ELBIT SYSTEMS LTD
Form 20-F/A
July 06, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
(AMENDMENT NO. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2005

Commission File No. 0-28998

ELBIT SYSTEMS LTD.

(Exact Name of Registrant as Specified in its charter and Translation of Registrant s Name into English)

Israel
(Jurisdiction of incorporation or organization)

Advanced Technology Center, Haifa 31053, Israel
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Not Applicable

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Ordinary Shares, nominal value 1.0 New Israeli Shekels per share
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

40,966,624 ordinary shares

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

40,966,624 ordinary shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer **Accelerated filer** **Non-accelerated filer**

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

Explanatory Note

The registrant hereby amends its annual report on Form 20-F for the fiscal year ended December 31, 2005 (the Form 20-F) filed with the Securities and Exchange Commission on June 30, 2006. This Amendment No. 1 (the Amendment), which restates, in its entirety, the Form 20-F, is filed in order to amend the following:

i. due to a filing error, a superseded version of the Report of Independent Registered Public Accounting Firm of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, dated March 13, 2006 (the Auditors Report), was included in the Consolidated Financial Statements under Item 18. This Amendment replaces the superseded Auditors Report with the Report of Independent Registered Public Accounting Firm of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, dated March 14, 2006; and

ii. certain typographical errors that appear in the Consolidated Financial Statements under Item 18 of the Form 20-F.

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PART I

International Disclosures Standards

Elbit Systems Ltd. s (Elbit Systems) consolidated financial statements are prepared based upon United States Generally Accepted Accounting Principles (U.S. GAAP). Unless otherwise indicated, all financial information contained in this Form 20-F is in U.S. dollars. References in this Form 20-F to the Group HTML1DocumentEncodingutf-8& are to Elbit Systems and our subsidiaries.

Item 1. Identity of Directors, Senior Management and Advisors

Information not required in Annual Report on Form 20-F.

Item 2. Offer Statistics and Expected Timetable

Information not required in Annual Report on Form 20-F.

Item 3. Key Information

Selected Financial Data

The following selected consolidated financial data of Elbit Systems for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 are derived from our audited consolidated financial statements of which the financial statements as of December 31, 2004 and 2005 and for each of the years ended December 31, 2003, 2004 and 2005, appear later in this Form 20-F. The audited financial statements have been prepared in accordance with U.S. GAAP.

	Year Ended December 31				
	2001	2002	2003	2004*	2005
	(U.S. dollars in millions, except for share and per share amounts)				
Income Statement Data:					
Revenues	$765	$827	$898	$940	$1,070
Cost of revenues	554	605	673	690	787
Restructuring Expenses	-	-	-	-	3
Gross profit	211	222	225	250	280
Research and development expenses, net	59	57	55	67	72
Marketing, selling, general and administrative expenses, net	98	107	116	118	133
In-process research and development write-off	-	-	-	-	8
Operating income	54	58	54	65	67
Finance income (expense)	(3)	(4)	(4)	(6)	(11)
Other income (expenses), net	1	0	0	1	(5)
Income before taxes on income	52	54	50	60	51
Taxes on income	11	9	11	15	16
Equity in net earnings (loss) of affiliated companies and partnership	(1)	-	7	7	(2)**
Net income	$40	$45	$46	$52	$33
Earnings per share:					
Basic net income per share	$1.07	$1.17	$1.18	$1.30	$0.80
Weighted average number of shares used in computation (in thousands)	37,975	38,489	39,061	39,952	40,750
Diluted net income per share	$1.04	$1.13	$1.14	$1.26	$0.78
Weighted average number of shares used in computation (in thousands)	39,359	39,863	40,230	41,041	41,623

* as adjusted - see below - Item 8. Financial Statements - Note 1(G)

** includes acquired in-process research and development write-off of $8.5 in 2005

	December 31				
	2001	2002	2003	2004	2005
Balance Sheet Data:	(U.S. dollars in millions, except for share and per share amounts)				
Cash, cash equivalents and short-term investments	$42	$78	$77	$35	$94
Long-term deposits and trade receivables	3	4	2	2	2
Working capital	121	206	199	173	227
Short-term debt	47	31	15	10	38
Long-term debt	69	73	62	86	225
Share capital	11.1	11.2	11.3	11.5	11.6
Shareholders' equity	378	411	452	432	451
Total assets	$901	$1,000	$1,024	$1,034	$1,620

	December 31				
Outstanding ordinary shares of NIS 1 par value (in thousands)	38,330	38,804	39,337	40,561	40,967
Dividends paid per ordinary share with respect to the applicable year	$0.32	$0.34	$0.40	$2.17*	$0.54

* including an extraordinary dividend of $1.80 declared in the second quarter of 2004

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Forward Looking Statements

This Annual Report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities and Exchange Act of 1934. These are statements that are not historical facts and include statements about our beliefs and expectations. These statements contain potential risks and uncertainties, and actual results may differ significantly.

Forward-looking statements are typically identified by the words believe, expect, intend, estimate and similar expressions. Those statements appear in this Annual Report and include statements regarding the intent, belief or current expectation of Elbit Systems or our directors or officers. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of several factors including, without limitation, the factors set forth below under the caption Risk Factors (we refer to these factors as Cautionary Statements). Any forward-looking statements contained in this Annual Report speak only as of the date of this Report, and we caution potential investors not to place undue reliance on these statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

Risk Factors

General Risks Related to Our Business

Our revenues depend on a continued level of government business. A significant portion of our revenues come from contracts or subcontracts with domestic and foreign government agencies. A reduction in the level of the purchase of our systems, products, services and upgrade projects by these agencies, mainly the Israeli Ministry of Defense (IMOD), the U.S. Department of Defense (DOD) and governmental customers of our other major programs, would have a material adverse effect on our business. The development of our business in the future will depend on the continued willingness of the IMOD, the DOD and other governmental purchasing agencies to commit substantial resources to defense programs and, in particular, to continue to purchase our systems, products, services and upgrade projects. For risks related to the IMOD budget see below Risks Related to Our Israeli Operations .

The level of our contracts may be reduced due to changes in governmental priorities and audits. The risk that governmental purchases of our systems, products, services and upgrade projects may decline is affected by the possibility that government purchasing agencies may:

terminate, reduce or modify contracts or subcontracts if their requirements or budgetary constraints change;

cancel multi-year contracts and related orders if funds become unavailable;

shift spending priorities into other areas or for other products; and

adjust contract costs and fees on the basis of audits.

We depend on governmental approval of our exports. Many of our exports and the receipt of technology and components from suppliers depend on receipt of export license approvals from the Israeli Government, the U.S. Government and other governments. Such licenses and approvals also are required for technological exchanges with our customers and for employment of our technical personnel abroad. There is no assurance that such approvals will be given in the future, current approvals will not be revoked or governmental export policies will remain unchanged. See below Item 4. Information on the Company Governmental Regulations.

We depend on international operations. We depend on sales to customers throughout the world. We expect that international sales will continue to account for a significant portion of revenues for the foreseeable future. As a result, changes in international, political, economic or geographic events could result in significant shortfalls in orders or revenues. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;

- our or our subcontractors inability to obtain export licenses;

- imposition of tariffs and other barriers and restrictions;
- burdens of complying with a variety of foreign laws;
- political and economic instability; and
- changes in diplomatic and trade relationships.

Some of these factors, such as the ability to obtain export licenses and changes in diplomatic relations, may be affected by Israel s overall political situation. See Risks Related to Our Israeli Operations below. In addition, the economic and political stability of the countries of our major customers and suppliers may also impact our business.

Our revenues depend on obtaining follow-on business. Follow-on orders are important because our contracts mainly are for fixed periods. These periods may be up to five years or more, particularly for contracts where the customer has options to purchase additional items. In addition, when we have supplied a system for a defense platform, we often have the potential to supply other items for that platform. If a customer is dissatisfied with our performance on a particular program or if the customer s priorities change, it could negatively affect our ability to receive follow-on business. Inability to obtain follow-on business could result in a loss of revenues if revenues from the award of new contracts do not offset the loss of follow-on business.

Our contracts may be terminated for convenience of the customer or for default. Our contracts with the Government of Israel and other governments often contain provisions permitting termination for convenience of the customer. Our subcontracts with non-governmental prime contractors sometimes contain similar provisions. In general, in order to reduce risks of financial exposure resulting from the early termination of a contract, we attempt to flow down these requirements to our subcontractors and expend funds for projects according to the contract performance schedule. If the customer were to make an early termination for convenience, in most cases we would be entitled to reimbursement for our incurred contract costs and a proportionate share of our fee or profit for work actually performed. If, however, we are not entitled to such compensation, it could cause us to suffer corresponding losses. Moreover, if in the remote event that any of our contracts would be terminated for default due to our failure to meet material contractual obligations, we could face liability in certain cases in excess of the amounts paid or payable to us under the applicable contract.

We face risks of changes in costs under fixed-price contracts. Most of our contracts are fixed-price contracts, as opposed to cost-plus or cost-share type contracts. Generally, a fixed-price contract price is not adjusted as long as the work performed falls within the original contract scope. Under these contracts, we often assume the risk that increased or unexpected costs may reduce profits or generate a loss. However, long-term contracts sometimes allow for price escalations based on specific labor and material indices. The risk can be particularly significant under a fixed-price contract involving research and development for new technology, where estimated gross profit or loss from long-term projects may change and such changes in estimated gross profit/loss are recorded on a cumulative catch-up basis. See below Item 5. Operating Financial Review and Prospects Management s Analysis and Review Critical Accounting Policies. The frequent need to bid on fixed-price programs before completing the necessary design may result in unexpected technological difficulties, cost overruns and potential contractual penalties. Typically, costs must be accounted for in the period they are recognized. In addition, although we have extensive experience in these types of programs, there is difficulty in forecasting long-term costs and schedules and the potential obsolescence of products or components related to long-term fixed-price contracts.

We sometimes participate in risk-sharing contracts. We have participated in the past and may participate in the future in risk-sharing type contracts, in which our non-recurring costs are only recoverable if there is a sufficient level of production sales for the applicable product, which level of sales typically is not guaranteed. If production sales do not occur at the level anticipated, we may not be able to recover our non-recurring costs under the contract.

We face fluctuations in revenues and profit margins. The level of our revenues may fluctuate over different periods. These fluctuations may not relate directly to changes in pricing or sales volume. Instead they may be dependent on our mix of projects during any given period. In addition, since project revenues generally are recognized in connection with achievement of specific milestones, we may experience significant fluctuations in year-to-year and quarter-to-quarter financial results. Similarly, our profit margins may vary significantly from project to project as a result of changes in estimating gross profits that are recorded in results of operations on a cumulative catch-up basis. See below Item 5. Operating Financial Review and Prospects Management s Discussion and Analysis General Critical Accounting Policies and Estimates. As a result, the overall profit margin in a particular period is influenced by a number of conditions. These include the types, size and stage of projects, the percentage of work performed by subcontractors and the timing of the recognition of revenue.

We sometimes have risks relating to financing for our programs. A number of our major projects require us to arrange, and sometimes to provide, specific guarantees in connection with, the customer s financing of the project. However, in such cases we are not required to provide collateral covering the full amounts financed. These include guarantees of Elbit Systems as well as guarantees provided by financial institutions relating to advance payments received from customers. Customers typically have the right to draw down against advance payment guarantees if we were to default under the applicable contract. In addition, some customers require that the payment period under the contract be extended for a number of years, sometimes beyond the period of contract performance. See below Item 4. Information on the Company Financing Terms.

We sometimes face currency exchange risks. As more of our revenues are generated in currencies other than the U.S. dollar, mainly in Great Britain Pounds (GBP) and in Euro, our level of revenues and profit may be adversely effected by exchange rate fluctuations if our position is not fully hedged. Also, we may face exchange rate risks when our contracts call for payments in New Israeli Shekels (NIS). See below Risk Related to Our Israeli Operations Changes in the U.S. Dollar NIS Exchange Rate and Item 5. Operating Financial Review and Prospects Management Review and Analysis Impact of Inflation and Exchange Rates.

We may not be able to consolidate the financial results of some of our subsidiaries. One of our subsidiaries currently is considered for accounting purposes as a variable interest entity (VIE), and we are considered the primary beneficiary, enabling us to consolidate its financial results in our consolidated financial statements. In the event that in the future a company we hold as a VIE would not longer meet the definition of a VIE, or we are deemed not to be the primary beneficiary, we would not be able to consolidate line by line that entity s financial results in our consolidated financial statements. Also, if in the future an affiliate company becomes a VIE and we

become the primary beneficiary, we would be required to consolidate that entity s financial results in our consolidated financial statements. If such entity s financial results were negative, this could have a corresponding negative impact on our operating results.

We may experience production delays or liability if suppliers fail to make compliant or timely deliveries. The manufacturing process for some of our products consists in large part of the assembly, integration and testing of purchased components. Although generally we can obtain materials and purchase components from a number of different suppliers, some components are available from a small number of suppliers. In a few cases we work with suppliers that are effectively sole source. If a supplier should stop delivery of such components, we would probably be able to find other sources; however, this could result in added cost and manufacturing delays. Moreover, if our subcontractors fail to meet their design, delivery schedule or other obligations we could be held liable by our customers. Therefore, we attempt to impose liability on our subcontractors on a back-to-back basis to our liability to our customers. However, there can be no assurance that we would be able to obtain full or partial recovery from our subcontractors for those liabilities. In addition, when we act as a subcontractor, the failure or inability of the prime contractor to perform its contract with the customer may affect our ability to obtain payments under our subcontract.

***We operate in a competitive industry*.** The defense electronics and electro-optics, platform upgrade, C4ISR, homeland security and commercial aircraft product markets in which we participate are highly competitive and characterized by technological change. If we are unable to improve existing systems and products and develop new systems and technologies in order to meet evolving customer demands, our business could be adversely affected. In addition, our competitors could introduce new products with innovative capabilities, which could adversely affect our business. There are many competitors in our markets. We compete with many large and mid-tier defense contractors on the basis of system performance, cost, overall value, delivery and reputation. Many of these competitors are much larger than us and generally have greater resources. Consequently, these competitors may be better positioned to take advantage of economies of scale and develop new technologies. Some of these competitors are also our suppliers in some programs.

We are subject to the increasingly restrictive publicly traded company regulatory environment. As a company whose shares are publicly traded both in the United States and in Israel, we are subject to the increasingly restrictive regulatory requirements applicable to publicly traded companies. These regulations, which are reflected in the U.S. Sarbanes-Oxley Act and other laws and regulations, impose new and stringent requirements, which we are in the process of implementing subject to regulatory deadlines. Failure to timely implement such requirements could adversely effect us. In addition, the shares of one of our principal subsidiaries, Tadiran Communications Ltd., are publicly traded in Israel, thus subjecting certain transactions between that subsidiary and other entities in our Group to additional regulatory requirements. See below Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Transactions with Affiliated Companies .

Our business depends on proprietary technology that may be infringed. Many of our systems and products depend on our proprietary technology for their success. Like other technology oriented companies, we rely on a combination of patent, trade secret, copyright and trademark laws, together with non-disclosure agreements, contractual confidentiality clauses, including those in employment agreements, and technical measures to establish and protect proprietary rights in our products. Our ability to successfully protect our technology may be limited because:

- some foreign countries may not protect proprietary rights as fully as do the laws of the United States and Israel;
- detecting infringements and enforcing proprietary rights may be time consuming and costly, diverting management's attention and company resources;
- measures such as entering into non-disclosure agreements afford only limited protection;

unauthorized parties may attempt to copy aspects of our products or technologies and develop similar products or technologies or obtain and use information that we regard as proprietary; and

competitors may independently develop products that are substantially equivalent or superior to our products or circumvent intellectual property rights.

In addition, others may allege infringement claims against us and affiliated companies. The cost of responding to infringement claims could be significant, regardless of whether the claims are valid.

We would be adversely affected if we are unable to retain key employees. Our success depends in part on a limited number of key management, scientific and technical personnel and our continuing ability to attract and retain highly qualified personnel. There is competition for the services of such personnel. The loss of the services of key personnel, and the failure to attract highly qualified personnel in the future, may have a negative impact on our business. Moreover, it may be difficult for us to restrict our competitors from gaining access to the expertise of our former employees who may be hired by those competitors.

Our industry has experienced significant consolidation. As the number of companies in the overall defense industry has decreased in recent years, the industry has experienced substantial consolidation, increasing the market share of some prime contractors. Failure to maintain our relationships with these major contractors could negatively impact our future business. In addition, some of these companies are vertically integrated with in-house capabilities similar to ours in certain areas.

We face acquisition and integration risks. Over the past several years we have made a number of acquisitions and investments in companies that complement our business. See below Item 4. Information on the Company Recent Acquisitions and Current Business Operations. We intend to continue to acquire businesses that complement our operations. Our growth may place significant demands on our management and our operational, financial and marketing resources. In connection with acquisitions and the opening of new facilities we have increased and may continue to increase the number of our employees. Moreover, several of our recent acquisitions involve companies with collective bargaining agreements applicable to a significant number of the company s employees. In addition, we have expanded and may continue to expand the scope and geographic area of our operations. We believe this growth will increase the complexity of our operations and the level of responsibility exercised by both existing and new management personnel. Failure to successfully integrate and manage our growth may have a material adverse effect on our business, financial condition, results of operations or prospects.

Our acquisitions are subject to governmental approvals. Most countries require local governmental approval of acquisition of domestic defense industries, which approval may be denied if the local government determines the acquisition is not in its national interest. We may also encounter anti-trust issues in certain areas as our operations expand.

Our due diligence in acquisitions may not adequately cover all risks. There may be liabilities or risks that we fail or are unable to discover in the course of performing due diligence investigations relating to businesses we have acquired or merged with or may acquire in the future. Examples of these liabilities include employee benefits contribution obligations, estimated costs to complete contracts, non-compliance with applicable environmental requirements or infringement of third party intellectual property rights by prior owners for which we, as a successor owner, may be responsible. Such risks may include changes in estimated costs to complete programs and estimated future revenues. In addition, there may be additional costs relating to acquisitions including, but not limited to, possible purchase price adjustments. Moreover, if the value of the acquired company were to decrease after the acquisition, or after follow-on investments in that company, we could face impairment issues. We try to minimize these risks by conducting due diligence as we deem appropriate under the circumstances. However, there is no assurance that we have identified, or in the case of future acquisitions, will identify, all existing or potential risks. Also, although generally we require the sellers of acquired businesses or assets to indemnify us against undisclosed liabilities, we cannot assure you that the indemnification will be enforceable, collectible or sufficient to fully offset the possible liabilities. Such liabilities could have a material adverse effect on our business, financial condition, results of operations or prospects. In addition, there may be situations in which our management determines, based on market conditions or other applicable considerations, to pursue an acquisition with limited due diligence or without performing due diligence at all.

Risks Related to Our Israeli Operations

Conditions in Israel may affect our operations. Political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity has led to security and economic problems for Israel, despite Israel having signed peace agreements with Egypt and Jordan. Since 2000, there has been ongoing hostilities between Israel and the Palestinians, which has adversely affected the peace process and at times has negatively influenced Israel s economy as well as its relationship with several other countries. The recent Palestinian election has created further uncertainty, and there is no assurance that the current situation with the Palestinians will improve or, if it did, that the political and economic situation in Israel would improve as a result.

Political relations could limit our ability to sell or buy internationally. We could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. Also, over the past several years there have been calls in Europe and elsewhere to reduce trade with Israel. To date, these measures have not had a material adverse effect on our business. However, there can be no assurance that restrictive laws, policies or practices directed towards Israel or Israeli businesses will not have an adverse impact on our business.

Many of our officers and employees are obligated to perform military reserve duty in Israel. Generally, Israeli adult male citizens and permanent residents are obligated to perform annual military reserve duty up to a specified age. They also may be called to active duty at any time under emergency circumstances. Since we began operations, we have operated effectively under these requirements, including during hostilities in recent years with the Palestinians. However, no assessment can be made as to the full impact of such requirements on our workforce or business if conditions should change.

Israel s economy may become unstable. Over the years, Israel s economy has been subject to a number of factors that have affected its stability. These include periods of inflation, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. For these and other reasons, the Government of Israel has intervened in different sectors of the economy. Such intervention has included employing fiscal and monetary policies, import duties, foreign currency restrictions, controls of wages, prices and foreign currency exchange rates and regulations regarding the lending limits of Israeli banks to companies considered to be in an affiliated group. The Israeli Government has periodically changed its policies in all of these areas. Although in recent years the stability of the Israeli economy has increased, and the Israeli Government has liberalized many economic regulations, reoccurrence of previous destabilizing factors could make it more difficult for us to operate our business as we have in the past.

Changes in the U.S. dollar NIS exchange rate. The exchange rate between the NIS and the U.S. dollar has fluctuated in recent years, although it was relatively stable in 2004 and 2005. While most of our sales and expenses are denominated in dollars, a portion of our expenses is paid in NIS, and most of our sales to customers in Israel are in NIS. Our primary expenses paid in NIS that are not linked to the dollar are employee expenses in Israel and lease payments on some of our Israeli facilities. As a result, a change in the value of the NIS compared to the dollar could affect our research and development expenses, manufacturing labor costs and general and administrative expenses. See below Item 5. Operating Financial Review and Prospects Management s Review and Analysis Impact of Inflation and Exchange Rates Inflation and Devaluation.

Reduction in Israeli Government spending or changes in priorities for defense products may adversely affect our earnings. The Israeli Government may reduce its expenditures for defense items or change its defense priorities in the coming years. In recent years, the overall Israeli Government budget as well as the IMOD NIS budget have been subject to reductions as part of an economic reform initiative. To date, our current programs have not been significantly impacted by such reductions, but there is no assurance that our programs will not be affected in the future. If there is a reduction in Israeli Government defense spending for our programs or a change in priorities to products other than ours, our revenues and earnings could be reduced.

Israeli Government programs and tax benefits may be terminated or reduced in the future. Elbit Systems and some of our Israeli subsidiaries participate in programs of the Israeli Chief Scientist s Office (OCS) and the Israel Investment Center, for which we receive tax and other benefits as well as funding for development of technologies and products. The benefits available under these programs depend on our meetings specified conditions. If we fail to comply with these conditions, we may be required to pay additional taxes and penalties, make refunds and be denied future benefits. From time to time, the Government of Israel has discussed reducing or eliminating the benefits available under these programs. See below Item 4. Information on the Company Conditions in Israel Chief Scientist and Investment Center Funding. We cannot assure you that these benefits will be available in the future at their current levels or at all.

Recent changes to Israeli pension regulations could impact us. In May 2006, new Israeli pension regulations were published relating to the level of employer contributions to pension funds and the basis for calculating such contributions, and it is not yet clear how these regulations will apply to us.

Israeli law regulates acquisition of a controlling interest in Israeli defense industries. Recent Israeli legislation regarding the domestic defense industry requires Israeli Government approval of an acquisition of a 25% or more equity interest (or a smaller percentage that constitutes a controlling interest) in companies such as Elbit Systems. This could limit the ability of a potential purchaser to acquire a significant interest in our shares. See below Item 4. Information on the Company Governmental Regulation Approval of Israeli Defense Acquisitions.

It may be difficult to enforce a non-Israeli judgment against us, our officers and directors. We are incorporated in Israel. Most of our executive officers and directors are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce against us or any of those persons in an Israeli court a U.S. court judgment based on the civil liability provisions of the U.S. federal securities laws. It may also be difficult to effect service of process on these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions filed in Israel. See below Item 4. Information on the Company Conditions in Israel Enforcement of Judgments.

Item 4. Information on the Company

Business Overview

Main Activities

We develop, manufacture and integrate advanced, high-performance defense electronic and electro-optic systems for customers throughout the world. We focus on designing, developing, manufacturing and integrating command, control, communication, computer, intelligence, surveillance and reconnaissance (C4ISR) network centric systems for defense and homeland security applications. We also perform upgrade programs for airborne, land and naval defense platforms, often as a prime contractor. Moreover, we develop and manufacture avionic products for the commercial aviation market. In addition, we provide a range of support services.