



## Earning Release

# ELBIT SYSTEMS REPORTS SECOND QUARTER 2010 RESULTS

***Backlog of orders increased to \$5.36 billion;  
Revenues at \$603.3 million; Net income at \$44.8 million;  
Diluted net earnings per share at \$1.04***

**Haifa, Israel, August 17, 2010** – Elbit Systems Ltd. (the “Company”) (NASDAQ and TASE: ESLT), the international defense electronics company, today reported its consolidated financial results for the second quarter ended June 30, 2010.

**Revenues** in the second quarter of 2010 were \$603.3 million, as compared to \$728.3 million in the second quarter of 2009. The decrease in revenues during the second quarter of 2010 was mainly in the C4I systems areas of operations in Israel and in Europe.

**Gross profit** amounted to \$183.6 million (30.4% of revenues) in the second quarter of 2010, as compared to \$211.9 million (29.1% of revenues) in the second quarter of 2009, which change primarily resulted from the reduction in revenues. Despite the lower revenues, the Company's gross profit margin rate in the second quarter of 2010 improved by 1.3%, compared with the second quarter of 2009.

**Research and development ("R&D") expenses, net** were \$56.9 million (9.4% of revenues) in the second quarter of 2010, as compared to \$53.0 million (7.3% of revenues) in the second quarter of 2009. The higher level of R&D expenses in the second quarter of 2010 reflected increased efforts on development and adaptations to market requirements of the Company's products.

**Marketing and selling expenses** were \$50.3 million (8.3% of revenues) in the second quarter of 2010, as compared to \$67.5 million (9.3% of revenues) in the second quarter of 2009. The variance is attributed to quarterly fluctuations in pursuit of market opportunities.

**General and administrative expenses** were \$32.1 million (5.3% of revenues) in the second quarter of 2010, as compared to \$29.4 million (4.0% of revenues) in the second quarter of 2009.

**Other income, net** in the second quarter of 2010 reflected a net gain of \$4.8 million related to the revaluation of the previously held Azimuth Technologies Ltd. shares at the acquisition date due to its accounting treatment as a business combination achieved in stages.

**Financial expenses, net** were \$1.0 million in the second quarter of 2010, as compared to net financial income of \$11.4 million in the second quarter of 2009. The high level of financial income in the second quarter of 2009 was mainly a result of hedging activities related to the change in the U.S. Dollar versus the Israeli Shekel.

**Taxes on income** were \$6.5 million (effective tax rate of 13.5%) in the second quarter of 2010, as compared to taxes on income of \$14.0 million (effective tax rate of 19.3%) in the second quarter of 2009. The change in the effective tax rate was attributable mainly to the mix of the tax rates in the various jurisdictions in which the Company's entities generate taxable income.



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**Equity in net earnings of affiliated companies and partnerships** was \$5.4 million (0.9% of revenues) in the second quarter of 2010, as compared to \$3.4 million (0.5% of revenues) in the second quarter of 2009.

**Net income attributable to non-controlling interests** was \$2.3 million in the second quarter of 2010, as compared to \$2.5 million in the second quarter of 2009.

**Net income attributable to the Company's ordinary shareholders** in the second quarter of 2010 amounted to \$44.8 million (7.4% of revenues), as compared to \$59.7 million (8.2% of revenues) for the second quarter of 2009.

**Diluted net earnings per share attributable to the Company's ordinary shareholders** were \$1.04 for the second quarter of 2010, as compared with \$1.39 for the second quarter of 2009.

**The Company's backlog of orders** increased to \$5,358 million as of June 30, 2010, as compared with \$5,044 million as of December 31, 2009. Approximately 71% of the backlog relates to orders outside of Israel. Approximately 61% of the Company's backlog as of June 30, 2010, is scheduled to be performed during the second half of 2010 and in 2011.

**Operating cash flow** was \$101.6 million in the first half of 2010, as compared to \$93.6 million in the first half of 2009.

### **Issuance of Series A Notes:**

On June 8, 2010, the Company announced that following the filing of a Shelf Offering Report dated June 6, 2010, and pursuant to its Shelf Prospectus dated May 18, 2010, the public offering in Israel of the Company's Series A Notes (the "Series A Notes") was concluded.

Based on the results of the concluded public offering, the Company issued, at par value, Series A Notes in the aggregate principal amount of NIS 1.1 billion (approximately \$284 million), payable in 10 equal annual installments on June 30 of each of the years 2011 through 2020, bearing a fixed interest rate of 4.84% per annum, payable on June 30 and December 30 of each of the years 2010 through 2020 (the first interest payment will be made on December 30, 2010, and the last interest payment will be made on June 30, 2020). The Series A Notes (principal and interest) will not be linked to any currency or index.

The Series A Notes contain standard terms and conditions and are unsecured, non convertible and do not restrict the Company's ability to issue additional notes of any class or distribute dividends in the future. The Series A Notes are listed for trading on the Tel Aviv Stock Exchange.

On May 13, 2010, Midroog Ltd., an Israeli rating agency, announced that it assigned its "Aa1" rating (local scale) to unsecured notes to be issued by the Company, which include the Series A Notes.

The Series A Notes will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation "S" promulgated under the Securities Act) without registration under the Securities Act or an exemption from the registration requirements of the Securities Act.



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### **Recent Events:**

On June 20, 2010, the Company announced that it was awarded a contract to supply a Latin American Army with Command, Control, Computer & Communications (C4I) systems and Electronic Warfare (EW) systems, valued at approximately \$130 million. The project, to be performed over the next three years, is a part of the Army's extensive modernization program and is designated for all echelons, from the maneuvering forces up to the command headquarters. The new, unified communications network will facilitate a real-time common operational picture of the battlefield providing the Land Forces with enhanced operational performance and situational awareness, as well as improved force protection and prevention of "friendly fire".

On August 5, 2010, the Company announced, further to its announcements of July 15, 2010 and July 29, 2010, that the requirements were not met for implementing the tender offer ("Tender Offer") by its wholly-owned subsidiary, Elbit Security Systems Ltd., to acquire the ordinary shares of I.T.L Optronics Ltd. held by the public and therefore the Tender Offer was not implemented.

### **Management Comment:**

The President and CEO of Elbit Systems, Joseph Ackerman, commented: "Over the past two years we have spent close to a billion dollars on R&D and business development on a gross basis, a very significant amount for any company. We believe that these investments represent a valuable asset which provides the foundation for our long-term growth and leadership in the defense electronics industry, despite the current challenges we face in the area of revenue growth."

Mr. Ackerman continued, "During the quarter, we completed a successful bond issuance in the Israeli market, amounting to approximately \$284 million. These funds will support our M&A activities and our working capital needs, including our continued investment in R&D, which are a key part of our long-term strategy of complementary growth by adding synergistic companies to the Elbit Systems family."

Mr. Ackerman concluded, "We are encouraged by the renewed increase in our backlog over the past two quarters, which provides us with a foundation for future growth. Elbit Systems remains well positioned strategically, operationally and financially, and the long-term prospects for the company remain promising."



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### **Dividend:**

The Board of Directors declared a dividend of \$0.36 per share for the second quarter of 2010. The dividend's record date is August 31, 2010, and the dividend will be paid on September 13, 2010, net of taxes and levies, at the rate of 17.92%.

The Company will also be hosting a conference call later today, Tuesday August 17, 2010 at 09:00a.m. Eastern Time. On the call, management will review and discuss the second quarter results and will be available to answer questions.

To participate, please call one of the teleconferencing numbers that follow. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

**US Dial-in Numbers: 1 888 668 9141**

**UK Dial-in Number: 0 800 917 5108**

**ISRAEL Dial-in Number: 03 918 0609**

**INTERNATIONAL Dial-in Number: +972 3 918 0609**

**at 9:00am Eastern Time; 6:00am Pacific Time; 2:00pm UK Time; 4:00pm Israel Time**

This call will also be broadcast live on Elbit Systems' web-site at <http://www.elbitsystems.com>. An online replay will be available for 24 hours after the call ends.

Alternatively, for two days following the call, investors will be able to dial a replay number to listen to the call. The dial-in numbers are:

**1 888 326 9310 (US) or +972 3 925 5901 (Israel and International).**

### **About Elbit Systems:**

Elbit Systems Ltd. is an international defense electronics company engaged in a wide range of programs throughout the world. The Company, which includes Elbit Systems and its subsidiaries, operates in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence surveillance and reconnaissance ("C4ISR"), unmanned aircraft systems ("UAS"), advanced electro-optics, electro-optic space systems, EW suites, airborne warning systems, SIGINT systems, data links and military communications systems and radios. The Company also focuses on the upgrading of existing military platforms, developing new technologies for defense, homeland security and commercial aviation applications and providing a range of support services.

For additional information, visit: <http://www.elbitsystems.com>.



## Earning Release

### Attachments:

Consolidated balance sheet  
Consolidated statements of income  
Condensed consolidated statements of cash flow  
Consolidated revenue distribution by areas of operation and by geographical regions

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*This press release contains forward looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended) regarding Elbit Systems Ltd. and/or its subsidiaries (collectively the Company), to the extent such statements do not relate to historical or current fact. Forward Looking Statements are based on management's expectations, estimates, projections and assumptions. Forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results, performance and trends may differ materially from these forward looking statements due to a variety of factors, including, without limitation: scope and length of customer contracts; governmental regulations and approvals; changes in governmental budgeting priorities; general market, political and economic conditions in the countries in which the Company operates or sells, including Israel and the United States among others; differences in anticipated and actual program performance, including the ability to perform under long-term fixed-price contracts; and the outcome of legal and/or regulatory proceedings. The factors listed above are not all-inclusive, and further information is contained in Elbit Systems Ltd.'s latest annual report on Form 20-F, which is on file with the U.S. Securities and Exchange Commission. All forward looking statements speak only as of the date of this release. The Company does not undertake to update its forward-looking statements.*

**(FINANCIAL TABLES TO FOLLOW)**



## Earning Release

### **ELBIT SYSTEMS LTD. CONSOLIDATED BALANCE SHEETS**

(In thousands of US Dollars)

	June 30, 2010 Unaudited	December 31, 2009 Audited
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 243,781	\$ 140,709
Short-term bank deposits	107,146	115,924
Available for sale marketable securities	16,721	23,639
Trade receivables, net	604,238	659,524
Other receivables and pre-paid expenses	149,447	115,856
Inventories, net of customer advances	617,602	569,848
Total current assets	1,738,935	1,625,500
Investment in affiliated companies, partnership and other companies	95,162	88,759
Available for sale marketable securities	7,250	12,941
Long-term bank deposits and other receivables	51,115	36,338
Deferred income taxes, net	13,181	7,992
Severance pay fund	263,692	274,136
	430,400	420,166
Property, plant and equipment, net	428,601	404,675
Goodwill and other intangible assets, net	624,302	603,336
Total assets	\$ 3,222,238	\$ 3,053,677
<b><u>Liabilities and Shareholders' Equity</u></b>		
Current maturities of long-term loans and Series A Notes	\$ 36,857	\$ 2,663
Trade payables	294,283	299,238
Other payables and accrued expenses	546,228	552,806
Customer advances in excess of costs incurred on contracts in progress	381,120	367,137
Total current liabilities	1,258,488	1,221,844
Long-term loans, net of current maturities	192,657	386,534
Series A Notes	247,559	-
Accrued termination liability	342,023	351,278
Deferred income taxes and tax liabilities, net	59,172	59,602
Customer advances in excess of costs incurred on contracts in progress	138,662	142,566
Other long-term liabilities	50,665	34,659
	1,030,738	974,639
Elbit Systems Ltd.'s shareholders' equity	904,495	832,868
Non-controlling interests	28,517	24,326
Total shareholders' equity	933,012	857,194
Total liabilities and shareholders' equity	\$ 3,222,238	\$ 3,053,677

**ELBIT SYSTEMS LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands of US Dollars, except for share and per share amounts)

	Six Months Ended June 30		Three Months Ended June 30		Year Ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
Revenues	\$ 1,221,478	\$ 1,385,221	\$ 603,277	\$ 728,289	\$ 2,832,437
Cost of revenues	853,372	965,084	419,716	516,420	1,982,954
Gross profit	368,106	420,137	183,561	211,869	849,483
Operating expenses:					
Research and development, net	109,511	98,888	56,846	53,008	216,752
Marketing and selling	104,931	124,465	50,336	67,549	250,963
General and administrative	60,141	58,286	32,056	29,398	119,311
Other income, net	(4,756)	-	(4,756)	-	-
Total operating expenses	269,827	281,639	134,482	149,955	587,026
Operating income	98,279	138,498	49,079	61,914	262,457
Financial income (expenses), net	(4,137)	(7,602)	(1,002)	11,437	(15,585)
Other income (expenses), net	13,089	(646)	108	(551)	458
Income before taxes on income	107,231	130,250	48,185	72,800	247,330
Taxes on income	16,816	26,248	6,489	14,036	38,109
	90,415	104,002	41,696	58,764	209,221
Equity in net earnings of affiliated companies and partnership	9,301	8,193	5,389	3,417	19,292
Consolidated net income	\$ 99,716	\$ 112,195	\$ 47,085	\$ 62,181	\$ 228,513
Less: net income attributable to non-controlling interests	(5,155)	(9,221)	(2,306)	(2,461)	(13,566)
Net income attributable to Elbit Systems Ltd.'s shareholders	\$ 94,561	\$ 102,974	\$ 44,779	\$ 59,720	\$ 214,947
Earnings per share attributable to Elbit Systems Ltd.'s ordinary shareholders:					
Basic net earnings per share	\$ 2.22	\$ 2.44	\$ 1.05	\$ 1.42	\$ 5.08
Diluted net earnings per share	\$ 2.19	\$ 2.41	\$ 1.04	\$ 1.39	\$ 5.00
Weighted average number of shares used in computation of basic earnings per share	42,611	42,149	42,645	42,200	42,305
Weighted average number of shares used in computation of diluted earnings per share	43,257	42,729	43,234	42,924	42,983





**ELBIT SYSTEMS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(In thousands of US Dollars)

	Six Months Ended June 30,		Year Ended December 31,
	2010	2009	2009
	(Unaudited)		(Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 99,716	\$ 112,195	\$ 228,513
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	60,988	63,196	123,473
Write-off impairment	717	-	3,017
Stock based compensation	2,604	2,563	5,134
Amortization of Series A Notes discount and deferred financing costs	25	-	-
Deferred income taxes and reserve	(9,029)	(4,321)	7,606
Severance, pension and termination indemnities, net	(212)	(8,900)	(16,773)
Gain on sale of property, plant and equipment	(698)	208	(723)
Gain on sale of investments	(18,713)	-	(2,734)
Equity in net earnings of affiliated companies and partnership, net of dividend received(*)	(929)	(1,630)	(1,824)
Change in operating assets and liabilities:			
Decrease (increase) in short and long-term trade receivables, and prepaid expenses	(3,980)	17,103	(136,224)
Decrease (increase) in inventories, net	(44,993)	10,672	75,431
Decrease in trade payables, other payables and accrued expenses	6,163	4,046	20,223
Increase (decrease) in advances received from customers	9,968	(101,543)	(95,397)
Net cash provided by operating activities	101,627	93,589	209,722
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(67,484)	(47,065)	(107,893)
Acquisition of subsidiaries and business operations	(34,566)	(13,783)	(48,234)
Investments in affiliated companies and other companies	(59)	(18,575)	(19,415)
Proceeds from sale of property, plant and equipment	5,139	4,238	9,055
Proceeds from sale of investments	12,751	-	33,026
Investment in available for sales debt-securities and long-term deposits, net	6,718	3,351	(11,010)
Investment in short-term deposits, net	16,016	(44,867)	(52,832)
Net cash used in investing activities	(61,485)	(116,701)	(197,303)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from exercise of options	2,908	5,692	9,871
Purchase of non-controlling interests	-	(110,250)	(110,250)
Repayment of long-term bank loans	(243,525)	(20,113)	(148,652)
Proceeds from issuance of Series A Notes, net	283,213	-	-
Deferred financing costs related to issuance of Senior A Notes	(2,163)	-	-
Receipt of long-term bank loans	55,000	170,167	256,354
Dividends paid	(32,503)	(45,839)	(76,172)
Change in short-term bank credit and loans, net	-	(6,854)	(7,531)
Net cash provided by (used in) financing activities	62,930	(7,197)	(76,380)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	103,072	(30,309)	(63,961)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	140,709	204,670	204,670
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 243,781	\$ 174,361	\$ 140,709
* Dividend received	\$ 8,372	\$ 7,324	\$ 17,468



**ELBIT SYSTEMS LTD.**  
**DISTRIBUTION OF REVENUES**

CONSOLIDATED REVENUE BY AREAS OF OPERATION:

	Six Months Ended June 30				Three Months Ended June 30			
	2010		2009		2010		2009	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Airborne systems	358.1	29.3	346.5	25.0	178.3	29.6	173.7	23.8
Land systems	218.6	17.9	252.2	18.2	103.9	17.2	110.3	15.2
C4ISR systems	407.3	33.3	530.1	38.3	200.8	33.3	300.0	41.2
Electro-optics	168.2	13.8	190.4	13.7	86.5	14.3	107.7	14.8
Other (mainly non-defense engineering and production services)	69.3	5.7	66.0	4.8	33.8	5.6	36.6	5.0
Total	<u>1,221.5</u>	<u>100.0</u>	<u>1,385.2</u>	<u>100.0</u>	<u>603.3</u>	<u>100.0</u>	<u>728.3</u>	<u>100.0</u>

CONSOLIDATED REVENUES BY GEOGRAPHICAL REGIONS:

	Six Months Ended June 30				Three Months Ended June 30			
	2010		2009		2010		2009	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Israel	276.3	22.6	300.8	21.7	133.5	22.1	176.3	24.2
United States	401.8	32.9	393.5	28.4	214.1	35.5	182.7	25.1
Europe	273.8	22.4	349.6	25.3	117.6	19.5	187.4	25.7
Other countries	269.6	22.1	341.3	24.6	138.1	22.9	181.9	25.0
Total	<u>1,221.5</u>	<u>100.0</u>	<u>1,385.2</u>	<u>100.0</u>	<u>603.3</u>	<u>100.0</u>	<u>728.3</u>	<u>100.0</u>