ELBIT SYSTEMS LTD
Form 6-K
March 21, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934
For the Month of March 2007

Commission File Number: 000-28998

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): 82-______________

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant s press release dated March 14, 2007.

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 year ended December 31, 2006.

Attached hereto as Exhibit 3 and incorporated herein by reference is the Registrant s consolidated audited financial statements for the year ended December 31, 2006.

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/ Yaniv Baram
Name: Yaniv Baram
Title: Corporate Secretary

Dated: March 21, 2007

EXHIBIT INDEX

Exhibit No.	Description
1.	Press Release dated March 14, 2007.
2.	Management's Report.
3.	Financial Statements.

Exhibit 1

Earnings Release

ELBIT SYSTEMS REPORTS FOURTH QUARTER AND FULL YEAR RESULTS FOR 2006

Record Revenues, Net Profit, Backlog and Operating Cash Flow

2006 revenues increased by 42% to $1.52 billion with year end backlog at a record $3.79 billion

2006 net profit more than doubled to $72.2 million and EPS increased to $1.72 with operating cash flow of $201 million

Haifa, Israel, March 14, 2007 Elbit Systems Ltd. (the Company) (NASDAQ: ESLT, TASE: ESLT), the international defense electronics company, today reported its consolidated results for the fourth quarter and year-ended December 31, 2006.

The Company s backlog of orders as of December 31, 2006 reached $3.79 billion, an increase of 13.1% as compared to $3.35 billion at the end of 2005. 68% of the backlog relates to orders outside of Israel. Approximately 70% of the Company s backlog as of December 31, 2006 is scheduled to be performed during 2007 and 2008.

Consolidated revenues for the year ended December 31, 2006 increased by 42.4% to $1,523 million, as compared to $1,070 million in 2005.

Consolidated revenues for the fourth quarter of 2006 increased by 45.3% to $467.4 million, as compared to $321.8 million in the corresponding quarter of 2005.

Consolidated net earnings for the year ended December 31, 2006 increased by 122% to $72.2 million, as compared to $32.5 million in 2005. Diluted earnings per share (EPS) in 2006 were $1.72, as compared to $0.78 in 2005.

Consolidated net earnings for the fourth quarter of 2006 were $24.0 million, as compared to a net loss of $5.7 million in the same period of 2005. Diluted EPS for the fourth quarter of 2006 was $0.57, as compared to $(0.14) for the fourth quarter of 2005.

Gross profit for the year ended December 31, 2006 was $373.5 million, as compared to gross profit of $279.8 million in 2005, and the gross profit margin in 2006 was 24.5%, as compared to 26.1% in 2005.

The Company s annual gross profit margin was negatively affected by approximately 2 percentage points due to the results of the Company s 70%-owned subsidiary Elisra Electronic Systems Ltd. (Elisra).

Gross profit for the fourth quarter of 2006 was $100.2 million, as compared to gross profit of $78.4 million in the fourth quarter of 2005, and the gross profit margin in the fourth quarter of 2006 was 21.4%, as compared to 24.4% in the fourth quarter of 2005. The Company s fourth quarter 2006 gross profit margin was negatively affected by approximately 3.8 percentage points due to Elisra s results.

It should be noted that in 2005 the Company s full year and fourth quarter gross profit and net profit were affected by one-time IPR&D and other one-time expenses and write-offs related to the purchases of shares in Elisra and in Tadiran Communications Ltd.

Operating cash flow produced by the Company in 2006 was $201 million, as compared to $187.6 in 2005.

The President and CEO of Elbit Systems, Joseph Ackerman, commented: I am pleased to report another year of record financial results for Elbit Systems, continuing our revenue and profitability growth trend. We have also begun to see the results of our long-term development strategy that enabled us to pass $1.5 billion in revenues for the first time and to deliver another year of record net profit and cash flow. Our results were achieved despite the negative impact from Elisra s financial performance, and we intend to continue the Elisra turn-around in 2007, making it a contributor to our financial results, while maintaining our growth and profitability patterns .

Mr. Ackerman added: We see the results of our continued investments in R&D and in developing leading edge technologies. These technologies and our proven track record enabled us to win prestigious and important contracts and to further enhance our network of customers and business partners. I believe that the results of all these efforts will be reflected in our performance in 2007 and beyond as we continue the execution of our growth strategy both organically and through selective acquisitions .

The Board of Directors has declared a dividend of 0.16 per share for the fourth quarter of 2006. The dividend will be paid on April 16, 2007, net of taxes and levies, at the rate of 18.15%. The record date of the dividend is April 1, 2007.

Conference Call

The Company will be hosting a conference call on Wednesday, March 14, at 9.00am EDT.

To participate, please call one of the following teleconferencing numbers. Please begin placing your calls at least 5 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Numbers: 1 888 407 2553
UK Dial-in Number: 0 800 917 5108
ISRAEL Dial-in Number: 03 918 0610
INTERNATIONAL Dial-in Number: +972 3 918 0610
at:
9:00 am Eastern Time
6:00 am Pacific Time
3:00 pm Greenwich Mean Time
3:00 pm Israel Time

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

Alternatively, for two days following the end of the call, investors will be able to dial a replay number to listen to the call. The dial-in number is either: 1 888 254 7270 (US) 0 800 917 4256 (UK) or +972 3 925 5942 (Israel and International).

About Elbit Systems Ltd.

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

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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.

(FINANCIAL TABLES TO FOLLOW)

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

	December 31 2006	December 31 2005
	Audited	**Audited**
Assets		
Current Assets:		
Cash and short term deposits	85,400	94,629
Trade receivable and others	471,194	416,067
Inventories, net of advances	371,962	328,428
Total current assets	928,556	839,124
Affiliated Companies & other Investments	235,723	201,339
Long-term receivables & others	182,180	159,505
Fixed Assets, net	294,628	284,997
Other assets, net	128,995	137,172
	1,770,082	1,622,137
Liabilities and Shareholder's Equity		
Current liabilities	810,591	612,168
Long-term liabilities	458,742	546,285
Minority Interest	6,871	12,907
Shareholder's equity	493,878	450,777
	1,770,082	1,622,137

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

	For the Year Ended December 31		Three Months Ended December 31	
	2006	2005	2006	2005
	Audited		Unaudited	
Revenues	1,523,243	1,069,876	467,388	321,760
Cost of revenues	1,149,768	786,616	367,163	239,826
Restructuring expenses	-	3,488	-	3,488
Gross Profit	373,475	279,772	100,225	78,446
Research and development, net	92,232	71,903	27,869	18,460
Marketing and selling	111,880	78,648	30,853	23,953
General and administrative	77,505	54,417	20,051	16,155
IPR&D write-off	-	7,490	-	7,490
Total operating expenses	281,617	212,458	78,773	66,058
Operating income	91,858	67,314	21,452	12,388
Financial expenses, net	(21,456)	(11,472)	(6,093)	(5,199)
Other income (expenses), net	1,814	(5,326)	1,423	(5,134)
Income before income taxes	72,216	50,516	16,782	2,055
Provisions for income taxes	20,694	16,335	4,049	4,046
	51,522	34,181	12,733	(1,991)
Equity in net earnings (losses) of affiliated companies and partnership *	14,743	(1,636)	6,554	(2,974)
Minority rights	5,977	(58)	4,673	(710)
Net income	72,242	32,487	23,960	(5,675)
Earnings per share				
Basic net earnings per share	1.75	0.80	0.57	(0.14)
Diluted net earnings per share	1.72	0.78	0.57	(0.14)

* Includes IPR&D write-off of $8,500 and $2,200 in 2005 and 2006, respectively

Exhibit 2

Elbit Systems Ltd.
Management s Report
For the Year Ended December 31, 2006

This report should be read together with the audited consolidated financial statements and related notes of Elbit Systems Ltd. (Elbit Systems and together with its subsidiaries, the Company or the Group) for the year ended December 31, 2006 and the Company s Form 20-F for the year ended December 31, 2005, filed by the Company with the U.S. Securities and Exchange Commission (SEC) 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 SEC filings.

A. Executive Overview

Business Description

The Group operates in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence, surveillance and reconnaissance (C^4ISR), advanced electro-optic and space technologies, EW suites, airborne warning systems, ELINT systems, data links and military communications systems and equipment. The Group also focuses on the upgrading of existing military platforms and developing new technologies for defense and homeland security applications.

The Group provides support services for the platforms it upgrades as well as the systems and products it supplies. In addition, the Group provides a wide range of logistic support services. Several of the Group s companies also provide advanced engineering and manufacturing services to various customers, utilizing their significant manufacturing capabilities. The Group often cooperates with industries in Israel and in various other countries.

The Group 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 Group provides customers with cost-effective solutions, and its customers are able to improve their technological and operational capabilities within limited defense budgets.

The Group 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. In addition, its competitive position sometimes is affected by specific requirements in particular markets.

Financial Highlights

The Company s revenues increased by 42% and reached $1,523 million in 2006, as compared to $1,070 million in 2005.

Net earnings in 2006 were $72.2 million and the diluted earnings per share were $1.72, as compared to $32.5 million and $0.78, respectively in 2005.

The Company s backlog as of December 31, 2006 reached $3.79 billion, as compared to $3.35 billion as of December 31, 2005, an increase of 13.1%.

The Company s cash flow generated from operations in the year ended December 31, 2006 was $201 million, as compared to $187.6 million in the year ended December 31, 2005.

The Board of Directors declared a dividend of $0.16 per share for the last quarter of 2006, resulting in a cumulative dividend for 2006 of $ 0.61 per share.

B. Market Trends

Trends in the defense electronics and homeland security markets in which the Company operates have been impacted by the nature of recent conflicts and terrorism activities throughout the world. Lessons learned in Operation Iraqi Freedom, Afghanistan and various terrorist actions worldwide have increased the focus of defense forces on low intensity conflicts and homeland security.

In the defense electronics market, there is an increasing demand for products and systems in the areas of $C^{(4)}$ISR. Accordingly, while the Company continues to perform platform upgrades, more emphasis is being placed on $C^{(4)}$ISR, including information systems, intelligence gathering, situational awareness, precision guidance, all weather and day/night operations, border and perimeter security, UAV s, space and satellite based defense capabilities and homeland security systems.

The Company believes that its core technologies and abilities will enable it to take advantage of many of these emerging trends, as well as to continue to participate in the Current Force legacy operations of its customers.

In recent years consolidations in the defense industry have affected competition. This has decreased the number but increased the relative size and resources of the Company s competitors. The Company adapts to evolving market conditions by adjusting its business strategy to changing defense market conditions. It also anticipates continued competition in defense markets due to declining defense budgets in some countries.

The Company believes in its ability to compete on the basis of its systems development and technological expertise, combat-proven performance and policy of offering customers overall solutions to technological, operational and financial needs and in the same time enhancing the industrial capabilities at these countries.

C. **Backlog of Orders**

The Company s backlog of orders as of December 31, 2006 reached $3,786 million, of which 68% were for orders outside Israel. The Company s backlog as of December 31, 2005 was $3,347 million, of which 72% were for orders outside Israel.

Approximately 70% of the Company s backlog as of December 31, 2006 is scheduled to be performed during 2007 and 2008. The majority of the 30% balance is scheduled to be performed in 2009 and 2010.

D. **Operating Subsidiaries and Affiliated Entities**

Elbit Systems Electro-Optics Industries Elop Ltd. (Elop) a wholly-owned subsidiary based in Israel, is engaged in the area of advanced electro-optical products and systems for military and civilian use. Elop s business areas include thermal imaging products, lasers, IMINT solutions, head-up displays, integrated sights for ground forces, space and airborne reconnaissance systems and electro-optical homeland security and defense security systems.

Elbit Systems of America, LLC (ESA) is the headquarters for the U.S. operations of the Group and includes the following subsidiaries:

EFW Inc. (EFW), a wholly-owned subsidiary based in Fort Worth, Texas, provides combat-proven design, development, production and life-cycle support of mission critical systems for U.S. and allied military tactical platforms.

Kollsman, Inc. (Kollsman), a wholly-owned subsidiary located in Merrimack, New Hampshire, is a supplier of avionic equipment, electro-optic systems and subsystems, vision based solutions and surveillance systems to the commercial aviation, defense and homeland security markets.

International Enterprises, Inc. (IEI),a wholly-owned subsidiary based in Talladega, Alabama, provides depot level repair, manufacturing and logistics support for military electronic systems and components.

Vision Systems International LLC (VSI), a 50% joint venture with Rockwell Collins, located in San Jose, California, is a supplier of helmet mounted cueing systems for fixed-wing, tactical fighter aircraft.

Cyclone Aviation Products Ltd. (Cyclone) a wholly-owned subsidiary based in Israel, is engaged in the production of structural components and parts for leading aerospace companies. Cyclone also performs maintenance, repair and customized upgrading of light airplanes and helicopters.

Silver Arrow LP a wholly-owned limited partnership based in Israel, is engaged in UAV systems development, production and support and produces a full range of UAV systems for tactical use.

Ortek Ltd. (Ortek) a wholly-owned subsidiary based in Israel, is engaged in the development and production of optical security systems and products and performs a range of projects for homeland security and defense applications.

European subsidiary a wholly-owned subsidiary based in Belgium, is involved mainly in development, manufacturing and support of electro-optical products for defense and space markets.

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Elisra in which Elbit Systems owns a 70% interest, is comprised of Elisra Electronic Systems Ltd. (Elisra), a privately held Israeli company, and Elisra s two wholly-owned Israeli subsidiaries Tadiran Electronic Systems Ltd. and Tadiran Spectralink Ltd. Elisra specializes in the design, manufacture, integration and support of advanced defense solutions and its main business areas include EW suites, airborne warning systems, ELINT systems, artillery C4I systems and data links for UAVs and guided munitions.

Kinetics Ltd. (Kinetics) a 51%-owned subsidiary based in Israel, is involved mainly in the development and production of systems and components for combat vehicles.

Semi-Conductor Devices (SCD) an Israeli affiliated partnership held in equal part by each of the Company and Rafael Armaments Development Authority Ltd. (Rafael), is engaged in the development and production of infrared detectors and laser diodes.

Opgal Optronic Industries Ltd. (Opgal) an Israeli affiliated company, owned 50.1% by the Company and 49.9% by Galram Technologies Ltd., a wholly-owned subsidiary of Rafael, is engaged mainly in the area of thermal imaging systems for commercial applications.

Tadiran Communications Ltd. (Tadiran) a publicly-traded Israeli company in which Elbit Systems holds an approximately 43% interest, is engaged in the worldwide market for military communications systems and equipment and is also active in the civilian communications market.

The Company has holdings, directly and indirectly, in several relatively small companies in various countries. These companies are engaged mainly in the manufacturing, marketing and servicing of defense avionics and electronics as well as defense related software.

The Company also has holdings, directly and indirectly, in several non-defense technologies spin-off companies whose activities are usually based on technologies that were developed by the Group. The spin-off companies are involved primarily in the areas of medical equipment and space satellites.

The Company evaluates investments in affiliates, partnerships and other companies, and when relevant factors indicate other than temporary decline in the fair value of the investments below their carrying value, the Company adjusts the investment to the estimated fair value. The value of these companies is subject to ongoing changes resulting from their business conditions.

E. <u>Recent Events</u>

On November 16, 2006, the Company reported that EFW, an Elbit Systems of America company, has been chosen to supply the Helmet Display and Tracking System (HDTS) for the US Army s new Armed Reconnaissance Helicopter designed and manufactured by Bell Helicopter. The HDTS will be based on EFW s ANVIS/HUD (Aviator s Night Vision Imaging System / Head Up Display) with a Tracking System for pilot targeting, cueing and crew coordination. The program has potential value of $51 million through 2012.

On January 8, 2007, the Company reported that it has signed a contract to supply unmanned turrets and electro-optic systems for the Belgian Infantry Vehicle Program. The contract, valued at approximately $58 million, is pursuant to a co-operation between the Company and the Swiss company Mowag of the General Dynamics European Land Combat Systems Group.

On January 30, 2007, the Company announced that it received notice on January 29, 2007 from the Bulgarian Ministry of Defense of the termination of the in the amount of 57 million for the modernization of Mi-24 and Mi-17 helicopters for the Bulgarian Air Force. The Company had previously announced the award of this contract on December 4, 2005. In the cancellation notice the Bulgarian MOD requested a return of a portion of the amounts paid to date to the Company under the contract. On March 5, 2007, the Company announced, that further to its January 30, 2007 announcement, it reached an agreement with the Bulgarian Government regarding the cancellation of the contract for the modernization of Bulgarian Air Force Mi-24 and Mi-17 helicopters. The agreement recognizes that the cancellation of the contract is by mutual consent and is not a result of breach of obligations by either party. Under the agreement the Company will return to the Bulgarian Ministry of Defense part of the advance payments received. The Company will also deliver the Ministry of Defense equipment and items already produced in the performance of the program in consideration of the balance of the payments to be retained by Elbit Systems. The Company believes that this matter will not have a material adverse affect on its results of operations**.**

On February 20, 2007, the Company was awarded a contract to establish a training center for Tzofit (King Air B200 Beechcraft) for the Israeli Air Force (IAF). The Company will serve as the project s prime contractor, while Arkia and the Canadian Mechtronix will serve as sub-contractors. The training center will operate through a PFI (Private Financing Initiative) program, with the Company providing the IAF a turn-key solution including the establishment of the training center, its operation and the supply of simulators, training services and maintenance for a 10-year period. The Israeli Ministry of Defense will purchase flight training hours for the IAF from the Company. Potential revenues from the project are expected to exceed $15 million. The training center will be established on a civilian property outside military bases. Furthermore, for the first time in Israel, it will be possible to open such a training center for civilian pilots, providing them training in accordance with international aviation requirements while using local flight simulators and facilities.

On February 26, 2007, the Company announced that its U.S. subsidiary, Kollsman, an ESA company, received two follow-on orders from the U.S. Marine Corps for its high-performance Laser Target Designator (LTD) systems that have proven successful in field test evaluations. The additional orders, under an indefinite delivery/indefinite quantity (IDIQ) contract, consisting of approximately $16.9 million and $34 million respectively, represent an increase over the initial order of July 2006. Part of the work will be performed by Elop.

F. **<u>Critical Accounting Policies and Estimates</u>**

The Company s significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2006.

The Company s results of operations and financial condition are based on the preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP). The preparation of the consolidated financial statements requires management to select accounting policies for critical accounting areas as well as estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant changes in assumptions and/or conditions and changes in critical accounting policies could materially impact the Company s operating results and financial condition.

We believe our most critical accounting policies relate to:

Revenue Recognition.

Business Combinations and Purchase Price Allocation.

Impairment of Goodwill and Other Long-Lived Assets.

Other-Than-Temporary Decline in Value of Investments in Investee Companies.

Useful Life of Long-Lived Assets.

(1) Revenue Recognition

The Company generates revenues, mainly from long-term contracts involving the design, development, manufacture and integration of defense systems and products and providing support and services for such systems and products.

Revenues from long-term contracts are recognized based on Statement of Position 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1) according to which revenues are recognized on the percentage-of-completion basis.

Sales under long-term fixed-price contracts which provide for a substantial level of development efforts in relation to total contract efforts are recorded using the cost-to-cost method of accounting as the basis to measure progress toward completing the contract and recognizing revenues. According to this method, sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. In certain circumstances, when measuring progress toward completion, the Company considers other factors, such as achievement of performance milestones.

Sales and anticipated profit under long-term fixed-price production type contracts are recorded on a percentage-of-completion basis, using the units-of-delivery as the basis to measure progress toward completing the contract and recognizing revenues. In certain circumstances, which involve long-term fixed-price production type contracts for non-homogenous or small quantity of units, revenue is recognized based on the achievement of performance milestones, which provide a more reliable, and objective, measure to the extent of progress toward completion.

Sales and anticipated profit under long-term fixed-price contracts that involve both development and production are recorded using the cost-to-cost method and units-of-delivery method as applicable to the phase of the contract, as the basis to measure progress toward completion. In addition, when measuring progress toward completion under the development portion of the contract, the Company considers other factors, such as achievement of performance milestones.

The percentage-of-completion method of accounting requires management to estimate the cost and gross profit margin for each individual contract. Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original estimated forecasts. Such changes in estimated gross profit are recorded in results of operations when they are reasonably determinable by management, on a cumulative catch-up basis. Anticipated losses on contracts are charged to earnings when determined to be probable.

Sales under cost-reimbursement-type contracts are recorded as costs are incurred. Applicable estimated profits are included in earnings in the proportion that incurred costs bear to total estimated costs.

Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates and are recorded when there is sufficient information to assess anticipated contract performance.

The Group believes that the use of the percentage-of-completion method is appropriate as the Group has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and terms of settlement. In all cases the Group expects to perform its contractual obligations and its customers are expected to satisfy their obligations under the contract.

In cases where the contract involves the delivery of products and performance of services, the Group follows the guidelines specified in EITF 00-21, Revenue Arrangements with Multiple Deliverables in order to allocate the contract fees between the products accounted for under SOP 81-1 and the services.

In certain circumstances, sales under short-term fixed-price production type contracts are accounted for in accordance with SAB No. 104, Revenue Recognition in Financial Statements (SAB 104), and recognized when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller s price to the buyer is fixed or determinable, no further obligation exists and collectability is reasonably assured.

Management reviews periodically the estimates of progress towards completion and project costs. These estimates are determined based on engineering estimates and past experience, by personnel having the appropriate authority and expertise to make reasonable estimates of the related costs. Such engineering estimates are reviewed periodically for each specific contract by professional personnel from various disciplines within the organization. These estimates take into consideration the probability of achievement of certain milestones, as well as other factors that might impact the contract s completion.

A number of internal and external factors affect the Group s cost estimates, including labor rates, estimated future material prices, revised estimates of uncompleted work, efficiency variances, linkage to indices and exchange rates, customer specifications and testing requirement changes. If any of the above factors were to change, or if different assumptions were used in estimating progress cost and measuring progress towards completion, it is likely that materially different amounts would be reported in the Company s consolidated financial statements.

(2) Business Combinations and Purchase Price Allocation

Business combinations are accounted for using the purchase method of accounting, under which the total purchase price is allocated to proportional interest in the acquired company s assets and liabilities based on their estimated fair values, and the remainder, if any, is attributed to goodwill.

The aggregate purchase price of any investment accounted for under either the consolidation or the equity method of accounting is being allocated to identifiable net assets, intangible assets other than goodwill, in-process research and development (IPR&D) activities, and to goodwill. The amount allocated to IPR&D is being charged immediately to the Group s results of operations in accordance with FASB Interpretation No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method (FIN 4). The amounts allocated to finite-lived intangible assets other than goodwill are amortized on a straight-line basis over their weighted average expected useful life.

Estimating the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, mainly with respect to intangible assets. While there are a number of different methods for estimating the value of intangibles acquired, the primary method used is the discounted cash flow approach. Some of the more significant estimates and assumptions inherent in the discounted cash flow approach include projected future cash flows, including their timing, a discount rate reflecting the risk inherent in the future cash flows and a terminal growth rate. Another area which requires judgment which can impact the Group s results of operations is estimating the expected useful lives of the intangible assets.

To the extent intangible assets are ascribed with longer useful lives, there may be less amortization expenses recorded in any given period. As the Group companies operate in industries which are extremely competitive, the value of the intangible assets, including goodwill and their respective useful lives, are exposed to future adverse changes which can result in a charge to the Group s results of operations.

(3) Impairment of Goodwill and Other Long-Lived Assets

Consistent with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized and is tested at least annually for impairment. According to SFAS 142, an impairment loss will be recognized when the carrying value of the goodwill is not recoverable and exceeds its fair value. The Company conducts a goodwill impairment review at least annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include significant underperformance relative to historical or expected future operating results and significant negative industry or economic trends. The Company tests for impairment at a level referred to as a reporting unit. Determining fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions could have an impact on whether or not an impairment charge is recognized. To determine fair value, the Company may use a number of valuation methods.

The methods commonly used to value a closely held company are the Income, Market and Cost approaches. The Company s reported units fair market value was estimated using two valuation methodologies: the Income Approach and the Market Approach. As mentioned above, these approaches use estimates and assumptions including projected future cash flows, discount rate and terminal growth rate. Using different assumptions could result in different results.

As of December 31, 2006, the Company s goodwill amounted to $58.4 million. The Company tested its goodwill as of December 31, 2006 and concluded that no impairment loss has been identified.

Consistent with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company evaluates long-lived assets for impairment and assesses their recoverability whenever events or circumstances indicate that carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. In the evaluation of fair value, the Company uses significant