56.9	53.0
Total assets	$ 547.3	$ 543.0	$ 460.2
Depreciation and amortization:			
Transportation systems	$ 3.2	$ 2.5	$ 2.3
Defense	4.9	4.6	3.6
Corporate and other	0.5	0.4	0.6
Total depreciation and amortization	$ 8.6	$ 7.5	$ 6.5
Expenditures for long-lived assets:			
Transportation systems	$ 3.2	$ 2.6	$ 5.3
Defense	4.5	4.1	1.9
Corporate and other	0.6	0.2	1.0
Total expenditures for long-lived assets	$ 8.3	$ 6.9	$ 8.2
Geographic Information:			
Sales (a):			
United States	$ 531.5	$ 494.5	$ 414.6
United Kingdom	119.9	120.3	147.4
Canada	44.4	30.7	18.2
Far East	23.6	29.3	13.4
Other	85.0	47.2	40.5
Total sales	$ 804.4	$ 722.0	$ 634.1

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

NOTE 10—BUSINESS SEGMENT INFORMATION (continued)

September 30,	2005	2004	2003
		(in millions)	
Long-lived assets, net:			
United States	$ 45.2	$ 41.4	$ 50.2
United Kingdom	12.9	13.9	13.3
Other foreign countries	2.7	2.6	1.3
Total long-lived assets, net	$ 60.8	$ 57.9	$ 64.8

Defense segment sales include $426.9 million, $360.3 million and $281.9 million in 2005, 2004, and 2003, respectively, of sales to U.S. Government agencies. No other single customer accounts for 10% or more of the Company's revenue.

NOTE 11—SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended September 30, 2005 and 2004:

	Quarter Ended			
	December 31	March 31	June 30	September 30
	(in thousands, except per share data)			
Fiscal 2005				
Net sales	$ 189,940	$ 182,053	$ 213,790	$ 218,589
Gross profit	37,435	33,547	27,809	33,040
Net income	5,253	544	822	5,009
Net income per share	0.20	0.02	0.03	0.19
Fiscal 2004				
Net sales	$ 171,032	$ 175,184	$ 190,829	$ 184,967
Gross profit	35,985	40,319	43,126	53,412
Net income	7,466	8,320	11,718	9,407
Net income per share	0.28	0.31	0.44	0.35

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Cubic Corporation

We have audited the accompanying consolidated balance sheets of Cubic Corporation as of September 30, 2005 and 2004, 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, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cubic Corporation at September 30, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cubic Corporation's internal control over financial reporting as of September 30, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 5, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

San Diego, CA

December 5, 2005

Report of Management

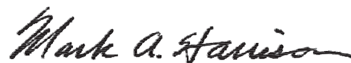
Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of September 30, 2005, based on criteria in Internal Control – Integrated Framework, issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2005, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which follows.

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

William W. Boyle
Senior Vice President and
Chief Financial Officer



Mark A. Harrison
Vice President and
Corporate Controller

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Cubic Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Cubic Corporation maintained effective internal control over financial reporting as of September 30, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cubic Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Cubic Corporation maintained effective internal control over financial reporting as of September 30, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Cubic Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cubic Corporation as of September 30, 2005 and 2004, and the related statements of income, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2005 of Cubic Corporation and our report dated December 5, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

San Diego, CA
December 5, 2005

Directors and Officers

Directors

Walter J. Zable
Director
Chairman of the Board, President and
Chief Executive Officer
(Executive Committee)

Walter C. Zable
Director
Vice Chairman, Vice President
Chairman - Cubic Transportation Systems
(Executive Committee)

Richard C. Atkinson
Director
President Emeritus University of California
(Audit and Compliance Committee, Qualified Legal
Compliance Committee)

William W. Boyle
Director
Senior Vice President and Chief Financial Officer
(Executive Committee)

Raymond L. de Kozan
Director
Senior Group Vice President - Transportation

Robert T. Monagan
Director
Counselor
(Executive Compensation Committee,
Nominating Committee, Audit and
Compliance Committee, Qualified Legal
Compliance Committee)

Raymond E. Peet
Director
Vice Admiral, USN, Retired
(Executive Committee, Nominating Committee, Audit
and Compliance Committee, Executive Compensation
Committee, Qualified Legal Compliance Committee)

Robert S. Sullivan
Director
Dean of the Rady School of Management, University
of California, San Diego
(Executive Compensation Committee, Audit and
Compliance Committee)

Robert D. Weaver
Director
Private Investor
(Audit and Compliance Committee)

Officers

Gerald R. Dinkel
Vice President
Chief Executive Officer - Defense Applications Group

Mark A. Harrison
Vice President - Corporate Controller
(Principal Accounting Officer)

William L. Hoese
Vice President, Corporate Secretary,
General Counsel

Daniel A. Jacobsen
Vice President - Audit

Kenneth A. Kopf
Vice President - Chief Legal Officer

Bernard A. Kulchin
Vice President - Human Resources

John A. Minteer
Vice President - Information Technologies

John D. Thomas
Vice President - Finance and Treasurer

Office of the C.E.O.

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

Walter C. Zable
Vice Chairman, Vice President

William W. Boyle
Senior Vice President and Chief Financial Officer

Raymond L. de Kozan
Senior Group Vice President - Transportation

Gerald R. Dinkel
Vice President
Chief Executive Officer - Defense Applications Group

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President and Chief Executive Officer

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Chairman

Richard A. Efland
President and Chief Executive Officer

David M. Lapczynski
Chief Operating Officer

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Shareholder Information

Listing

American Stock Exchange (AMEX)

Symbol

CUB

Shareholders of Record at September 30, 2005

1,200

Registrar and Transfer Agent

American Stock Transfer and Trust Company
Brooklyn, New York

The American Stock Transfer and Trust Company may be contacted through its toll free number, website or email:

- Shareholder services (800) 937-5449
- www.amstock.com
- info@amstock.com

Auditors

Ernst & Young LLP

Stock Options

Under the 1998 Stock Option Plan, there were available for grant at the beginning of fiscal 2005 986,500 shares and at the end of fiscal 2005 977,500 shares.

Cubic's Shareholder Communications

Website

www.cubic.com

Click on "Investor Info" for

- Corporate governance information
- Company ethics policy
- Contact information
- Annual report

Investor Line

(858) 505-2222

Annual Meeting

The 2006 Annual Meeting will be held in the main conference room at the headquarters of the Company.

Location

Cubic Corporation
9333 Balboa Avenue
San Diego, California 92123

Date and Time

February 21, 2006

11:00 a.m. Pacific Standard Time

Shareholders of record on January 10, 2006 are being sent formal notice of the meeting, together with the proxy form and statement.

Cubic will furnish its 2005 Annual Report on Form 10-K (excluding exhibits) without charge to shareholders upon their written request by mail or email.

Mailing Address

Investor Relations
Diane L. Dyer
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U.S. Air Force:
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U.S. Army:
Photo courtesy of U.S. Army
U.S. Navy:
Darlene Goodwin