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ELBIT SYSTEMS LTD  
Form 6-K  
August 11, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 6-K  
Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934  
For the Month of August 2004  
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ELBIT SYSTEMS LTD.  
(Translation of Registrant's Name into English)  
Advanced Technology Center, P.O.B. 539, Haifa 31053, Israel  
(Address of Principal Corporate Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F                       Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes                                       No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

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Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release, dated August 9, 2004.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant's Management Report with respect to the results of operations of the Registrant for the quarter ended June 30, 2004.

Attached hereto as Exhibit 3 and incorporated herein by reference is the Registrant's condensed interim consolidated financial statements as of June 30, 2004.

### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELBIT SYSTEMS LTD.  
(Registrant)

By: /s/ Ilan Pacholder

-----  
Name: Ilan Pacholder  
Title: Corporate Secretary

Dated: August 10, 2004

### EXHIBIT INDEX

Exhibit No. -----	Description -----
1.	Press Release, dated August 9, 2004.
2.	Registrant's Management Report for the quarter ended June 30, 2004.
3.	Registrant's condensed interim consolidated financial statements as of June 30, 2004.

Exhibit 1

[LOGO OF ELBIT SYSTEMS LTD.]

Earnings Release

#### ELBIT SYSTEMS REPORTS SECOND QUARTER 2004 RESULTS

Revenues Increase To \$231.6 million from \$218.8 million in Second Quarter Last Year

Net Profit Increases To \$11.3 million from \$9.2 million in Second Quarter Last Year

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Backlog of Orders Reaches a Record \$1.9 billion

Extraordinary Dividend of \$1.80 Per Share

Haifa, Israel, August 9, 2004 - Elbit Systems Ltd. (the "Company") (NASDAQ: ESLT), the international defense company, today reported its consolidated results for the quarter ended June 30, 2004.

Consolidated revenues for the second quarter of 2004 increased 5.9% to \$231.6 million from \$218.8 million in the corresponding quarter in 2003.

Consolidated revenues for the six month period ended June 30, 2004 increased 5.8% to \$445.3 million from \$420.9 million in the same period in 2003.

Consolidated net income for the second quarter of 2004 was \$11.3 million (4.9% of revenues) as compared with \$9.2 million (4.2% of revenues) in the same period in 2003. Diluted earnings per share ("EPS") for the second quarter of 2004 was \$0.28 as compared with \$0.23 for the second quarter of 2003.

The Company's financial results were affected by the increase in the Company's share price during the reported periods, due to non-cash expenses related to the employees "phantom" option plan.

Excluding the phantom option plan non-cash expenses, net income in the second quarter of 2004 was \$14.0 million (6.1% of revenues), and the diluted EPS was \$0.34, as compared to net income of \$13.3 million (6.1% of revenues) and diluted EPS of \$0.33 in the second quarter of 2003.

Consolidated net income for the first six months of 2004 was \$24.0 million (5.4% of revenues), compared with \$21.5 million (5.1% of revenues) for the same period in 2003.

Diluted EPS for the six months ended June 30, 2004 was \$0.59 compared with \$0.54 for the corresponding period in 2003.

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Excluding the phantom option plan non-cash expenses in 2004, net income for the six months ended June 30, 2004 was \$27.0 million (6.1% of revenues), and diluted EPS was \$0.66. For the six-month period ended June 30, 2003, net income was \$26.6 million (6.3% of revenues) and diluted EPS was \$0.66.

Gross profit for the second quarter of 2004 was \$58.5 million (25.3% of revenues), as compared with gross profit of \$57.2 million (26.2% of revenues) in the second quarter of 2003.

Excluding non-cash expenses related to the Company's phantom option plan, gross profit in the quarter ended June 30, 2004 was \$60.4 million, or 26.1% of revenues, as compared with \$60.0 million, or 27.6% of revenues in the quarter ended June 30, 2003.

Gross profit for the first six months of 2004 was \$115.4 million (25.9% of revenues) as compared with \$114.1 million (27.1% of revenues) in the same period of 2003.

Excluding non-cash expenses related to the Company's phantom option plan, gross profit for the six months ended June 30, 2003 was \$117.5 million, or 26.4% of revenues, as compared with \$117.7 million, or 28.0% of revenues in the six-month period ended June 30, 2003.

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Backlog of orders as of June 30, 2004 reached \$1,906 million, as compared with \$1,752 million at the end of 2003. 68% of the backlog relates to orders outside of Israel. Approximately 63% of the Company's backlog as of June 30, 2004, is scheduled to be performed over the next two quarters of 2004 and during the year 2005.

The President and CEO of Elbit Systems, Joseph Ackerman, commented: "The second quarter results reflect the continuation of improvement in our net profit that we saw in the first quarter, and a continued growth in revenues and backlog of orders. These results are evidence of the success of the strategy that we have taken, focusing on the development of our technological growth engines and on cooperation with other leading companies worldwide. We see the fruits of the significant investments made by the Company in these areas and anticipate this trend to continue".

The Board of Directors declared an extraordinary dividend of \$1.80 per share. The record date of the dividend is September 7, 2004. The dividend will be paid on September 20, 2004, net of taxes and levies, at the rate of approximately 22%.

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### Conference Call

Elbit Systems will host a conference call today, Monday, August 9, 2004 at 10:30 AM ET. To take part in the conference call, please dial 1-866-860-9642 (U.S.), 0800-917-5108 (U.K.) or +972-3-918-0610 (International and Israel) a few minutes before 10:30 AM ET. For your convenience, an instant replay will be available starting at 12:30 PM ET the same day until Wednesday, August 11, 2004 at 12:30 PM ET. The replay telephone number is 1-866-276-1485 (U.S.), 0800 169 8104 (U.K.) or +972-3-925-5948 (International and Israel).

This call will also be broadcasted live on: [www.elbitsystems.com](http://www.elbitsystems.com). and an online replay will be available for 30 days.

### About Elbit Systems

Elbit Systems Ltd. is an international defense electronics company engaged in a wide range of defense-related programs throughout the world, in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence, surveillance and reconnaissance ("C4ISR"), advanced electro-optic and space technologies. The Company focuses on the upgrading of existing military platforms and developing new technologies for defense and homeland security applications.

For more about Elbit Systems, please visit our website at [www.elbitsystems.com](http://www.elbitsystems.com)

### Contacts

#### Company contact

Ilan Pacholder, Corporate Secretary and  
VP Finance & Capital Markets  
Elbit Systems Ltd  
Tel: 972-4 831- 6632  
Fax: 972-4 831- 6659  
[pacholder@elbit.co.il](mailto:pacholder@elbit.co.il)

#### IR Contacts

Ehud Helft/Kenny Green  
Gelbart Kahana  
Tel: 1-866-704-6710  
Fax: 972-3-607-4711  
[ehud@gk-biz.com](mailto:ehud@gk-biz.com)

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kenny@gk-biz.com

STATEMENTS IN THIS PRESS RELEASE WHICH ARE NOT HISTORICAL DATA ARE FORWARD-LOOKING STATEMENTS WHICH INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES OR OTHER FACTORS NOT UNDER THE COMPANY'S CONTROL, WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY TO BE MATERIALLY DIFFERENT FROM THE RESULTS, PERFORMANCE OR OTHER EXPECTATIONS IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DETAILED IN THE COMPANY'S PERIODIC FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION.

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ELBIT SYSTEMS LTD.  
 CONSOLIDATED BALANCE SHEETS  
 (In thousand of US Dollars)

	June 30 2004	December 31 2003
	----- Unaudited	----- Audited
Assets		
Current Assets:		
Cash and short term deposits	90,901	76,846
Trade receivable and others	227,079	251,644
Inventories, net of advances	241,868	249,225
	-----	-----
Total current assets	559,848	577,715
Affiliated Companies & other Investments	39,379	38,223
Long-term receivables & others	78,987	78,565
Fixed Assets, net	237,204	229,221
Other assets, net	96,620	100,012
	-----	-----
	1,012,038	1,023,736
	=====	=====
Liabilities and Shareholder's Equity		
Current liabilities	358,671	378,731
Long-term liabilities	171,419	188,811
Minority Interest	3,972	4,115
Shareholder's equity	477,976	452,079
	-----	-----
	1,012,038	1,023,736
	=====	=====

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## CONSOLIDATED STATEMENTS OF INCOME

(In thousand of US Dollars, except for per share amounts)

	Six Months Ended June 30		Three Months Ended June		Year En December
	2004	2003	2004	2003	2003
	Unaudited	Unaudited	Unaudited	Unaudited	Audit
Revenues	445,317	420,948	231,645	218,758	897,9
Cost of revenues	329,879	306,804	173,127	161,405	673,5
Gross Profit	115,438	114,144	58,518	57,353	224,4
Research and development, net	27,121	28,448	13,857	13,586	54,9
Marketing and selling	35,444	35,123	19,035	19,095	69,9
General and administrative	23,204	22,889	11,791	11,938	46,0
Total operating expenses	85,769	86,500	44,683	44,619	170,9
Operating income	29,669	27,644	13,835	12,734	53,4
Financial expenses, net	(1,301)	(3,306)	(822)	(2,030)	(4,8
Other income, net	(84)	91	(299)	(18)	9
Income before income taxes	28,284	24,429	12,714	10,686	49,5
Taxes on income	7,401	6,602	3,207	2,956	11,3
	20,883	17,827	9,507	7,730	38,1
Company's share of partnerships and affiliated Companies income, net	2,969	2,949	1,612	1,048	7,2
Minority rights	187	690	193	433	5
Net income	24,039	21,466	11,312	9,211	45,9
Earnings per share					
Basic net earnings per share	\$ 0.61	\$ 0.55	\$ 0.28	\$ 0.24	\$ 1.
Diluted net earnings per share	\$ 0.59	\$ 0.54	\$ 0.28	\$ 0.23	\$ 1.

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This report should be read together with the unaudited financial statements of Elbit Systems Ltd. ("Elbit Systems" or the "Company") and together with its subsidiaries (the "Group") for the quarter ended June 30, 2004, the Company's audited consolidated financial statements and related notes for the year ended December 31, 2003, the Company's management report for the year ended December 31, 2003 and the Company's Form 20-F for the year ended December 31, 2003, filed by the Company with the U.S. Securities and Exchange Commission and with the Israeli Securities Authority.

Forward looking statements with respect to the Company's business, financial condition and results of operations in this document are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements, including, but not limited to, product demand, pricing, market acceptance, changing economic conditions, risks in product and technology development, the effect of the Company's accounting policies as well as certain other risk factors which are detailed from time to time in the Company's filings with the U.S. Securities and Exchange Commission.

### A. Executive Overview

#### Business Description

Elbit Systems is engaged in projects involving the design, development, manufacture and integration of advanced integrated defense systems, electronic systems, electro-optic systems and products and software intensive programs and products for the defense and homeland security sectors. In addition, the Company operates in the area of upgrading existing airborne, land and naval defense platforms and provides support services for such platforms, systems and products.

The Company is involved in leading projects in Israel and worldwide, in areas such as air, land and naval Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance ("C4ISR") systems, digital maps, night vision systems, pilot helmet mounted systems, display and data processing systems, unmanned air vehicles ("UAVs"), computerized simulators, communication systems, thermal imaging products, laser products, optical systems for space applications, airborne reconnaissance systems, optic communication systems, surveillance products and systems, electric drive systems and products, and systems for Homeland Defense.

The Company provides a wide range of logistic support services, including operation of pilot training services and aircraft maintenance services for the Israeli Air Force on a private financing initiative ("PFI") basis. Several of the Group's companies also provide advanced engineering and manufacturing services to various customers, utilizing their significant manufacturing capabilities. The Company often cooperates with industries in Israel and in various other countries.

The Company tailors and adapts its technologies, integration skills, market knowledge and battle-proven systems to each customer's individual requirements in both existing and new platforms. By upgrading existing platforms with advanced electronic and electro-optic technologies, the Company provides customers with cost-effective solutions, and its customers are able to improve their technological and operational capabilities within limited defense budgets.

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The Company operates in a competitive environment for most of its projects, systems and products. Competition is based on product and program performance, price, reputation, reliability, maintenance costs and responsiveness to customer requirements. This includes the ability to respond to rapid changes in technology.

### Recent Events

- o On July 1, 2004, Itzhak Dvir was appointed as Chief Operating Officer (COO) of the Group.
- o On July 20, 2004, the U.K. Ministry of Defence announced the selection of Thales U.K. as preferred bidder for the next phase of the acquisition cycle of the Watchkeeper program. Elbit Systems is a significant part of the Thales U.K. team for the program. Watchkeeper will provide the U.K. armed forces with an essential Intelligence, Surveillance, Target Acquisition and reconnaissance capability based on a tactical unmanned air vehicle (UAV) system and will be a key component of the U.K.'s drive for Network Enabled Capability. The Thales/Elbit System Joint Venture will play a significant part as the provider of core UAV subsystems to the U.K.'s Watchkeeper Prime Contract Management Organization of Thales U.K. In the event that contract negotiations for the Watchkeeper program are concluded and a contract is awarded to Thales, the contract to be awarded to the Thales/Elbit Systems Joint Venture is anticipated to be in an amount material to Elbit Systems.
- o On July 28, 2004, Elron Electronic Industries Ltd. completed the sale of all of its holdings in the Company, constituting approximately 19.6% of the Company's outstanding share capital, to Federmann Enterprises Ltd., in consideration for approximately \$197 million. The transaction was consummated following the exercise by Federmann Enterprises Ltd. of its right of first refusal that was triggered by the agreement signed on July 8, 2004 between Elron Electronic Industries Ltd. and Tadiran Communications Ltd. As a result of the sale, the Federmann Enterprises Ltd. and certain of its affiliates are the beneficial owner of approximately 49.8% of the Company's outstanding shares.
- o On July 28, 2004, Mr. Doron Birger and Mr. Avi Fisher submitted their resignations, and on August 8, 2004, Mr. Ami Erel submitted his resignation, from the Company's Board of Directors, following the completion of the sale of Elron Electronic Industries Ltd.'s holdings in the Company to Federmann Enterprises Ltd.
- o On August 8, 2004, the Board of Directors approved the appointment of Mr. Yigal Ne'eman as a member of the Board of Directors.

### Financial Highlights

The Company's revenues increased by 5.9% and reached \$231.6 million in the second quarter of 2004, as compared to \$218.8 million in the second quarter of 2003. The main increase in revenues was in the land vehicles



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systems area.

Net earnings in the second quarter of 2004 were \$11.3 million and the diluted earnings per share were \$0.28, as compared to \$9.2 million and \$0.23 in the second quarter of 2003. Excluding the phantom option plan non-cash expenses, net earning in the quarter ended June 30, 2004 were \$ 14 million, and the EPS was \$0.34, as compared to \$13.3 million and \$ 0.33 in the second quarter of 2003.

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The Company's backlog as of June 30, 2004 reached \$1.9 billion, as compared to \$1.75 billion as of December 31, 2003.

The Company's cash flow generated from operations in the six months period ended June 30, 2004 was \$54.7 million, as compared to \$11.2 million in the six months period ended June 30, 2003.

The Board of Directors declared an extraordinary dividend of \$1.80 per share.

### B. Backlog of Orders

The Company's backlog of orders as of June 30, 2004 reached \$1,906 million, of which 68% were for orders outside Israel. The Company's backlog as of December 31, 2003 was \$1,752 million, of which 63% were for orders outside Israel.

Approximately 63% of the Company's backlog as of June 30, 2004 is scheduled to be performed in the following two quarters of 2004 and during 2005. The majority of the 37% balance is scheduled to be performed in 2006 and 2007.

### C. Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2003 and in Note 2 to the un-audited consolidated financial statements for the quarter ended June 30, 2004. See also the Company's management report for the year ended December 31, 2003.

### D. Sarbanes-Oxley Act

According to Section 404 of the U.S. Sarbanes-Oxley Act of 2002, the Company is required to include in its annual report for 2005 an assessment, as of the end of the fiscal year, of the effectiveness of its internal controls over financial reporting.

During 2003 and the first two quarters of 2004, the Company took steps to assure compliance of its documentation and internal controls over financial reporting with the guidelines stipulated in the Sarbanes-Oxley Act. The Company plans to continue with these steps during the remainder of 2004 and 2005.

### E. New Accounting Standards

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The significant accounting policies in the preparation of these statements are identical to those applied in preparation of the latest annual financial statements except as follows:

In January 2003, the FASB issued Financial Accounting Standard Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that arose. FIN 46 provides a new framework for identifying Variable Interest Entities ("VIEs") and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of a VIE in the activities of the company's financial

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statements. The provisions of FIN 46 were adopted as of March 31, 2004. The adoption of FIN 46 did not have a significant effect on the Company's financial statements.

### F. Employee Stock Option Plan

The change in the Company's share price affected the Company's financial results due to the impact of the employee stock option plan adopted in 2000. The plan was comprised of options for 5 million shares, divided into options to purchase up to 2.5 million shares and an additional 2.5 million "phantom" options. The phantom options grant the option holders a number of shares corresponding to the benefit component of the options exercised, as calculated on the exercise date, in consideration for their par value only, and are considered as a variable option plan. The actual number of options granted as of June 30, 2004 was approximately 4.8 million.

Under U.S. GAAP, the total compensation is computed periodically according to the change in the share price and amortized as compensation expense, or income, based on the vesting period of the options. The amount of the net expense related to the "phantom" stock option compensation in the first two quarters of 2004 was approximately \$3.0 million.

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### I. Summary of Financial Results

The following table sets forth the reported consolidated statements of operations of the Company for the three and six-month periods ended June 30, 2004 and June 30, 2003.

For the six months ended

-----  
June 30  
-----

2004

2003



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	For the six months ended June 30				
	2004		2003		200
	\$	%	\$	%	\$
	(In thousands of U.S. dollars except				
Gross profit as reported	115,438	25.9	114,144	27.1	58,518
Non-cash expense related to phantom plan	2,056	0.5	3,520	0.9	1,876
Gross profit excluding phantom plan effect in 2004 and 2003	117,494	26.4	117,664	28.0	60,394
Operating profit as reported	29,669	6.7	27,644	6.6	13,835
Non-cash expense related to phantom plan	3,739	0.8	6,421	1.5	3,411
Operating profit excluding phantom plan	33,408	7.5	34,065	8.1	17,246
Net earnings as reported	24,039	5.4	21,466	5.1	11,312
Non-cash expense related to phantom plan	2,991	0.7	5,137	1.2	2,729
Net earnings excluding phantom plan effect	27,030	6.1	26,603	6.3	14,041
Diluted net earnings per share as Reported	0.59		0.54		0.28
Diluted net earnings per share excluding phantom plan effect	0.66		0.66		0.34

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Revenues

Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

The Company's consolidated revenues increased by 5.8%, from \$420.9 million in the first six months of 2003 to \$445.3 million in the first six months of 2004.

The following table sets forth the Company's revenue distribution by areas of operation:

	Six-Month Period ended			
	June 30, 2004		June 30, 2003	
	\$ millions	%	\$ millions	%
Airborne systems	187.3	42.1	201.2	47.8
Land vehicle systems	107.7	24.2	75.8	18.0

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C4I systems	57.3	12.9	64.6	15.3
Electro-optics	69.2	15.5	54.7	13.0
Other (mainly non-defense engineering and production services)	23.8	5.3	24.6	5.9
	-----	-----	-----	-----
Total	445.3	100.0	420.9	100.0
	=====	=====	=====	=====

The decrease in the airborne systems sales was mainly a result of completion of certain upgrade programs, while new programs are expected to generate revenues in the future.

The increase in the land vehicle systems revenues of approximately 42% was mainly due to revenues from fire control systems sold for new land vehicle projects in various countries.

The following table sets forth the Company's distribution of revenues by geographic regions:

	Six-Month Period ended			
	June 30, 2004		June 30, 2003	
	\$ millions	%	\$ millions	%
Israel	110.5	24.8	111.9	26.6
United States	166.7	37.4	159.6	37.9
Europe	65.7	14.8	49.0	11.6
Other countries	102.4	23.0	100.4	23.9
	-----	-----	-----	-----
Total	445.3	100.0	420.9	100.0
	=====	=====	=====	=====

Revenues from sales to Europe increased by 34.1%, from \$49.0 million to \$65.7 million. The increase was mainly from other new projects sold to European customers and due to consolidating sales of a subsidiary in Europe ("OIP") that was acquired during the second half of 2003.

Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

The consolidated revenues increased by 5.9% from \$218.8 million in the second quarter of 2003 to \$231.6 million in the second quarter of 2004.

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The following table sets forth the Company's revenue distribution by areas of operation:

	Three-Month Period ended			
	June 30, 2004		June 30, 2003	
	\$ millions	%	\$ millions	%
Airborne systems	98.7	42.6	102.3	46.8
Land vehicle systems	50.5	21.8	43.5	19.9
C4I systems	27.8	12.0	32.6	14.9
Electro-optics	38.5	16.6	27.5	12.5
Other (mainly non-defense				

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engineering and production services)	16.1	7.0	12.9	5.9
	-----	-----	-----	-----
Total	231.6	100.0	218.8	100.0
	=====	=====	=====	=====

The following table sets forth the Company's distribution of revenues by geographic regions:

	Three-Month Period ended			
	June 30, 2004		June 30, 2003	
	\$ millions	%	\$ millions	%
Israel	56.6	24.4	61.5	28.1
United States	87.3	37.7	82.5	37.7
Europe	33.7	14.5	27.6	12.6
Other countries	54.1	23.4	47.2	21.6
	-----	-----	-----	-----
Total	231.6	100.0	218.8	100.0
	=====	=====	=====	=====

The Company's sales are primarily to governmental entities and prime contractors under government defense programs. Accordingly, the level of the Company's revenues is subject to governmental budgetary constraints. The recent economic situation in Israel has created some uncertainty with respect to the Israeli Government's general and defense budgets.

### Gross Profit

The Company's gross profit represents the aggregate results of the Company's activities and projects, and is based on the mix of programs in which the Company is engaged during the reported period.

### Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

Reported gross profit in the six months ended June 30, 2004 was \$115.4 million as compared to \$114.1 million in the six months ended June 30, 2003. The reported gross profit margin in the six months ended June 30, 2004 was 25.9% as compared to 27.1% in the corresponding period of the previous year. The difference in the gross profit was the result of the mix of programs generating revenues in the applicable periods.

The Company's cost of goods sold in the six months ended June 30, 2004 included \$2.1 million in non-cash expenses resulting from its phantom option plan, as compared \$3.5 million in the six months ended June 30, 2003. Excluding non-cash expenses related to the Company's phantom option, gross profit in the six months ended June 30, 2004 was \$117.5 million, or 26.4% of revenues, as compared to \$117.7 million, or 28.0% of revenues in the six months ended June 30, 2003.

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### Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

Reported gross profit in the quarter ended June 30, 2004 was \$58.5

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million as compared to \$57.2 million in the quarter ended June 30, 2003. The reported gross profit margin in the second quarter of 2004 was 25.3% as compared to 26.2% in the same period last year. The difference in the gross profit was as a result of the mix of programs generating revenues in the applicable periods.

The Company's cost of goods sold in the second quarter of 2004 included \$1.9 million in non-cash expenses resulting from its phantom option plan, as compared to \$2.8 million in the second quarter of 2003. Excluding non-cash expenses related to the Company's phantom option compensation costs, gross profit in the quarter ended June 30, 2004 was \$60.4 million, or 26.1% of revenues, as compared to \$60.0 million, or 27.6% in the quarter ended June 30, 2003.

### Research and Development ("R&D")

The Company continually invests in R&D in order to maintain and further advance its technologies, in accordance with a long-term plan, based on its estimate of future market needs.

The Company's R&D activities in the reported period were in accordance with its plans. Some of these activities are coordinated with, and partially funded by, third parties, including the Israeli Ministry of Defense ("IMOD") and the Office of the Chief Scientist ("OCS"). These programs were mainly in the areas of advanced airborne systems, cutting edge electro-optics technology and products for surveillance, aerial reconnaissance, lasers and space based sensors.

Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

Gross R&D expenses in the six months ended June 30, 2004 totaled \$32.8 million (7.4% of revenues), as compared to \$30.9 million (7.3% of revenues) in the six months ended June 30, 2003.

Net R&D expenses (after deduction of third party participation, including the IMOD and the OCS) in the six months period ended June 30, 2004 totaled \$27.1 million (6.1% of revenues), as compared to \$28.5 million (6.8% of revenues) in the six months period ended June 30, 2003.

Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

Gross R&D expenses in the quarter ended June 30, 2004 totaled \$16.3 million (7.1% of revenues), as compared to \$15.2 million (6.9% of revenues) in the quarter ended June 30, 2003.

Net R&D expenses (after deduction of third party participation, including the IMOD and the OCS) in the quarter ended June 30, 2004 totaled \$13.8 million (6.0% of revenues), as compared to \$13.6 million (6.2% of revenues) in the quarter ended June 30, 2003.

### Marketing and Selling Expenses

The Company maintains its activities in developing new markets and pursues various business opportunities according to the Company's plan.

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Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

Marketing and selling expenses in the six months ended June 30, 2004 were \$35.4 million (8.0% of revenues), as compared to \$35.1 million (8.3% of revenues) in the six months ended June 30, 2003.

Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

Marketing and selling expenses in the quarter ended June 30, 2004 were \$19.0 million (8.2% of revenues), as compared to \$19.0 million (8.7% of revenues) in the quarter ended June 30, 2003.

### General and Administrative ("G&A") Expenses

Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

G&A expenses were \$23.2 million (5.2% of revenues) in the six months ended June 30, 2004, as compared to \$22.9 million (5.4% of revenues) in the six months ended June 30, 2003.

Excluding the phantom option plan non-cash expenses, G&A expenses in the six months ended June 30, 2004 were \$22.3 million (5.0% of revenues), as compared to \$22.3 million (5.1% of revenues) in the six months ended June 30, 2003.

Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

G&A expenses were \$11.8 million (5.5% of revenues) in the quarter ended June 30, 2004, as compared to \$11.9 million (5.5% of revenues) in the quarter ended June 30, 2003.

Excluding the phantom option plan non-cash expenses, G&A expenses in the quarter ended June 30, 2004 were \$10.9 million (4.7% of revenues), as compared to \$10.6 million (4.9% of revenues) in the quarter ended June 30, 2003.

### Operating Profit

Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

As a result of all of the above, reported operating income in the six months ended June 30, 2004 was \$29.7 million (6.7% of revenues), as compared to \$27.6 million (6.6% of revenues) in the six months ended June 30, 2003.

For the six months ended June 30, 2004, the Company's operating profit included \$3.7 million in non-cash expenses associated with the Company's phantom option plan, as compared to \$6.4 million in the six months ended June 30, 2003.

Excluding phantom share compensation costs, operating income totaled \$33.4 million (7.5% of revenues) in the six months ended June 30, 2004, as compared to \$34.1 million (8.1% of revenues) in the six months ended



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June 30, 2003.

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Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

As a result of all of the above, reported operating income in the quarter ended June 30, 2004 was \$13.8 million (6.0% of revenues), as compared to \$12.7 million (5.8% of revenues) in the quarter ended June 30, 2003.

During the second quarter of 2004, the Company's operating profit included \$3.4 million in non-cash expenses associated with the Company's phantom option plan, as compared \$5.0 million in the second quarter of 2003.

Excluding phantom share compensation costs, operating income totaled \$17.2 million (7.4% of revenues) in the quarter ended June 30, 2004, as compared to \$17.7 million (8.1% of revenues) in the quarter ended June 30, 2003.

Finance Expense (Net)

Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

Net finance expense in the six months ended June 30, 2004 was \$1.3 million, as compared to \$3.3 million of finance expense in the six months ended June 30, 2003.

Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

Net finance expense in the quarter ended June 30, 2004 was \$0.8 million, as compared to \$2.0 million of finance expense in the quarter ended June 30, 2003.

The decrease in the net finance expense resulted mainly from a lower level of short and long-term loans in the second quarter of 2004 as compared to the second quarter of 2003.

Taxes on Income

The Company's tax rate represents a weighted average of the tax rates to which the various companies in the Group are subject. The changes in the effective tax rate are attributable mainly to the mix of the tax rates in the various tax jurisdictions in which the Group's companies generating the taxable income operate.

Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

Provision for taxes in the six months ended June 30, 2004 was \$7.4 million (effective tax rate of 26.2%), as compared to a provision for taxes of \$6.6 million (effective tax rate of 27.0%) in the six months ended June 30, 2003.

Three Months Ended on June 30, 2004, Compared to Three Months Ended on

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June 30, 2003

Provision for taxes in the quarter ended June 30, 2004 was \$3.2 million (effective tax rate of 25.2%), as compared to a provision for taxes of \$3.0 million (effective tax rate of 27.7%) in the quarter ended June 30, 2003.

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### Company's Share in Earnings of Affiliated Companies and Partnership

The companies, in which the Company holds 50% or less in shares or voting rights and are therefore not consolidated in its financial statements, operate mainly in complementary areas related to the Company's core business areas, including electro-optics and airborne systems.

The Company believes that its affiliates will continue to contribute significantly to the Company's earnings.

### Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

In the six months ended June 30, 2004 the Company had net income of \$3.0 million from its share in earnings of affiliated companies and partnership, as compared to \$2.9 million in the six months ended June 30, 2003.

### Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

In the second quarter of 2004 the Company had net income of \$1.6 million from its share in earnings of affiliated companies and partnership, as compared to \$1.0 million in the second quarter of 2003.

### Net Earnings and Earnings Per Share ("EPS")

#### Six Months Ended on June 30, 2004, Compared to Six Months Ended on June 30, 2003

Reported net earnings in the six months ended June 30, 2004 were \$24.0 million (5.4% of revenues), as compared to reported net earnings of \$21.5 million (5.1% of revenues) in the six months ended June 30, 2003. Diluted EPS in the six months ended June 30, 2004 was \$0.59, as compared to \$0.54 per share in the six months ended June 30, 2003.

Excluding the phantom option plan non-cash expenses, net earnings in the six months ended June 30, 2004 were \$27.0 million (6.1% of revenues), and the EPS was \$0.66, as compared to \$26.6 million (6.3% of revenues) and an EPS of \$0.66 in the six months ended June 30, 2003.

The number of shares used for computation of diluted EPS in the six months ended June 30, 2004 was 40,805 thousand shares, as compared to 40,095 thousand shares in the six months ended June 30, 2003. The increase in the number of shares used for computation of diluted EPS was due mainly to the change in the average share price during the six months ended June 30, 2004 which, due to the impact of the Company's stock option plan, affects the number of shares calculated on a diluted basis, and due to exercise of options by employees during the period.

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Three Months Ended on June 30, 2004, Compared to Three Months Ended on June 30, 2003

Reported net earnings in the quarter ended June 30, 2004 were \$11.3 million (4.9% of revenues), as compared to reported net earnings of \$9.2 million (4.2% of revenues) in the quarter ended June 30, 2003. Diluted EPS in the quarter ended June 30, 2004 was \$0.28, as compared to \$0.23 in the quarter ended June 30, 2003.

Excluding the phantom option plan non-cash expenses, net earnings in the quarter ended June 30, 2004 were \$14.0 million (6.1% of revenues), and the EPS was \$0.34, as compared to \$13.3 million (6.1% of revenues) and an EPS of \$0.66 in the quarter ended June 30, 2003.

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The number of shares used for computation of diluted EPS in the quarter ended June 30, 2004 was 40,892 thousand shares, as compared to 40,396 thousand shares in the quarter ended June 30, 2003. The increase in the number of shares used for computation of diluted EPS was due mainly to the change in the average share price during the second quarter of 2004 which, due to the impact of the Company's stock option plan, affects the number of shares calculated on a diluted basis, and due to exercise of options by employees during the period.

### J. Liquidity and Capital Resources

The Company's cash flows are effected by the cumulative cash flows of its various projects in the reported periods. Project cash flows are affected by the timing of the receipt of advances and the collection of accounts receivable from customers, which relate to specific events during the project, while expenses are on-going. As a result, the Company's cash flows may vary from one period to another.

The Company's policy is to invest its cash surplus primarily in interest bearing deposits in accordance with its projected needs.

The resources available to the Company include mainly profits, collection of accounts receivable, advances from customers, as well as Government of Israel grants and participation and bank financing in Israel and elsewhere based on its capital, assets and activities. In addition, the Company has the ability to raise funds through the offering of shares and debentures to the public from time to time.

The Company's net cash flows generated from operating activities in the six-month period ended June 30, 2004 were \$54.7 million, resulting mainly from net income for the period and collection of accounts receivable.

Net cash flows used for investment activities in the quarter ended June 30, 2004 were \$24.2 million, which were used mainly for procurement of property, plans and equipment. The investments were made primarily in equipment for the Group's various manufacturing plants and in a building constructed at Elbit Systems' facility in Haifa, Israel. The building is planned to house employees currently located in various leased locations in the industrial park in Haifa, and the Company plans to complete its population during the third quarter of 2004.

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Net cash flows used for financing activities in the six-month period ended June 30, 2004 were \$16.3 million, reflecting \$5.7 million in proceeds from the exercise of options and repayment of short and long-term borrowings.

On June 30, 2004, the Company had total borrowings in the amount of \$62.7 million, including \$48.7 million in long-term loans, and \$433 million in guarantees issued on its behalf by banks, mainly in respect of advance payment and performance guarantees provided in the regular course of business. On June 30, 2004, the Company had a cash balance amounting to \$90.3 million.

As of June 30, 2004, the Company had working capital of \$201.2 million and its current ratio was 1.56. The Company's ratio of equity to total assets was 47%.

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### K. Derivatives and Hedges

Market risks relating to the Company's operations result primarily from changes in interest rates and exchange rates. The Company typically uses financial instruments to limit its exposure to those changes. The Company also typically enters into forward contracts in connection with transactions that are denominated in currencies other than U.S. dollars and New Israeli Shekels ("NIS"). The Company may enter from time to time into forward contracts and other hedging instruments related to NIS, based on market conditions.

On June 30, 2004, the Company's liquid assets were comprised of bank deposits, and it had no investments in liquid equity securities that were subject to market fluctuations. The Company's deposits and loans are based on variable interest rates, and their value as of June 30, 2004 was therefore not exposed to changes in interest rates. Should interest rates either increase or decrease, such change may affect the Company's results of operations due to changes in the cost of its liabilities and the return on its assets that are based on variable rates.

The Company's functional currency is the U.S. dollar. On June 30, 2004, the Company had exposure due to liabilities denominated in NIS of \$63 million in excess of its NIS denominated assets. These liabilities represent mostly wages, trade payables. The amount of the Company's exposure to the changes in the NIS-U.S. dollar exchange rate varies from time to time. On June 30, 2004, the Company had options for hedging future cash flows in the amount of \$57 million. The fair market value of the options as of June 30, 2004 amounted to \$0.49 million.

Most of the Company's assets and liabilities which are denominated in currencies other than the NIS and the U.S. dollar were covered as of June 30, 2004 by forward contracts. On June 30, 2004, the Company had contracts for the sale and purchase of such foreign currencies totaling \$28.6 million. The results of financial derivative activities in this quarter were not material.

### L. Dividends

The Board of Directors declared on August 8, 2004 an extraordinary dividend of \$1.80 per share.

\* \* \*

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Exhibit 3

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES  
CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS

AS OF JUNE 30, 2004  
(Unaudited)  
(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES  
CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS

AS OF JUNE 30, 2004  
(Unaudited)  
(In thousands of U.S. dollars)

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Consolidated Statements of Changes in Shareholders' Equity	5 -7
Consolidated Statements of Cash Flows	8 - 9
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# # # # #

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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(In thousands of U.S. dollars, except per share data)

	June 30, 2004 (Unaudited)	December 31, 2003 (Audited)
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 90,336	\$ 76,156
Short-term bank deposits	565	690
Trade receivables, net	180,330	203,281
Other receivables and prepaid expenses	46,749	48,363
Inventories, net of advances	241,868	249,225
	-----	-----
Total current assets	559,848	577,715
	-----	-----
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies and partnership	27,634	26,478
Investments in other companies	11,745	11,745
Long-term bank deposits and loan	1,984	2,347
Severance pay fund	77,003	76,218
	-----	-----
	118,366	116,788
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	237,204	229,221
	-----	-----
INTANGIBLE ASSETS, NET		
Goodwill	32,576	32,576
Other intangible assets, net	64,044	67,436
	-----	-----
	96,620	100,012
	-----	-----
	\$1,012,038	\$1,023,736
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars except share and per share data)

June 30,  
2004  
(Unaudited)

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-----	
CURRENT LIABILITIES	
Short-term bank credit and loans	\$ 7,374
Current maturities of long-term loans	6,585
Trade payables	100,495
Other payables and accrued expenses	159,496
Customers advances and amounts in excess of costs incurred on contracts in progress	84,721
	-----
Total current liabilities	358,671
	-----
LONG-TERM LIABILITIES	
Long-term loans	48,711
Advances from customers	2,762
Deferred income taxes	26,015
Accrued severance pay	93,931
	-----
	171,419
	-----
MINORITY INTERESTS	3,972
	-----
SHAREHOLDERS' EQUITY	
Share capital	
Ordinary shares of New Israeli Shekels (NIS) 1 par value; Authorized - 80,000,000 shares as of June 30, 2004 and December 31, 2003;	
Issued - 40,337,372 and 39,746,125 shares as of June 30, 2004 and December 31, 2003, respectively;	
Outstanding - 39,928,551 and 39,337,304 shares as of June 30, 2004 and December 31, 2003, respectively	11,405
Additional paid-in capital	269,047
Accumulated other comprehensive loss	(3,584)
Retained earnings	205,429
Treasury shares - 408,821 shares as of June 30, 2004 and December 31, 2003	(4,321)
	-----
	477,976
	-----
	\$ 1,012,038
	=====

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

-----  
(In thousands of U.S. dollars, except per share data)

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	Six months ended June 30,		Three months ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Revenues	\$ 445,317	\$ 420,948	\$ 231,645	\$ 231,645
Cost of revenues	329,879	306,804	173,127	173,127
Gross profit	115,438	114,144	58,518	58,518
Research and development costs, net	27,121	28,488	13,857	13,857
Marketing and selling expenses	35,444	35,123	19,035	19,035
General and administrative expenses	23,204	22,889	11,791	11,791
	85,769	86,500	44,683	44,683
Operating income	29,669	27,644	13,835	13,835
Financial expenses, net	1,301	3,306	822	822
Other income (expenses), net	(84)	91	(299)	(299)
Income before taxes on income	28,284	24,429	12,714	12,714
Taxes on income	7,401	6,602	3,207	3,207
	20,883	17,827	9,507	9,507
Equity in net earnings of affiliated companies and partnership	2,969	2,949	1,612	1,612
Minority interests in losses of subsidiaries	187	690	193	193
Net income	\$ 24,039	\$ 21,466	\$ 11,312	\$ 11,312
Earnings per share				
Basic net earnings per share	\$ 0.61	\$ 0.55	\$ 0.28	\$ 0.28
Diluted net earnings per share	\$ 0.59	\$ 0.54	\$ 0.28	\$ 0.28

The accompanying notes are an integral part of the consolidated financial statements.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars, except per share data)

Number of

Additional

Ac



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	outstanding shares	Share capital	paid-in capital	com
Balance as of January 1, 2003 (Audited)	38,803,507	\$ 11,154	\$ 248,387	
Exercise of options	533,797	119	5,147	
Tax benefit in respect of options exercised	-	-	758	
Amortization of stock based compensation	-	-	4,741	
Dividends paid	-	-	-	
Comprehensive income (loss):				
Unrealized losses on derivative instruments	-	-	-	
Foreign currency translation differences	-	-	-	
Minimum pension liability	-	-	-	
Net income	-	-	-	
-----				
Total comprehensive income				
Balance as of December 31, 2003 (Audited)	39,337,304	\$11,273	\$259,033	
Exercise of options	591,247	132	5,584	
Tax benefit in respect of options exercised	-	-	691	
Amortization of stock based compensation	-	-	3,739	
Dividends paid	-	-	-	
Comprehensive income (loss):				
Unrealized gains on derivative instruments	-	-	-	
Foreign currency translation differences	-	-	-	
Net income	-	-	-	
-----				
Total comprehensive income				
Balance as of June 30, 2004 (Unaudited)	39,928,551	\$ 11,405	\$ 269,047	
=====				

	Retained earnings	Treasury shares	Total shareholders' equity	T co
Balance as of January 1, 2003 (Audited)	\$159,023	\$ (4,321)	\$411,361	
Exercise of options	-	-	5,266	
Tax benefit in respect of options exercised	-	-	758	
Amortization of stock based compensation	-	-	4,741	
Dividends paid	(14,882)	-	(14,882)	
Comprehensive income (loss):				
Unrealized losses on derivative instruments	-	-	(578)	
Foreign currency translation differences	-	-	340	
Minimum pension liability	-	-	(872)	
Net income	45,945	-	45,945	
-----				
Total comprehensive income				
Balance as of December 31, 2003 (Audited)	\$190,086	\$ (4,321)	\$452,079	
Exercise of options	-	-	5,716	
Tax benefit in respect of options exercised	-	-	691	
Amortization of stock based compensation	-	-	3,739	
Dividends paid	(8,696)	-	(8,696)	
Comprehensive income (loss):				
Unrealized gains on derivative instruments	-	-	428	
-----				

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Foreign currency translation differences	-	-	(20)
Net income	24,039	-	24,039
<hr/>			
Total comprehensive income			
Balance as of June 30, 2004 (Unaudited)	\$ 205,429	\$ (4,321)	\$ 477,976
<hr/>			

The accompanying notes are an integral part of the consolidated financial statements.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars, except per share data)

	Number of outstanding shares	Share capital	Additional paid-in capital	Ac com
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of January 1, 2003 (Audited)	38,803,507	\$11,154	\$248,387	
Exercise of options	348,641	77	3,338	
Tax benefit in respect of options exercised	-	-	434	
Amortization of deferred stock compensation	-	-	6,421	
Dividend paid	-	-	-	
Comprehensive income (loss):				
Unrealized gains on derivative instruments	-	-	-	
Net income	-	-	-	
<hr/>				
Total comprehensive income				
Balance as of June 30, 2003 (Unaudited)	39,152,148	\$11,231	\$258,580	
<hr/>				
Balance as of April 1, 2004 (Unaudited)	39,718,413	\$11,358	\$263,324	
Exercise of options	210,138	47	2,032	
Tax benefit in respect of options exercised	-	-	280	
Amortization of deferred stock compensation	-	-	3,411	
Dividend paid	-	-	-	
Comprehensive income (loss):				
Unrealized gains on derivative instruments	-	-	-	
Foreign currency translation differences	-	-	-	
Net income	-	-	-	
<hr/>				
Total comprehensive income				
Balance as of June 30, 2004 (Unaudited)	39,928,551	\$11,405	\$ 269,047	
<hr/>				
	Retained earnings	Treasury shares	Total shareholders' equity	

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Balance as of January 1, 2003 (Audited)	\$159,023	\$ (4,321)	\$411,361
Exercise of options	-	-	3,415
Tax benefit in respect of options exercised	-	-	434
Amortization of deferred stock compensation	-	-	6,421
Dividend paid	(7,051)	-	(7,051)
Comprehensive income (loss):			
Unrealized gains on derivative instruments	-	-	2,144
Net income	21,466	-	21,466
-----			
Total comprehensive income			
Balance as of June 30, 2003 (Unaudited)	\$173,438	\$ (4,321)	\$438,190
=====			
Balance as of April 1, 2004 (Unaudited)	\$198,486	\$ (4,321)	\$464,905
Exercise of options	-	-	2,079
Tax benefit in respect of options exercised	-	-	280
Amortization of deferred stock compensation	-	-	3,411
Dividend paid	(4,369)	-	(4,369)
Comprehensive income (loss):			
Unrealized gains on derivative instruments	-	-	522
Foreign currency translation differences	-	-	(164)
Net income	11,312	-	11,312
-----			
Total comprehensive income			
Balance as of June 30, 2004 (Unaudited)	\$ 205,429	\$ (4,321)	\$ 477,976
=====			

The accompanying notes are an integral part of the consolidated financial statements.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars, except per share data)

	Number of outstanding shares	Share capital	Additional paid-in capital	Ac com
-----				
Balance as of April 1, 2003 (Unaudited)	38,843,262	\$ 11,162	\$ 250,250	
Exercise of options	308,886	69	2,918	
Tax benefit in respect of options exercised	-	-	382	
Amortization of deferred stock compensation	-	-	5,030	
Dividend paid	-	-	-	
Comprehensive income (loss):				
Unrealized gains on derivative instruments	-	-	-	
Net income	-	-	-	

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	Retained earnings	Treasury shares	Total shareholders' equity	Total
Total comprehensive income				
Balance as of June 30, 2003 (Unaudited)	39,152,148	\$11,231	\$ 258,580	
Balance as of April 1, 2003 (Unaudited)	\$ 167,786	\$ (4,321)	\$ 421,995	
Exercise of options			2,987	
Tax benefit in respect of options exercised	-	-	382	
Amortization of deferred stock compensation	-	-	5,030	
Dividend paid	(3,559)	-	(3,559)	
Comprehensive income (loss):				
Unrealized gains on derivative instruments	-	-	2,144	
Net income	9,211	-	9,211	
Total comprehensive income				
Balance as of June 30, 2003 (Unaudited)	\$ 173,438	\$ (4,321)	\$ 438,190	

The accompanying notes are an integral part of the consolidated financial statements.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

	Six months ended June 30,		Year December
	2004	2003	
	(Unaudited)		(A)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 24,039	\$ 21,466	\$
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20,304	18,452	
Amortization of deferred stock compensation	3,739	6,421	
Deferred income taxes, net	1,274	(1,536)	
Accrued severance pay, net	(833)	703	
Gain (loss) on sale of property, plant and equipment	16	141	
Tax benefit in respect of options exercised	691	434	
Minority interests in earnings (losses) of subsidiaries	(187)	(690)	

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Equity in net losses (earnings) of affiliated companies and partnership, net of dividend received (*)	681	(2,789)	
Changes in operating assets and liabilities:			
Decrease in short and long-term receivables and prepaid expenses	23,889	12,589	
Increase in inventories	(5,062)	(41,998)	
Increase (decrease) in trade payable, other payables and accrued expenses	(5,216)	47,075	
Decrease in advances received from customers	(7,308)	(49,288)	
Settlement of royalties with the Office of the Chief Scientist	(1,247)	(204)	
Other adjustments	(91)	417	
	-----	-----	-----
Net cash provided by operating activities	54,689	11,193	
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(26,262)	(29,147)	
Acquisition of activity (Schedule A)	-	(1,052)	
Investments in affiliated companies and subsidiaries	(250)	-	
Proceeds from sale of property, plant and equipment	1,351	2,112	
Repayment (grant) of short-term loan	714	2,050	
Investment in long-term bank deposits	(167)	(794)	
Proceeds from sale of long-term deposits	317	1,413	
Short-term bank deposits, net	125	255	
	-----	-----	-----
Net cash used in investing activities	(24,172)	(25,163)	
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options	5,716	3,415	
Repayment of long-term credit for purchase of a building	-	-	
Repayment of long-term bank loans	(12,222)	(7,278)	
Proceeds from long-term bank loans	-	-	
Dividends paid	(8,696)	(7,051)	
Change in short-term bank credit and loans, net	(1,135)	(4,396)	
	-----	-----	-----
Net cash used in financing activities	(16,337)	(15,310)	
	-----	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,180	(29,280)	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	76,156	76,280	
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 90,336	\$ 47,000	\$
	=====	=====	=====
(*) Dividend received	\$ 3,650	\$ -	\$
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

Six months ended  
June 30,  
-----  
Year ended  
December 31,  
-----

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	2004 ----- (Unaudited) -----	2003 ----- (Audited) -----	2003 ----- (Audited) -----
SUPPLEMENTARY CASH FLOWS ACTIVITIES:			
Cash paid during the period for:			
Income taxes	\$ 6,614 =====	\$ 8,167 =====	\$ 14,666 =====
Interest	\$ 844 =====	\$ 1,214 =====	\$ 4,034 =====

SCHEDULE A:

Subsidiaries and businesses acquired

Estimated net fair value of assets  
acquired and liabilities assumed at the  
date of acquisition was as follows:

Working capital deficiency (except cash and cash equivalents)	-	\$ 816	\$ 657
Property, plant and equipment	-	(168)	(249)
Goodwill, know-how and other intangible assets	-	-	(1,334)
Deferred income taxes	-	(1,700)	(1,765)
Long-term liabilities	-	-	198
Minority interest	-	-	35
	-----	-----	-----
	\$ - =====	\$ (1,052) =====	\$ (2,458) =====

The accompanying notes are an integral part of the consolidated financial statements.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

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(In thousands of U.S. dollars)

Note 1 - GENERAL

The accompanying financial statements have been prepared in a condensed format as of June 30, 2004, and for the six months and three months then ended in accordance with generally accepted accounting principles in the United States )U.S. GAAP( relating to the preparation of financial statements for interim periods. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States but which are not required for interim reporting purposes, have been condensed or omitted. See Note 5 for the reconciliation from U.S. GAAP to accounting principles generally accepted in Israel (Israeli GAAP).

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These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2003.

The interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature.

Operating results for the six months ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

### Note 2 - SIGNIFICANT ACCOUNTING POLICIES

- A. The significant accounting policies followed in the preparation of these statements are identical to those applied in preparation of the latest annual financial statements except as follows:

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, non-controlling interests and results of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

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(In thousands of U.S. dollars, except share and per share data)

### Note 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's

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losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interest at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

FIN 46 was effective immediately for VIEs created after January 31, 2003. The provisions of FIN 46, as revised, were adopted as of June 30, 2004 for the Company's interests in all VIEs. The adoption of FIN 46 did not have a significant effect on the Company's financial statements.

- B. The accompanying financial statements have been prepared in U.S. dollars since the functional currency of the primary economic environment in which the operations of the Group (which includes Elbit Systems Ltd. and its subsidiaries) are conducted is the U.S. dollar.

### Note 3 - INVENTORIES, NET OF ADVANCES

	June 30, 2004	December 31, 2003
	----- (Unaudited)	----- (Audited)
	-----	-----
Cost of long-term contracts in progress	\$255,606	\$253,663
Raw materials	76,295	78,504
Advances to suppliers and subcontractors	20,573	20,137
	-----	-----
	352,474	352,304
Less - Cost incurred on contracts in progress deducted from customer advances	15,135	14,581
	-----	-----
	337,339	337,723
Less -Advances received from customers	89,347	77,482
Provision for losses	6,124	11,016
	-----	-----
	\$241,868	\$249,225
	=====	=====

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

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(In thousands of U.S. dollars, except per share data)

Note 4 - STOCK-BASED COMPENSATION



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The Company has elected to follow Accounting Principles Board Opinion No. 25. ("APB 25") "Accounting for Stock Issued to Employees" and the FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" in accounting for its employee stock option plans. According to APB 25, compensation expense is measured under the intrinsic value method, whereby compensation expense is equal to the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the exercise price.

The Company adopted the disclosure provisions of Financial Accounting Standards Board Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148"), which amended certain provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, effective as of the beginning of the fiscal year. The Company continues to apply the provisions of APB No. 25, in accounting for stock-based compensation.

Pro forma information regarding the Company's net income and net earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS No. 123.

If compensation cost had been determined under the alternative fair value accounting method provided under SFAS No. 123, the Company's stock-based employee compensation cost, net income and basic and diluted net earnings per share would have changed to the following pro forma amounts:

	Six months ended June 30,		Three months end June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Net income as reported	\$ 24,039	\$ 21,466	\$ 11,312	\$ 11,312
Add - Stock based compensation expense net of related tax effects as reported (intrinsic method)	2,991	5,137	2,729	2,729
Deduct - Stock based compensation expense under fair value based method of SFAS 123 net of related tax effects	(1,478)	(1,478)	(739)	(739)
Pro forma net income	\$ 25,552	\$ 25,125	\$ 13,302	\$ 13,302
 Net earnings per share:				
Basic net earnings per share as reported	\$ 0.61	\$ 0.55	\$ 0.28	\$ 0.28
Diluted net earnings per share as reported	\$ 0.59	\$ 0.54	\$ 0.28	\$ 0.28
Pro forma basic net earnings per share	\$ 0.64	\$ 0.65	\$ 0.33	\$ 0.33
Pro forma diluted net earnings per share	\$ 0.63	\$ 0.63	\$ 0.33	\$ 0.33

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(In thousands of U.S. dollars, except per share data)

Note 5 - On June 29, 2004, the Israeli Parliament approved the Amendment to the Income Tax Ordinance (No. 140 and Temporary Provision) (the "Amendment") which reduces the corporate tax rate from 36% to 35% in 2004 and to a rate of 30% in 2007 progressively. The Amendment was signed and published in July 2004 and is therefore considered enacted in July 2004. Accordingly, the Company will record the effect of the change in the tax rate in the third quarter of 2004. The adoption of the Amendment will not have a significant effect on the Company's financial statements.

Note 6 - RECONCILIATION TO ISRAELI GAAP

As described in Note 1, the Company prepares its financial statements in accordance with U.S. GAAP. See Note 26 to the 2003 annual financial statements for a description of the differences between U.S. GAAP and Israeli GAAP in respect to the Company. The effects of the differences between U.S. GAAP and Israeli GAAP on the Company's financial statements are detailed below.

1. Effect on net income and earnings per share

	Six months ended June 30,	
	2004	2003
	(Unaudited)	
Net income as reported according to U.S. GAAP	\$ 24,039	\$
Adjustments to Israeli GAAP	\$ (1,907)	
Net income according to Israeli GAAP	\$ 22,132	\$

2. Effect on shareholders' equity

	As reported	Adjustment
As of June 30, 2004 (Unaudited)		
Shareholders' equity	\$ 477,976	\$ (12,957)
As of December 31, 2003 (Audited)		
Shareholders' equity	\$ 452,079	\$ (10,367)

