

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2008

(Unaudited)

(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

**CONDENSED INTERIM CONSOLIDATED
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AS OF SEPTEMBER 30, 2008

(Unaudited)

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars (in thousands)

	September 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 270,608	\$ 362,802
Short-term bank deposits	18,998	10,068
Available for sale marketable securities	770	2,830
Trade receivables, (net of allowance for doubtful accounts in the amount of \$4,818 and \$3,794 as of September 30, 2008 and December 31, 2007, respectively)	433,828	431,961
Other receivables and prepaid expenses	111,866	123,304
Inventories, net of advances	632,072	480,603
Total current assets	1,468,142	1,411,568
INVESTMENTS AND LONG-TERM RECEIVABLES:		
Investments in affiliated companies and a partnership	69,085	66,161
Compensation receivable in respect of fire damages, net	-	15,530
Long-term bank deposits and trade receivables	27,311	20,747
Marketable securities	12,649	20,885
Deferred income taxes	15,046	19,323
Severance pay fund	271,515	238,083
	395,606	380,729
PROPERTY, PLANT AND EQUIPMENT, NET	385,532	352,702
INTANGIBLE ASSETS:		
Goodwill	336,704	335,266
Other intangible assets, net	272,016	300,989
	608,720	636,255
	\$ 2,858,000	\$ 2,781,254

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

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars (in thousands, except share data)

	September 30 2008	December 31, 2007
	(Unaudited)	(Audited)
CURRENT LIABILITIES:		
Short-term bank credit and loans	\$ 1,001	\$ 10,418
Current maturities of long-term loans	12,048	18,659
Trade payables	347,717	272,627
Other payables and accrued expenses	438,974	424,783
Customers advances in excess of costs incurred on contracts in progress	407,933	510,562
Total current liabilities	1,207,673	1,237,049
LONG-TERM LIABILITIES:		
Long-term loans, net of current maturities	382,923	431,312
Customers advances	112,542	137,296
Deferred income taxes and tax obligations	89,997	94,117
Pension and termination indemnities	340,798	293,848
Other long-term liabilities	34,236	31,285
	960,496	987,858
COMMITMENTS AND CONTINGENT LIABILITIES		
MINORITY INTERESTS	57,091	20,085
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of New Israeli Shekels (NIS) 1 par value;		
Authorized – 80,000,000 shares as of September 30, 2008		
and December 31, 2007 ;		
Issued 42,488,373 and 42,468,673 shares as		
of September 30, 2008 and December 31, 2007, respectively;		
Outstanding 42,079,452 and 42,059,752 shares as of September		
30, 2008 and December 31, 2007, respectively		
	11,892	11,886
Additional paid-in capital	298,860	294,862
Treasury shares - 408,921 shares as of September 30, 2008 and		
December 31, 2007, respectively	(4,321)	(4,321)
Accumulated other comprehensive loss	(7,032)	(24,367)
Retained earnings	333,341	258,202
	632,740	536,262
	\$ 2,858,000	\$ 2,781,254

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

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31,
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		(Audited)
Revenues	\$ 1,940,417	\$ 1,390,705	\$ 671,187	\$ 518,947	\$ 1,981,761
Cost of revenues	1,376,334	1,020,022	472,860	378,755	1,454,913
Restructuring expenses	-	10,482	-	-	10,482
Gross profit	<u>564,083</u>	<u>360,201</u>	<u>198,327</u>	<u>140,192</u>	<u>516,366</u>
Research and development expenses, net	121,109	87,594	44,985	34,520	126,995
Marketing and selling expenses	152,754	113,134	49,451	41,558	157,411
General and administrative expenses	103,399	73,182	25,558	28,764	107,447
In-process research and development write-off	-	16,560	-	-	16,560
	<u>377,262</u>	<u>290,470</u>	<u>119,994</u>	<u>104,842</u>	<u>408,413</u>
Operating income	186,821	69,731	78,333	35,350	107,953
Financial expenses, net	(33,056)	(8,698)	(16,083)	(736)	(19,329)
Other income (expenses), net	4,230	82	17	(13)	368
Income before taxes on income	<u>157,995</u>	<u>61,115</u>	<u>62,267</u>	<u>34,601</u>	<u>88,992</u>
Taxes on income	28,089	21,311	16,405	9,189	13,810
	<u>129,906</u>	<u>39,804</u>	<u>45,862</u>	<u>25,412</u>	<u>75,182</u>
Equity in net earnings of affiliated companies and partnership	8,071	10,021	2,125	4,248	14,565
Minority interests in earnings of subsidiaries	(39,073)	(5,042)	(12,391)	(3,285)	(13,038)
Net income	<u>\$ 98,904</u>	<u>\$ 44,783</u>	<u>\$ 35,596</u>	<u>\$ 26,375</u>	<u>\$ 76,709</u>
Earnings per share					
Basic net earnings per share	<u>\$ 2.35</u>	<u>\$ 1.07</u>	<u>\$ 0.85</u>	<u>\$ 0.63</u>	<u>\$ 1.82</u>
Diluted net earnings per share	<u>\$ 2.31</u>	<u>\$ 1.06</u>	<u>\$ 0.83</u>	<u>\$ 0.62</u>	<u>\$ 1.81</u>
Number of shares used in computation of basic net earnings per share	<u>42,073</u>	<u>42,036</u>	<u>42,078</u>	<u>42,045</u>	<u>42,041</u>
Number of shares used in computation of Diluted net earnings per share	<u>42,852</u>	<u>42,372</u>	<u>42,813</u>	<u>42,307</u>	<u>42,342</u>

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

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (in thousands, except share data)

	Number of outstanding shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Treasury shares	Total shareholders' equity	Total comprehensive income
Balance as of January 1, 2007	42,016,674	\$ 11,876	\$ 289,026	\$ (16,746)	\$ 213,749	\$ (4,321)	\$ 493,584	
Cumulative impact of change in accounting for uncertainties in income taxes (FIN 48)	-	-	-	-	(4,846)	-	(4,846)	
Exercise of options	43,078	10	417	-	-	-	427	
Tax benefit in respect of options exercised	-	-	46	-	-	-	46	
Stock based compensation	-	-	4,778	-	-	-	4,778	
Gain resulting from affiliated company's IPO	-	-	595	-	-	-	595	
Dividends paid	-	-	-	-	(27,410)	-	(27,410)	
Other comprehensive income, net of tax:								
Unrealized loss on derivative instruments	-	-	-	(9,562)	-	-	(9,562)	\$ (9,562)
Foreign currency translation differences	-	-	-	605	-	-	605	605
Unrealized pension income	-	-	-	2,037	-	-	2,037	2,037
Unrealized loss on available for sale marketable securities	-	-	-	(701)	-	-	(701)	(701)
Net income	-	-	-	-	76,709	-	76,709	76,709
Total comprehensive income							76,709	<u>\$ 69,088</u>
Balance as of December 31, 2007	42,059,752	11,886	294,862	(24,367)	258,202	(4,321)	536,262	
Exercise of options	19,700	6	232	-	-	-	238	
Stock based compensation	-	-	3,766	-	-	-	3,766	
Dividends paid	-	-	-	-	(23,765)	-	(23,765)	
Other comprehensive income (loss), net of tax:								
Unrealized gain on derivative instruments	-	-	-	17,901	-	-	17,901	17,901
Foreign currency translation differences	-	-	-	(1,951)	-	-	(1,951)	(1,951)
Unrealized pension income	-	-	-	1,174	-	-	1,174	1,174
Unrealized gain on available for sale marketable securities	-	-	-	211	-	-	211	211
Net income	-	-	-	-	98,904	-	98,904	98,904
Total comprehensive income							98,904	<u>\$ 116,239</u>
Balance as of September 30, 2008 (Unaudited)	42,079,452	\$ 11,892	\$ 298,860	\$ (7,032)	\$ 333,341	\$ (4,321)	\$ 632,740	

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

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (in thousands, except share data)

	<u>Number of outstanding shares</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>	<u>Treasury shares</u>	<u>Total shareholders' equity</u>	<u>Total comprehensive income</u>
Balance as of July 1, 2007 (Unaudited)	42,042,089	\$ 11,882	\$ 291,532	\$ (16,162)	\$ 214,259	\$ (4,321)	\$ 497,190	
Exercise of options	11,263	3	353	-	-	-	356	
Tax benefit in respect of options exercised	-	-	82	-	-	-	82	
Stock based compensation	-	-	1,476	-	-	-	1,476	
Dividends paid	-	-	-	-	(6,597)	-	(6,597)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments	-	-	-	(5,135)	-	-	(5,135)	\$ (5,135)
Foreign currency translation differences	-	-	-	673	-	-	673	673
Adjustment for adoption of FAS 158 for the post medical plan as of December 31, 2006	-	-	-	(1,163)	-	-	(1,163)	(1,163)
Unrealized gain from securities	-	-	-	353	-	-	353	353
Net income	-	-	-	-	26,375	-	26,375	26,375
Total comprehensive income								<u>\$ 21,103</u>
Balance as of September 30, 2007 (Unaudited)	<u>42,053,352</u>	<u>\$ 11,885</u>	<u>\$ 293,443</u>	<u>\$ (21,434)</u>	<u>\$ 234,037</u>	<u>\$ (4,321)</u>	<u>\$ 513,610</u>	
Balance as of July 1, 2008 (Unaudited)	42,076,766	\$ 11,891	\$ 297,635	\$ (27,125)	\$ 306,283	\$ (4,321)	\$ 584,363	
Exercise of options	2,686	1	28	-	-	-	29	
Tax benefit in respect of options exercised	-	-	1,197	-	-	-	1,197	
Dividends paid	-	-	-	-	(8,538)	-	(8,538)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments	-	-	-	22,605	-	-	22,605	22,605
Foreign currency translation differences	-	-	-	(3,126)	-	-	(3,126)	(3,126)
Unrealized pension income	-	-	-	241	-	-	241	241
Unrealized gain on available for sale marketable securities	-	-	-	373	-	-	373	373
Net income	-	-	-	-	35,596	-	35,596	35,596
Total comprehensive income								<u>\$ 56,689</u>
Balance as of September 30, 2008 (Unaudited)	<u>42,079,452</u>	<u>\$ 11,892</u>	<u>\$ 298,860</u>	<u>\$ (7,032)</u>	<u>\$ 333,341</u>	<u>\$ (4,321)</u>	<u>\$ 632,740</u>	

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

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars (in thousands)

	Nine months ended		Year ended
	September 30,		December 31,
	2008	2007	2007
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 98,904	\$ 44,783	\$ 76,709
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	95,256	65,980	99,414
Acquired in-process research and development ("IPR&D")	-	16,560	16,560
Marketable securities fair value adjustment	8,236	-	10,027
Stock based compensation	3,766	3,637	4,778
Deferred income taxes	(5,715)	(21,162)	(30,955)
Accrued severance pay, net	14,692	(3,583)	(3,171)
Gain on sale of property and equipment	(152)	(918)	(1,120)
Minority interests in earnings of subsidiaries	39,073	5,042	13,038
Equity in net losses (earnings) of affiliated companies and partnership, net of dividend received (*)	1,718	(407)	(2,182)
Changes in operating assets and liabilities:			
Decrease (increase) in short-term and long-term receivables and prepaid expenses	32,320	(13,101)	(68,129)
Increase in inventories	(177,424)	(52,039)	(124,381)
Increase in trade payables, other payables and accrued expenses	103,589	76,714	151,283
Increase (decrease) in advances received from customers	(101,357)	92,723	120,814
Other adjustments	1	5	2
Net cash provided by operating activities	<u>112,907</u>	<u>214,234</u>	<u>262,687</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(103,391)	(65,903)	(106,269)
Acquisition of subsidiaries and businesses (Schedule A)	(4,785)	(353,175)	(353,175)
Investments in affiliated companies	(811)	(556)	(916)
Proceeds from sale of property, plant and equipment	6,132	3,922	4,364
Proceeds from sale of investment	-	-	1,431
Investment in long-term bank deposits	(10,115)	(3,130)	(12,216)
Proceeds from sale of long-term bank deposits	3,061	16,473	8,839
Short-term bank deposits, net	(6,659)	115,904	193,263
Net cash used in investing activities	<u>(116,568)</u>	<u>(286,465)</u>	<u>(264,679)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options	238	643	427
Repayment of long-term bank loans	(223,255)	(119,234)	(150,310)
Receipt of long-term bank and other loans	168,211	429,567	464,878
Dividends paid	(23,765)	(19,647)	(27,410)
Tax benefit in respect of options exercised	-	146	46
Change in short-term bank credit and loans, net	(9,962)	3,115	(7,401)
Net cash provided by (used in) financing activities	<u>(88,533)</u>	<u>294,590</u>	<u>280,230</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,194)	222,359	278,238
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	362,802	84,564	84,564
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 270,608</u>	<u>\$ 306,923</u>	<u>\$ 362,802</u>
(*) Dividend recorded	<u>\$ 9,789</u>	<u>\$ 9,614</u>	<u>\$ 12,383</u>

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

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

U.S. dollars (in thousands)

Nine months ended	Year ended
September 30,	December 31,
2008	2007
(Unaudited)	(Audited)

SUPPLEMENTARY CASH FLOWS ACTIVITIES:

Cash paid during the period for:

Income taxes	\$ 24,617	\$ 22,610	\$ 23,282
Interest	\$ 21,032	\$ 12,767	\$ 20,949

SCHEDULE A:

Subsidiaries acquired (*)

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

Working capital, net (excluding cash and cash equivalents)	\$ (363)	\$ 40,540	\$ 40,540
Property, plant and equipment	83	25,175	25,175
Other long-term assets	-	63,063	63,063
Goodwill and other intangible assets	3,013	530,536	530,536
IPR&D	-	16,560	16,560
Deferred income taxes	-	(71,919)	(71,919)
Long-term liabilities	(48)	(76,910)	(76,910)
Equity investment in Tadiran	-	(173,870)	(173,870)
Equity acquired in a subsidiary	2,100	-	-
	\$ 4,785	\$ 353,175	\$ 353,175

(*) In 2008, the shares of Bar-Kal Systems Engineering Ltd., the shares of Electro Optic Research and Development Company Ltd., and 46% of the shares of A.E. Electronics S.A. (of which 54% of the shares were held by the Company prior to the acquisition).

In 2007, the shares of Tadiran Communications Ltd. ("Tadiran") and Ferranti Technologies Group Ltd.

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

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

Note 1 - GENERAL

The accompanying financial statements have been prepared in a condensed format as of September 30, 2008, and for the three and nine months then ended in accordance with United States generally accepted accounting principles ("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 U.S. GAAP but which are not required for interim reporting purposes, have been condensed or omitted.

These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2007.

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. Reclassifications have been made to comparative data in the balance sheet as of December 31, 2007 in order to conform to the current year's presentation.

Operating results for the nine and three months ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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 for the adoption of FASB Statement No. 157, "Fair Value Measurements", in accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) 157-2.
- B. Other new pronouncements issued but not effective as of September 30, 2008 are not expected to have a significant effect on the Company's consolidated financial position or results of operations, with the possible exception of the following, which are currently being evaluated by management:
 - (1) In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS 161). SFAS 161 is an amendment of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). To address concerns that the existing disclosure requirements of SFAS 133 do not provide adequate information, SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 will be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the future impacts and disclosures resulting from SFAS 161.
 - (2) In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The Company is currently evaluating the impact of SFAS No. 162 on its financial statements, and the adoption of this statement is not expected to have a material effect on the Company's financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

U. S. dollars (In thousands)

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- (3) In October, 2008, the FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in FASB Statement No. 154, "Accounting Changes and Error Corrections" (SFAS 154). However, the disclosure provisions in SFAS 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. The adoption of FSP 157-3 did not have a material impact on the Company's financial position or results of operations.
- C. 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 Company are conducted is the U.S. dollar.

Note 3 - INVENTORIES, NET OF ADVANCES

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Cost of long-term contracts in progress	\$ 694,083	\$ 508,273
Raw materials	144,592	123,466
Advances to suppliers and subcontractors	51,054	65,597
	<u>889,729</u>	<u>697,336</u>
Less -		
Cost incurred on contracts in progress deducted from customer advances	112,213	69,199
Advances received from customers	114,189	131,177
Provision for losses	31,255	16,357
	<u>\$ 632,072</u>	<u>\$ 480,603</u>

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

U. S. dollars (In thousands)

Note 4 – FAIR VALUE MEASUREMENTS

In the first quarter of 2008, the Company adopted Statement of Financial Accounting Standards (FAS) 157, "Fair Value Measurements", (FAS 157) which defines fair value, establishes a market based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. The FAS 157 requirements for certain non-financial assets and liabilities have been deferred until the first quarter of 2009 in accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) 157-2. The adoption of FAS 157 did not have a material impact on our results of operations, financial position or cash flows.

The fair value hierarchy established in FAS 157 prioritizes the inputs used in valuation techniques into three levels as follows:

- A. Level 1 – Observable inputs – quoted prices in active markets for identical assets and liabilities;
- B. Level 2 – Observable inputs other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets and amounts derived from valuation models where all significant inputs are observable in active markets; and
- C. Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and are required in order to develop relevant assumptions.

The amount of assets and liabilities subject to the provision of SFAS 157 at September 30, 2008, includes mainly \$12,649 of marketable securities and \$1,573 of derivative financial instruments net. The Company determined the fair values of the marketable securities using Level 3 methodology. Changes in the fair value of those securities during the period were recorded as follows: unrealized losses of \$9,078 that are considered to be other-than-temporary were charged to statement of income as finance expenses. The fair value of the derivative financial instruments was determined using Level 2 methodology.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

U. S. dollars (In thousands)

Note 5 – COMMITMENTS AND CONTINGENT LIABILITIES

- A. On July 2, 2008, the Company announced that on June 30, 2008, the court issued a series of orders relating to a trial in Memphis, Tennessee, against several defendants, including Kollsman, Inc. (“Kollsman”), a wholly-owned U.S. subsidiary of the Company. This is further to the Company's announcement on November 7, 2007 and information contained in the Company's Annual Report on Form 20-F filed on May 28, 2008 regarding a claim brought by the plaintiff Innovative Solutions and Support, Inc (“IS&S”). The rulings reflected an award to the plaintiff against Kollsman for direct and exemplary damages, interest and costs totaling approximately \$23.2 million. The impact of the ruling was included in the Company’s second quarter 2008 results in net after tax expenses of approximately \$10 million, taking into account reserves previously recorded.

On September 2, 2008, a settlement between IS&S and Kollsman became effective with respect to all claims by IS&S and Kollsman against each other in the case, and a corresponding Consent Order was entered. Under the settlement agreement, all claims between IS&S and Kollsman were dismissed with prejudice, a final agreed injunction was entered and the matter was fully and finally mutually settled without any admission of guilt by either party. In addition, an agreed settlement payment of \$17 million was made by Kollsman to IS&S. Kollsman and IS&S may explore opportunities for future business collaboration.. As a result of the settlement, the Company's third quarter 2008 results include a positive net after tax impact of approximately \$3 million.

- B. On July 24, 2008, the Company announced, further to the Company's announcement on July 4, 2007, that on July 22, 2008 the United States District Court for the Southern District of New York issued an order dismissing, on grounds of forum non conveniens, the claim filed last year by certain minority shareholders of ImageSat International N.V. (“ImageSat”). The Company, through one of its subsidiaries, holds a minority position in ImageSat. The claim had been filed against certain of ImageSat's shareholders including the Company and against certain current and former officers and directors of ImageSat, including among others Michael Federmann, Joseph Ackerman and Joseph Gaspar, the Company's Chairman, Chief Executive Officer and Chief Financial Officer, respectively. On July 28, 2008, the plaintiffs filed an appeal of the court’s dismissal order with the U.S. Federal Court of Appeals for the Second Circuit. On August 6, 2008, another minority shareholder of ImageSat filed a similar claim in the New York District Court.

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