RADA ELECTRONIC INDUSTRIES LTD
Form 20-F
March 27, 2017

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

FORM 20-F

£ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

£ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report.....

Commission file number: 0-15375

RADA ELECTRONIC INDUSTRIES LTD.
(Exact name of Registrant as specified in its charter
and translation of Registrant's name Into English)

Israel
(Jurisdiction of incorporation or organization)

7 Giborei Israel Street, Netanya 4250407, Israel
(Address of principal executive offices)

Shiri Lazarovich, CFO,
+972 9 892 1122 (phone), + 972 9 885 5885 (fax)
7 Giborei Israel Street, Netanya 4250407, Israel
(Name, telephone, facsimile number and address of company contact person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.030 Par Value	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

Ordinary Shares, par value NIS 0.030 per share… 21,246,502
(As of December 31, 2016)

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

Yes * No S

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

Yes * No S

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

Yes S No *

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes S No *

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 * Item 18 *

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes * No S

This annual report on Form 20-F is incorporated by reference into the registrant’s Registration Statement on Form F-3, File No.333-212643 and into the registrant’s Registration Statement on Form S-8, File No. 333-213284.

INTRODUCTION

We are an Israel based defense electronics company. We specialize in the development, manufacturing, marketing and sales of military avionics systems and inertial navigation systems for manned and unmanned aircraft, and tactical land radars for force and border protection applications.

Our shares are traded on the NASDAQ Capital Market under the symbol "RADA". As used in this annual report, the terms "we," "us" and "our" mean RADA Electronic Industries Ltd. and its subsidiaries, unless otherwise indicated.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. All references in this annual report to "dollars" or "$" are to U.S. dollars and all references in this annual report to "NIS" are to New Israeli Shekels.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any previous filing with the Securities and Exchange Commission, or the SEC, you may read the document itself for a complete recitation of its terms.

Except for the historical information contained in this annual report, the statements contained in this annual report are "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. We urge you to consider that statements which use the terms "anticipate," "believe," "do not believe," "expect," "plan," "intend," "estimate," and similar expressions are intended to identify forward looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Such forward-looking statements are also included in Item 4 – "Information on the Company" and Item 5 – "Operating and Financial Review and Prospects." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section that appears in Item 3D. "Key Information - Risk Factors."

TABLE OF CONTENTS

		Page No.
PART I		1
ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	1
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE	1
ITEM 3.	KEY INFORMATION	1
	A. Selected Financial Data	1
	B. Capitalization and Indebtedness	2
	C. Reasons for the Offer and Use of Proceeds	2
	D. Risk Factors	2
ITEM 4.	INFORMATION ON THE COMPANY	13
	A. History and Development of the Company	13
	B. Business Overview	14
	C. Organizational Structure	22
	D. Property, Plants and Equipment	22
ITEM 4A.	UNRESOLVED STAFF COMMENTS	22
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	22
	A. Operating Results	22
	B. Liquidity and Capital Resources	31
	C. Research and Development, Patents and Licenses	34
	D. Trend Information	35
	E. Off-Balance Sheet Arrangements	35
	F. Tabular Disclosure of Contractual Obligations	35
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	36
	A. Directors and Senior Management	36
	B. Compensation	39
	C. Board Practices	40
	D. Employees	50
	E. Share Ownership	51
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	52
	A. Major Shareholders	52
	B. Related Party Transactions	54
	C. Interests of Experts and Counsel	55

ITEM 8.	FINANCIAL INFORMATION	56
	A. Consolidated Statements and Other Financial Information	56
	B. Significant Changes	56
ITEM 9.	THE OFFER AND LISTING	56
	A. Offer and Listing Details	56
	B. Plan of Distribution	57
	C. Markets	57
	D. Selling Shareholders	57
	E. Dilution	57
	F. Expense of the Issue	57
ITEM 10.	ADDITIONAL INFORMATION	58
	A. Share Capital	58
	B. Memorandum and Articles of Association	58
	C. Material Contracts	61
	D. Exchange Controls	61
	E. Taxation	61
	F. Dividend and Paying Agents	68
	G. Statement by Experts	68
	H. Documents on Display	68
	I. Subsidiary Information	68
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS	68
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	69

PART II		69
ITEM 13.	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	69
ITEM 14.	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	69
ITEM 15.	CONTROLS AND PROCEDURES	69
ITEM 16.	RESERVED.	70
ITEM 16A.	AUDIT COMMITTEE FINANCIAL EXPERT	70
ITEM 16B.	CODE OF ETHICS	70
ITEM 16C.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	71
ITEM 16D.	EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	71
ITEM 16E.	PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	71
ITEM 16F.	CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT	72
ITEM 16G.	CORPORATE GOVERNANCE	72
ITEM 16H.	MINE SAFETY DISCLOSURE	73

PART III		74
ITEM 17.	FINANCIAL STATEMENTS	74
ITEM 18.	FINANCIAL STATEMENTS	74
ITEM 19.	EXHIBITS	74

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

We derived the following consolidated statements of operations data for the years ended December 31, 2014, 2015 and 2016 and the consolidated balance sheet data as of December 31, 2015 and 2016 from our audited consolidated financial statements included elsewhere in this annual report. We derived the consolidated statements of operations data for the years ended December 31, 2012 and 2013, and the consolidated balance sheet data as of December 31, 2012, 2013 and 2014 from our audited consolidated financial statements that are not included in this annual report. . (See Item 4A. "Discontinued Operations")

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	(U.S. dollars in thousands)				
Revenues	$20,535	$21,007	$21,625	$14,074	$12,821
Cost of revenues	15,532	16,609	15,284	11,665	11,379
Gross profit	5,003	4,398	6,341	2,409	1,442
Research and development, net	2,423	1,459	789	693	758
Marketing and selling	1,663	1,958	2,392	2,357	2,269
General and administrative	1,802	1,683	1,667	1,513	1,814
Goodwill impairment	-	-	-	587	-
Operating income (loss)	(885)	(702)	1,493	(2,741)	(3,399)
Financial expense, net	1,153	1,901	1,256	3,577	1,521
Net income (loss) from continuing operations	(2,038)	(2,603)	237	(6,318)	(4,920)
Net income (loss) from discontinued operations	(17)	(40)	(36)	(179)	13
Net income (loss)	(2,055)	(2,643)	201	(6,497)	(4,907)
Net income (loss) attributable to non-controlling interest from discontinued operations	(4)	(8)	(7)	(36)	3
Net income (loss) attributable to RADA Electronic Industries' shareholders	(2,051)	(2,635)	208	(6,461)	(4,910)
Basic and diluted net income (loss) per Ordinary share attributable for RADA Electronic Industries' shareholders	$(0.46)	$(0.60)	$0.02	$(0.53)	$(0.35)
Weighted average number of shares used to compute basic and diluted net income (loss) per share	4,459	4,459	8,945	11,904	14,029

	As of December 31,				
	2012	2013	2014	2015	2016
	(U.S. dollars in thousands)				
BALANCE SHEET DATA:					
Working capital (deficiency)	$1,977	$(152)	$35	$6,522	$11,106
Total assets	22,886	22,007	20,097	18,576	20,987
Short-term credits and current maturities of long-term loans	7,140	7,194	6,709	-	-
Convertible note - short term	3,000	3,000	3,000	3,090	3,175
Long-term shareholders loans, net of current maturities	-	-	-	-	
Shareholders' equity	5,906	3,350	3,547	8,507	10,516

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. Our business, prospects, financial condition and results of operations could be adversely affected due to any of the following risks. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment.

Risks Related to Our Business and Our Industry

We have a history of operating losses and may not be able to sustain profitability in the future. To the extent that we continue to incur operating losses, we may not have sufficient working capital to fund our operations in the future.

We incurred operating losses in four of the five years ended December 31, 2016, including a loss of $4.9 million in the year ended December 31, 2016. We may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. As of December 31, 2016, our accumulated deficit was $79 million and we had cash, cash equivalents and short-term bank deposits of $1.2 million, compared to cash, cash equivalents and short-term bank deposits of $0.7 million as of December 31, 2015. Based on our current operations, we believe our existing funds will be sufficient to fund our operations in 2017. To the extent that we incur operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations and will be required to obtain additional financing. Such financing may not be available, or, if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be adversely affected.

We may need to raise additional capital in the future, which may substantially dilute the holdings of our shareholders.

In order to obtain working capital for our operations and to repay the outstanding debt due to our then principal shareholder, we completed a follow-on public offering of 3,455,284 ordinary shares, offered at a price to the public of $2.46 per share on July 30, 2015. We then entered into an investment transaction with DBSI on May 18, 2016, according to which we sold 8,510,638 ordinary shares to DBSI for $4 million, reflecting a price per share of $0.47. We also issued to DBSI, without additional consideration, warrants to purchase 4,255,319 ordinary shares at an

exercise price per share of $0.47 (or $2 million in the aggregate) exercisable for a period of 24 months and warrants to purchase 3,636,363 ordinary shares at an exercise price per share of $0.55 (or $2 million in the aggregate) exercisable for a period of 48 months. DBSI also agreed to provide our company with a three- year $3,175,000 convertible loan bearing interest of Libor plus 6%, which was funded on June 16, 2016 and was used to repay the outstanding convertible loan and accrued interest owed to an entity owned by our former principal shareholder, Mr. Howard Yeung. In November 2016, we sold 1,904,762 of our ordinary shares to The Phoenix Insurance Company Ltd. and its affiliate, Shotfut-Menayot-Israel-HaPhoenix Amitim Ltd., two Israeli institutional investors, at a price of $1.05 per share, or approximately $2 million in the aggregate. At the same time, DBSI invested an additional $1 million in our company through the exercise of 2,127,660 warrants. As of March 2017, DBSI has paid us 1.5 million to exercise warrants to purchase 3,191,490 ordinary shares. We may need additional working capital in the future to repay our debt and fund our operations. Such financing may not be available, or, if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be adversely affected.

Competition in the market for defense electronics is intense. Our products may not achieve market acceptance, which could adversely affect our business, financial condition and results of operations.

The market for our products is highly competitive and we may not be able to compete effectively in our market. Our principal competitors in the defense electronics market include Elbit Systems Ltd., United Technologies Aerospace Systems, Honeywell International Inc., Israel Aerospace Industries Ltd., or IAI, Northrop Grumman Corporation, Sagem Avionics LLC, Thales Group, Zodiac Aerospace Group and SRC Inc. We expect to continue to face competition from these and other competitors. Most of our competitors are larger and have substantially greater resources than us, including financial, technological, marketing and distribution capabilities, and enjoy greater market recognition than we do. These competitors are able to achieve greater economies of scale and may be less vulnerable to price competition than us. We may not be able to offer our products as part of integrated systems to the same extent as our competitors or successfully develop or introduce new products that are more cost effective or offer better performance than those of our competitors. Failure to do so could adversely affect our business, financial condition and results of operations.

We may not be able to implement our growth strategy which could adversely affect our business, financial condition and results of operations.

In line with our growth strategy, we entered into a number of strategic relationships with Embraer S.A., or Embraer, Hindustan Aeronautics Ltd., or HAL, IAI, Lockheed Martin Corporation, or Lockheed Martin, Boeing Defense, Space & Security, or Boeing, Rafael Advanced Defense Systems Ltd., or Rafael, Israel Military Industries Ltd., or IMI, and DRS Technologies, or DRS, to increase our penetration into the defense electronics market. We are currently investing and intend to continue to invest significant resources to develop these relationships and additional new relationships. Should our relationships fail to materialize into significant agreements or should we fail to work efficiently with these companies, we may lose sales and marketing opportunities and our business, results of operations and financial condition could be adversely affected.

Our growth is dependent in part on the development of new products, based on internal research and development. We may not accurately identify market needs before we invest in the development of a new product. In addition, we might face difficulties or delays in the development process that will result in our inability to timely offer products that satisfy the market and competing products may emerge during the development and certification process.

While we have met with initial success in the introduction of our advanced ground radars for tactical applications such as defense forces protection and border protection, there can be no assurance that we will succeed in obtaining general market acceptance or that we will ever recover our investment in this new product family.

We have developed a number of radar hardware platforms for use in combat vehicles and tactical protection applications for defense forces and border protection. In December 2014, we announced the first significant order for this product family, a $4.5 million order from the Israel Ministry of Defense. To date, we have received $11.4 million in orders for our ground radar products, but cannot assure you that our ground radars will achieve broad market acceptance.

Reductions in defense budgets worldwide may cause a reduction in our revenues, which would adversely affect our business, operating results and financial condition.

Substantially all of our revenues are derived from the sale of products with military applications. These revenues totaled approximately $12 million, or 100 % of our revenues in 2016, $14.1 million, or 99.9% of our revenues, in the year ended December 31, 2015 and $21.6 million, or 99.9% of our revenues, in the year ended December 31, 2014. The defense budgets of a number of countries have declined and may be reduced in the future. Declines in defense budgets may result in reduced demand for our products and manufacturing services. This would result in reduction in our core business' revenues and adversely affect our business, results of operations and financial condition.

Unfavorable national and global economic conditions could have a material adverse effect on our business, operating results and financial condition.

During periods of slowing economic activity our customers may reduce their demand for our products and technology, which would reduce our sales, and our business, operating results and financial condition may be adversely affected. Economies throughout the world currently face a number of challenges, including threatened sovereign defaults, credit downgrades, restricted credit for businesses and consumers and potentially falling demand for a variety of products and services.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum (Brexit). The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could continue for a few years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, and has given rise to calls for certain regions within the United Kingdom to preserve their place in the European Union by separating from the United Kingdom as well as for the governments of other E.U. member states to consider withdrawal.

These developments, or the perception that any of them could occur, could have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. Any of these events would likely harm our business, operating results and financial condition.

Sales of our products are subject to governmental procurement procedures and practices; termination, reduction or modification of contracts with our customers or a substantial decrease in our customers' budgets may adversely affect our business, operating results and financial condition.

Our products are primarily sold to governmental agencies, governmental authorities and government-owned companies, many of which have complex and time consuming procurement procedures. A substantial period of time often elapses from the time we begin marketing a product until we actually sell that product to a particular customer. In addition, our sales to governmental agencies, authorities and companies are directly affected by these customers' budgetary constraints and the priority given in their budgets to the procurement of our products. A decrease in governmental funding for our customers' budgets would adversely affect our results of operations. This risk is heightened during periods of global economic slowdown. Accordingly, governmental purchases of our systems, products and services may decline in the future as the governmental purchasing agencies may terminate, reduce or modify contracts or subcontracts if:

·their requirements or budgetary constraints change;

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

. they shift spending priorities into other areas or for other products; or

·they adjust contract costs and fees on the basis of audits.

Any such event may have a material adverse effect on us.

Further, our business with the State of Israel and other governmental entities is, in general, subject to delays in funding and performance of contracts and the termination for convenience (among other reasons) of contracts or subcontracts with governmental entities. The termination, reduction or modification of our contracts or subcontracts with the Government of Israel in the event of change in requirements, policies or budgetary constraints would have an adverse effect on our business, operating results and financial condition.

If we do not receive the governmental approvals necessary for the export of our products, our revenues may decrease. Similarly, if our suppliers and partners do not receive government approvals necessary to export their products or designs to us, our revenues may decrease and we may fail to implement our growth strategy.

Israel's defense export policy regulates the sale of our systems and products. Current Israeli policy encourages export to approved customers of defense systems and products, such as ours, as long as the export is consistent with Israeli government policy. A license is required to initiate marketing activities. We are also required to obtain a specific export license for any hardware exported from Israel. We may not be able to receive all the required permits and licenses for which we may apply in the future. If we do not receive the required permits for which we apply, our revenues may decrease.

We are subject to laws regulating export of "dual use" items (items that are typically sold in the commercial market, but that also may be used in the defense market) and defense export control legislation. Additionally, our participation in governmental procurement processes in Israel and other countries is subject to specific regulations governing the conduct of the process of procuring defense contracts. Furthermore, solicitations for procurements by governmental purchasing agencies in Israel and other countries are governed by laws, regulations and procedures relating to procurement integrity, including avoiding conflicts of interest and corruption in the procurement process. We may not be able to respond quickly and effectively to changing laws and regulations and any failure to comply with such laws and regulations may subject us to significant liability and penalties.

We depend on sales to key customers and the loss of one or more of our key customers would result in a loss of a significant amount of our revenues, which would adversely affect our business, financial condition and results of operations.

A significant portion of our revenues is derived from a small number of customers. During the years ended December 31, 2016 and 2015, 83% and 71% of our revenues, respectively, were attributable to six customers. We anticipate that a significant portion of our future revenues will continue to be derived from sales to a small number of customers. No assurances can be given that our customers will continue to purchase our products, that we will be successful in any bid for new contracts to provide such products, or that if we are granted subsequent orders, such orders would be of a scope comparable to the sales that we have experienced to date. If our principal customers do not continue to purchase products from us at current levels or if we do not retain such customers and we are not able to derive sufficient revenues from sales to new customers to compensate for their loss, our revenues would be reduced and adversely affect our business, cash flows, financial condition and results of operations.

We depend on suppliers of components for our products and if we are unable to obtain these components when needed, we could experience delays in the manufacturing of our products and our financial results could be adversely affected.

We acquire most of the components for the manufacturing of our products from suppliers and subcontractors, most of whom are located in Israel and the United States. A number of these suppliers are currently the sole source of one or more components upon which we are dependent. Suppliers of some of the components for manufacturing require us to place orders with significant lead-time to assure supply in accordance with our manufacturing requirements. Inadequacy of operating funds may cause us to delay the placement of such orders and may result in delays in supply. Delays in supply may significantly hurt our ability to fulfill our contractual obligations and may significantly hurt our business and result of operations. In addition, we may not be able to continue to obtain such components from these suppliers on satisfactory commercial terms. Temporary disruptions of our manufacturing operations would ensue if we were required to obtain components from alternative sources, which may have an adverse effect on our financial results.

Rapid technological changes may adversely affect the market acceptance of our products and could adversely affect our business, financial condition and results of operations.

The defense electronics market in which we compete is subject to technological changes, introduction of new products, change in customer demands and evolving industry standards. Our future success will depend upon our ability to keep pace with technological developments and to timely address the increasingly sophisticated needs of our customers by supporting existing and new technologies and by developing and introducing enhancements to our current products and new products. We may not be successful in developing and marketing enhancements to our products that will respond to technological change, evolving industry standards or customer requirements. In addition, we may experience difficulties that could delay or prevent the successful development, introduction and sale of such enhancements and such enhancements may not adequately meet the requirements of the market and may not achieve any significant degrees of market acceptance. If release dates of our new products or enhancements are delayed or, if when released, they fail to achieve market acceptance, our business, operating results and financial condition may be adversely affected.

We enter into fixed-price contracts that could subject us to losses in the event we fail to properly estimate our costs.

We enter into firm fixed-price contracts. If our initial cost estimates are incorrect, we can lose money on these contracts. Because many of these contracts involve new technologies, unforeseen events, such as technological difficulties and other cost overruns, can result in the contract pricing becoming less favorable or even unprofitable to us and have an adverse impact on our financial results.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

Cyber-attacks or other breaches of network or IT security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber attack, malware, computer viruses and other means of unauthorized access. The potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other competitors in the defense electronics market. In addition, a failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. To date, we have not been subject to cyber-attacks or other cyber incidents which, individually or in the aggregate, resulted in a material impact to our operations or financial condition.

We are subject to risks associated with international operations; we generate a significant portion of our sales from customers located in countries that may be adversely affected by political or economic instability and corruption.

We are aviation and defense company with worldwide operations. Although 65% of our sales are in Israel and North America, we expect to derive an increasing portion of our sales and future growth from other regions such as Latin America, India and Central and Eastern Europe, which may be more susceptible to political or economic instability. In addition, in many less-developed markets, we rely heavily on third-party representatives , consultants and other agents for business development, marketing and distribution of our products. Many of these third-parties do not have internal compliance resources comparable to ours. Business activities in many of these markets have historically been more susceptible to corruption. If our efforts to screen third party agents and detect cases of potential misconduct fail, we could be held responsible for the noncompliance of these third parties under applicable laws and regulations, which may adversely affect our reputation and our business, financial condition or results of operations.

Exports accounted for 43% of our sales in 2016, 57% of our sales in 2015 and 77% of our sales in 2014. Our reliance on export sales subjects us to many risks inherent in engaging in international business, including:

·Limitations and disruptions resulting from the imposition of government controls;

·Changes in regulatory requirements;

·Export license requirements;

·Economic or political instability;

·Trade restrictions;

·Changes in tariffs;

·Currency fluctuations;

·Longer receivable collection periods and greater difficulty in accounts receivable collection;

·Greater difficulty in safeguarding intellectual property;

·Difficulties in managing overseas subsidiaries and international operations; and

·Potential adverse tax consequences.

We may not be able to sustain or increase revenues from international operations and may encounter significant difficulties in connection with the sale of our products in international markets. Any of those events may adversely affect our business, operating results and financial condition.

In the United States, the new Trump Administration has called for substantial change to fiscal, tax and trade policies that may adversely affect our business. We cannot predict the impact, if any, of these changes to our business. However, it is possible that these changes could adversely affect our business.

In addition, as a company registered with the SEC, we are subject to the regulations imposed by the Foreign Corrupt Practices Act, or FCPA, which generally prohibits registrants and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business or obtaining an improper business benefit. We have adopted proactive procedures to promote compliance with the FCPA, but we may be held liable for actions taken by our strategic or local partners or agents even though these partners may not themselves be subject to

the FCPA. Any determination that we have violated the FCPA could materially and adversely affect our business, results of operations, and cash flows.

Currency exchange rate fluctuations in the world markets in which we conduct business could have a material adverse effect on our business, results of operations and financial condition.

Most of our revenues are in dollars or are linked to the dollar, while a portion of our expenses, principally salaries and related personnel expenses, are incurred in other currencies, particularly in NIS. Therefore, our costs in such other currencies, as expressed in dollars, are influenced by the exchange rate between the dollar and the relevant currency. We are also exposed to the risk that the rate of inflation in Israel will exceed the rate of depreciation of the NIS in relation to the dollar or that the timing of this depreciation lags behind inflation in Israel. This would have the effect of increasing the dollar cost of our operations. In the past, the NIS exchange rate with the dollar and other foreign currencies has fluctuated, generally reflecting inflation rate differentials. We cannot predict any future trends in the rate of inflation in Israel or the rate of depreciation or appreciation of the NIS against the dollar. If the dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected. We engage in currency hedging transactions intended to partly reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. However, such transactions may not materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations.

Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs, enter into licensing agreements or license substitute technology.

Third parties may assert infringement claims against us or claims that we have violated a patent or infringed on a copyright, trademark or other proprietary right belonging to them. Any infringement claim, even one without merit, could result in the expenditure of significant financial and managerial resources to defend against the claim. Moreover, a successful claim of product infringement against us or a settlement could require us to pay substantial amounts or obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. We might not be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all. We also may not be able to be able to obtain a license from another provider of suitable alternative technology to permit us to continue offering the product. Infringement claims asserted against us could have a material adverse effect on our business, operating results and financial condition.

Regulations that impose disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in our products will result in additional cost and expense and could result in other significant adverse effects.

Rules adopted by the SEC implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act impose diligence and disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in our products. Compliance with these rules may result in additional cost and expense, including for due diligence to determine and verify the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. These rules may also affect the sourcing and availability of minerals used in the manufacture of our products to the extent that there may be only a limited number of suppliers offering “conflict free” metals that can be used in our products. There can be no assurance that we will be able to obtain such metals in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers, shareholders and other stakeholders if we are unable to sufficiently verify the origins of the metals used in our products. We may also encounter customers who require that all of the components of our products be certified as conflict free. If we are not able to meet customer requirements, such customers may choose to disqualify us as a supplier, which could impact our sales and the value of portions of our inventory.

We may fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our ordinary shares.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404(a) of the Sarbanes-Oxley Act of 2002 governing internal controls and procedures for financial reporting, which started in connection with our 2007 Annual Report on form 20-F, have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal controls over financial reporting. Failure to maintain effective internal controls over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

Risk Factors Related to Our Ordinary Shares

Because one of our shareholders, DBSI, owns a majority of our outstanding shares, investors will not be able to affect the outcome of shareholder votes.

DBSI currently beneficially owns 13,423,907 of our ordinary shares, or approximately 50.7% of our outstanding shares. For as long as DBSI, or any shareholder, has a controlling interest in our company, it will have the ability to exercise a controlling influence over our business and affairs, including any determinations with respect to potential mergers or other business combinations involving us, our acquisition or disposition of assets, our incurrence of indebtedness, our issuance of any additional ordinary shares or other equity securities, our repurchase or redemption of ordinary shares and our payment of dividends. Similarly, as long as DBSI has a controlling interest in our company, it will have the power to determine or significantly influence the outcome of matters submitted to a vote of our shareholders, including the power to elect all of the members of our board of directors (except external directors, within the meaning of Israeli law), or prevent an acquisition or any other change in control of us. Because the interests of our controlling shareholders may differ from the interests of our other shareholders, actions taken by it with respect to us may not be favorable to our other shareholders.

If we fail to maintain compliance with NASDAQ's continued listing requirements, our shares may be delisted from the NASDAQ Capital Market.

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol "RADA." To continue to be listed on the NASDAQ Capital Market, we need to satisfy a number of conditions, including minimum shareholders' equity of at least $2.5 million and a minimum closing bid price per share of $1.00. On October 1, 2015 Rada received notification from NASDAQ for not maintaining a minimum bid price of US$1.00 per share for 30 consecutive business days (Listing Rule 5550(a) (2)). We were given 180 calendar days, or until March 29, 2016, to regain compliance. On March 30, 2016, we received notification from NASDAQ that we are eligible for an additional 180 calendar days to regain compliance. Following a reverse split of our ordinary shares, on September 29, 2016, we regained compliance with Listing Rule 5550(a)(2) and our shares continued to be listed on the NASDAQ Capital Market.

If in the future, our share price drops again and remains under $1.00 for 30 consecutive business days, and if we are ultimately delisted from NASDAQ, trading in our ordinary shares would be conducted on a market where an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of, our ordinary shares..

Our share price has been volatile in the past and may decline in the future.

Our ordinary shares have experienced significant market price and volume fluctuations in the past and may experience significant market price and volume fluctuations in the future in response to factors such as the following, some of which are beyond our control:

·Quarterly variations in our operating results;

·Operating results that vary from the expectations of securities analysts and investors;

- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

- Announcements of technological innovations or new products by us or our competitors;

- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

- Changes in the status of our intellectual property rights;

- Announcements by third parties of significant claims or proceedings against us;

- Additions or departures of key personnel;

- Future sales of our ordinary shares;

- Delisting of our shares from the NASDAQ Capital Market; and

- Stock market price and volume fluctuations.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could adversely affect the market price of our ordinary shares.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources both of which could have a material adverse effect on our business and results of operations.

Substantial future sales of our ordinary shares by our principal shareholders may depress our share price.

If our principal shareholders, sell substantial amounts of their ordinary shares, including shares registered under effective registration statements and shares issuable upon the exercise of outstanding warrants or upon the conversion of convertible notes, or if the perception exists that our principal shareholders may sell a substantial number of our ordinary shares, the market price of our ordinary shares may fall. Any substantial sales of our shares in the public market also might make it more difficult for us to sell equity or equity related securities in the future at a time and on terms we deem appropriate.

We do not intend to pay dividends.

We have never declared or paid cash dividends on our ordinary shares and do not expect to do so in the foreseeable future. The declaration of dividends is subject to the discretion of our board of directors and will depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment in our company. The success of your investment will likely depend entirely upon any future appreciation of the market price of our ordinary shares, which is uncertain and unpredictable. There is no guarantee that our ordinary shares will appreciate in value or even maintain the price at which you purchased your ordinary shares.

We may in the future be classified as a passive foreign investment company, or PFIC, which will subject our U.S. investors to adverse tax rules.

For U.S. federal income tax purposes, we will generally be classified as a PFIC for any taxable year in which either: (i) 75% or more of our gross income is passive income or (ii) at least 50% of the average quarterly value of our assets for the taxable year produce or are held for the production of passive income. Based on certain estimates of our gross income and gross assets and the nature of our business, we do not expect that we will be classified as a PFIC for the taxable year ending December 31, 2016. There can be no assurance that we will not be considered a PFIC for any future taxable year. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares and such U.S. holders could suffer adverse U.S. tax consequences. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. U.S. residents should carefully read Item 10E. “Additional Information - Taxation - United States Federal Income Tax Consequences” for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

Risks Relating to Our Location in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence us. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel could adversely affect our business, financial condition and results of operations.

In recent years, there have been hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza strip, both of which resulted in rockets being fired into Israel causing casualties and disruption of economic activities. In addition, Israel faces threats from more distant neighbors, in particular, Iran. Also, in recent years riots and uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect our business, financial condition and results of operations in the future.

Furthermore, we could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli companies and others doing business with Israel or with Israeli companies. As a result, we are precluded from marketing our products to these countries, companies and organizations. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. Also, over the past several years there have been calls in Europe and elsewhere to reduce trade with Israel. Restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our results of operations may be negatively affected by the obligation of our personnel to perform military service.

Many of our employees in Israel are obligated to perform annual military reserve duty and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

We may not be able to enforce covenants not-to-compete under current Israeli law.

We have non-competition agreements with most of our employees, many of which are governed by Israeli law. These agreements generally prohibit our employees from competing with us or working for our competitors for a specified period following termination of their employment. However, Israeli courts are reluctant to enforce non-compete undertakings of former employees and tend, if at all, to enforce those provisions for relatively brief periods of time in restricted geographical areas and only when the employee has unique value specific to that employer’s business and not just regarding the professional development of the employee. Any such inability to enforce non-compete covenants may cause us to lose any competitive advantage resulting from advantages provided to us by such confidential information.

We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.

A significant portion of our intellectual property has been developed by our Israeli employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967 (the “Israeli Patent Law”), inventions conceived by an employee during the term and as part of the scope of his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Israeli Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee (the “C&R Committee”), a body constituted under the Israeli Patent Law, shall determine whether the employee is entitled to remuneration for his inventions. The C&R Committee (decisions of which have been upheld by the Israeli Supreme Court) has held that employees may be entitled to remuneration for their service inventions despite having specifically waived any such rights. Further, the C&R Committee has not yet set specific guidelines regarding the method for calculating this remuneration or the criteria or circumstances under which an employee’s waiver of his right to remuneration will be disregarded. We generally enter into intellectual property assignment agreements with our employees pursuant to which such employees assign to us all rights to any inventions created in the scope of their employment or engagement with us. Although our employees have agreed to assign to us service invention rights and have specifically waived their right to receive any special remuneration for such assignment beyond their regular salary and benefits, we may face claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current or former employees, or be forced to litigate such claims, which could negatively affect our business.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers and the Israeli experts named in this annual report, most of who reside outside the U.S., may be difficult to obtain within the U.S. Furthermore, since substantially most our assets, our directors and officers and the Israeli experts named in this annual report are located outside the U.S., any judgment obtained in the U.S. against us or these individuals or entities may not be collectible within the U.S.

There is doubt as to the enforceability of civil liabilities under the Securities Act and the Securities Exchange Act in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of U.S. courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those Acts.

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from those of a typical U.S. corporation.

We are incorporated under Israeli law and the rights and responsibilities of holders of our ordinary shares are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable to shareholder votes at the general meeting with respect to, among other things, amendments to a company’s articles of association, increases in a company’s authorized share capital, mergers and actions and transactions involving interests of officers, directors or other interested parties which require the shareholders’ approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that he or she possesses the power to determine the outcome of a vote at a meeting of our shareholders, or who has, by virtue of the company’s articles of association, the power to appoint or prevent the appointment of an office holder in the company, or any other power with respect to the company, has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist in understanding the

implications of these provisions that govern shareholder behavior.

Israeli government programs and tax benefits may be terminated or reduced in the future.

We participate from time to time in programs of the Israeli Innovation Authority (formerly the Office of the Chief Scientist) of the Israeli Ministry of Economy., or Innovation Authority , for which we receive funding for the development of technologies and products. The benefits available under these programs depend on meeting specified conditions. For more information about these programs see Item 5. “Operating and financial review and prospects – Research & Developments – Israeli Innovation Authority.” If we fail to comply with these conditions, we may be required to pay additional penalties, make refunds and may be denied future benefits. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under these programs, and therefore these benefits may not be available to us in the future at their current levels or at all.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of The NASDAQ Stock Market Rules. Among other things, as a foreign private issuer we may follow home country practice with regard to the composition of the board of directors, director nomination procedure, and quorum at shareholders’ meetings. In addition, we may follow our home country law, instead of the NASDAQ Stock Market Rules -which require that we obtain shareholder approval for certain dilutive events such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company, and certain acquisitions of the stock or assets of another company. A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer’s home country certifying that the issuer’s practices are not prohibited by the home country’s laws. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ’s corporate governance rules.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated under the laws of the State of Israel on December 8, 1970. We are a public limited liability company under the Israeli Companies Law 1999-5759, or the Israeli Companies Law, and operate under this law and associated legislation. Our registered offices and principal place of business are located at 7 Giborei Israel Street, Netanya 4250407, Israel, and our telephone number is +972-9-892-1111. Our website address is www.rada.com. The information on our website is not incorporated by reference into this annual report.

We develop, manufacture and sell defense electronics, including avionics solutions (including avionics for unmanned aerial vehicles), airborne data/video recording and management systems, tactical land-based radars for defense forces and border protection systems, and inertial navigation systems. In addition, while we continue to sell and support our legacy commercial aviation products and services, in 2016 we decided to actively pursue the sale of our Chinese subsidiary, Beijing Hua Rui Aircraft Maintenance and Service, Co., Ltd., known as CACS, which is the main platform of our test and repair shop activity. The results presented in this annual report were adjusted to present CACS’ results in a separate line as “Discontinued Operations”.

B. Business Overview

Industry Overview

Our activity is primarily focused on the defense electronics market. This is a growing market that is currently a large part of the defense industry. The defense electronics market reflects two contradictory trends, the proliferation of defense electronics, which has been offset by the significant reduction in the price of electronic systems which is reducing the dollar value of the market. Today, new military vehicles of all kinds are equipped with significantly more electronic systems than they used to carry in the past. The increasing usage of advanced electronics in modern vehicles, including upgrades of existing technology and the growing use of unmanned vehicles of all kinds, have provided significant growth to the market.

Today's advanced defense electronics systems typically incorporate components that are derived from the industrial or the consumer electronics markets, especially from the telecom markets. Most of the defense electronics systems are built with commercial components and even with sub-systems, which reduce the overall price, and at the same time generate complex obsolescence issues.

Purchasers of defense electronics products are either governments or major integrators. Engagement in business relationships with these customers is complex, has a long sales cycle and requires long-term commitments for future support of delivered hardware. Production batches of such products are usually small.

Suppliers of defense electronic systems are either providers of sub-systems to major integrators or providers of integrated systems to the industry or to the armed forces. These companies are typically very large and have diversified product offerings.

New products in the defense electronic market are usually developed utilizing internal and customer sponsored research and development funds and are tailored to specific customer needs. In many cases, the customer who pays for the design and adaptation limits the use of intellectual property that was funded by it for other applications, due to either commercial or security reasons.

Products and Services

We primarily provide integrated solutions. Our aim is to provide not only state-of-the-art products, but to also provide comprehensive end-to-end solutions for one or more systems. Our current product lines are:

·Military avionics (Data/video recorders, core avionics for aircraft and UAVs);

·Inertial navigation systems for aerial and land platforms;

·Tactical Radars for defense forces and border protection systems (land based).

While we continued to support our legacy commercial aviation test stations in 2016, we decided to sell CACS, our main platform for our test and repair shop activity.

Military Avionics

We are one of the world's leaders in the field of mission data recording, management, and post-mission analysis and debriefing. Over the past 25 years we have developed, fielded and supported a wide range of solid-state digital recorders, cameras and debriefing systems for aerospace and military applications, including:

·Flight data recorders, or FDR, for fighter aircraft;

·Digital video/audio/data recorders, or DVDR (with data transfer functions);

·High-rate (no compression) data recorders, or HRDR, for aircraft and airborne pods;

·Video recorders and airborne data servers, or VRDS, the latest approach to avionic data management;

·A wide range of head-up-displays color video cameras, or HCVC, for fighter aircraft; and

·A variety of ground debriefing solutions, or GDS.

Featuring state-of-the-art technologies, our digital recorders are designed for military applications. Our high-performance recorders provide simultaneous, high-capacity video (both analog and digital/HD), audio and data recording, high throughput and mass storage handling capabilities, supporting rapid dissemination and real time playback. Our video recorders implement MPEG-2 and/or MPEG-4 (H.264) compression formats, supporting up to 128GB of solid state memory, facilitating continuous recording over extended mission durations.

Our GDS feature synchronized video, audio, data, and air combat maneuvering debriefing. GDS vary from personal, laptop-size debriefing units, through robust desktop multi-channel systems supporting the mission debriefing of four-aircraft formations up to large-scale simultaneous debriefing systems. These network-based systems support large numbers of participants operating from different locations, and provide advanced data management features.

We have been a developer and manufacturer of core avionics systems for over 30 years. We currently offer a wide spectrum of military avionics systems designed for integration in new and upgraded military aircraft and UAVs worldwide. Our avionics solutions range from fully integrated avionics suites, MOTS core avionics subsystems, to tailor-made "built-to-spec" units, backed by our teams of experts dedicated to providing global technical and maintenance support.

Our avionics systems are easily adapted to western, eastern, and indigenous-origin platforms of all kinds. We provide our avionic expertise as team members and subcontractors and as prime contractors for avionic upgrades. In

particular, our avionics for UAVs are extremely compact through modern board connectivity solutions, use of innovative conductive cooling techniques, withstand extreme environmental conditions and are very reliable and affordable.

We offer the following avionics solutions:

- Complete integrated avionics upgrade suites for fighters and mission aircraft;
- Mission and display computers;
- Weapon management systems;
- Data interface and processing computers;
- Mission data recorders and debriefing solutions;
- HUD video cameras;
- INS;
- Avionics for UAVs (Interface control processors, engine control computers, Payload management computers, and others).
- R-100F: FOG-based, navigation-grade embedded GPS-INS for fighters and helicopters;
- R-200M: Compact, MEMS-based, multiple-sensor aided INS for UAVs and backup INS for manned aircraft;
- MAVINS – Modular Avionics and MEMS-Based INS: A specially-designed, compact integrated solution for UAVs and disposable applications.

Our airborne products and system solutions are fully qualified and operated by leading air forces and prime integrators worldwide, such as the Israeli Air Force, or IAF, Lockheed Martin, Boeing Company, GE Aviation, HAL, Embraer, IAI, Rafael, the Chilean Air Force, Indra Systemas S.A., and many others. Our units are installed onboard F-16, F-15, A-4, Jaguar, MiG-27, Su-30MKI, Dhruv Helicopter, MiG-29, Super-Tucano and other aircraft, and onboard a continuously-growing number of UAVs.

Tactical Radars for Defense Forces and Border Protection Solutions

We develop advanced ground-based radars for tactical applications such as defense forces protection and border protection. Our pulse Doppler, software-defined radars are solid-state, fully digital, incorporate active electronically scanned array, or AESA antenna, are compact, mobile and highly reliable, provide hemispheric spatial coverage and multi-mission capabilities, and demonstrate unprecedented performance-to-price ratio.

The asymmetric and irregular conflicts in which modern armies are engaged with in recent years dictate the needs for instantaneous and real-time intelligence, minimal cycle time for target acquisition, highly accurate weapons with minimal collateral damage and discrimination between hostiles and civilians. Our tactical radars, which move with the maneuvering combat units in the field and operate on-the-move, provide the real-time knowledge of whether and from where they are threatened, detect all relevant threats, whether unfriendly fire or drones/UAVs/fighters/helicopters from any angle (including very high angles), discriminate among threats and provide the needed intelligence for any course of action, whether counter-fire or avoidance. The performance-over-price ratio of our radars makes them ideal solutions to the needs and requirements imposed by the asymmetric arena.

We have developed various radar hardware platforms: the compact hemispheric radar, or CHR, which is tailored for use in combat vehicles and short-range protection applications; and a family of multi-mission hemispheric radars, or MHRs, which are tailored for use in force and border protection applications. We offer the MHR, the enhanced MHR, or eMHR, and the improved and enhanced MHR, or ieMHR; all share the same basic characteristics, but differ in range, size, weight, and price. For each radar platform we implement several operational missions by changing the radar operational parameters.

The current operational missions of the CHR are the following:

- The RPS-10 radar sensors for active protection systems, or APS, detect all relevant threats that may be fired at combat vehicles, including RPGs, anti-tank guided missiles (ATGMs) and projectiles and provide 360° hemispheric coverage. The system delivers threat data to the APS, enabling it to neutralize threats.

- The RPS-12 short-range hemispheric air surveillance radar system can detect, classify and track aerial vehicles at ranges of up to 10km, with emphasis on small UAVs. Mobile or stationary, the system can be integrated with any C4I system and other radars and sensors, and can operate either as a stand-alone, or as part of a large-scale surveillance system.

- The RPS-14 radar system for perimeter and border protection can detect, identify, and track aerial and surface intruders including slow and small aircraft, vehicles, vessels, and pedestrians at tactical ranges. The RPS-14 can operate either as a stand-alone, or as part of a large-scale surveillance system.

- The RPS-15 comprehensive hostile fire management system for combat vehicle detects, tracks, classifies, and locates direct and elevated threats fired at combat vehicles, allowing the mobile force to successfully complete its mission while operating in a hostile environment.

The current operational missions of the MHR family of radar platforms are the following:

- The RPS-40/70/80 hostile fire detection radar systems detect, track, classify and locate direct and elevated threats fired at stationary or mobile forces. They compute the Point-Of-Origin (POO) and Point-Of-Impact (POI) of the threats, which may be rockets, artillery, mortars, ATGMs, RPGs, and more other threats. The systems can be integrated with any protection and Command, Control, Communications, Computers and Intelligence (C4I) system and be installed at stationary bases and posts, or onboard fighting vehicles.

§ The RPS-42/72/82 tactical hemispheric air surveillance radar systems can detect, classify and track all types of aerial vehicles, including fighters, helicopters, UAVs, transport aircraft, etc. at tactical ranges. Mobile or stationary, the systems can be integrated with any C4I system and other radars and sensors, and can operate either as a stand-alone, or as part of a large-scale surveillance system.

- The RHS-44/74/84 radar systems for border protection can detect, identify, and track aerial and surface border intruders including slow and small aircraft, vehicles, vessels, and pedestrians at tactical ranges. The systems can operate either as a stand-alone, or as part of a large-scale surveillance system.

Among our customers for radar systems are leading defense forces and industries worldwide, including the Israeli MOD, IMI, Artis, Lockheed Martin, Boeing, DRS, the U.S. Navy, Indian Security Forces, Elettronica S.p.A and additional air defense prime integrators and end-users. Some of our customers have purchased a small number of our radars for evaluation and integration in their air defense and/or other systems. These may turn into larger production orders upon evaluation and if such systems begin full rate production.

Business Development, Sales and Marketing

Strategy

Our business development strategy is based on the following principles:

- Becoming a reliable and dependable supplier of sensors and sub-systems to defense system integrators and major platforms manufacturers with global sales, such as Embraer, HAL, Lockheed Martin, Boeing, IMI, IAI, Rafael, DRS and others.

- Expanding our global business development efforts and potential customer base by engaging business development consultants and service providers in the countries and territories in which our products may be used, and actively managing this global network; and

- Establishing strategic partnerships with leading integrators in the prime target markets for tactical radars, i.e. the US, Europe, India; such partnerships may involve indigenization and localization of our technologies to enable sales in significant quantities in these markets.

Strategic Relationships and Customers

As part of our strategy, we entered into a number of strategic relationships with leading global defense contractors and several air forces. We have focused our marketing and sales efforts to support these relationships.

Lockheed Martin. Lockheed Martin is the manufacturer of the F-16 aircraft, one of the most popular fighter aircraft in the western world today. We are supplying the DVDR and GDS for new F-16 aircraft production and for F-16 upgrade programs led by Lockheed Martin. In 2015, Lockheed Martin ordered a single radar system for integration in their internally funded high energy laser research and development program.

Israel Military Industries. IMI is a world leader in the field of APS for land platforms and is the developer and manufacturer of the "Iron Fist" APS. We are teamed with IMI on the integration and production of our RPS-10 radars as part of their “Iron Fist” APS solution for local and global customers. During 2016 there was a global increase in the interest of major forces in APS; as a result, IMI is currently engaged in extensive efforts to integrate, test and provide its APS to customers in Europe and North America. We have sold dozens of CHR radars to IMI support these activities.

Israel Aerospace Industries. We actively supply avionics and test equipment to four different divisions of IAI, and in particular to the LAHAV and MALAT divisions, who are major aircraft integrators and utilize our products and services for repeated follow-on orders.

Hindustan Aeronautics Ltd. HAL is the major aerospace integrator in India. We are currently cooperating with four divisions of HAL and supply DVDRs, HCVCs, GDS, support equipment and other services in growing numbers.

Embraer S.A. The Military Aircraft Division of the Brazilian aircraft manufacturer is a strategic customer. In addition to supplying avionics such as DVDR, INS and HCVC to Embraer, we are participating to a greater degree in Embraer's programs through the development and supply of avionic units per their specifications and their training and support activities.

Rafael Advanced Defense Systems Ltd. Rafael is a world leader in the development and supply of missiles, smart weapons and pods of various types. Rafael has become a strategic customer of ours as a result of our development and production of a few advanced built-to-specification products in recent years. Recently, Rafael selected the MHR as the radar for the "Drone Dome" system that is designed to counter UAVs and drones, and is purchasing radars from us for test and evaluation.

Boeing Defense, Space and Security. Boeing, a provider of air defense and high-energy laser systems, has acquired our MHR in 2013 for evaluation of its use as part its directed energy tactical systems. We also provide Boeing with recorders and debriefing stations for the T-45 VMTS, and have received follow-on orders from them.

DRS Technologies, LLC. DRS is a major player in the defense electronics market in North America, with a focus on tactical systems and radars. In 2015, we signed a teaming agreement with DRS to market, sell, produce and maintain our tactical radars in the North American market. DRS has acquired a few MGR radars, and are actively promoting it as part of their system solution to counter-UAVs and drones, and for short-range air defense.

European Air Defense Integrator. A European air defense integrator purchased a radar for integration and testing and we have signed a value-added representation agreement with it for certain countries where they have a dominant position in sales of air defense and other solutions. Military Forces. We are the sole providers of digital recorders and debriefing solutions to an air force in Latin America. We are the primary provider of recorders and debriefing solutions to a major Asian air force. Our tactical radars for air defense are under evaluation by a Far-East country's army that has acquired f a few units, while two other Asian forces have purchased radars for air surveillance and counter-mortar applications. Our tactical radars are used by the US Navy/Marines as part of their ground based air defense advanced technology development program. All these military forces introduce the potential of prolonged cooperation and are strategic customers of ours.

Business Development and Marketing

Our chief executive officer, Mr. Dov Sella, leads our business development and marketing efforts. We currently employ eight additional professionals in the marketing and sales of our products, four of them part-time. Our program managers, chief technology officer and our engineering departments support our marketing and sales efforts with respect to proposal preparations and products demonstrations. In addition, we have business development consultants in Israel, Europe, South America and Asia who receive success fees for sales generated by them, and four part-time consultants who assist us in the development of the North American market.

The Israeli Ministry of Defense has historically supported, and continues to support, our marketing efforts through its defense export assistance branch and through various projects for the IDF and its related divisions. There is no guarantee that this type of assistance will be available to us in the future.

We take part and present our tactical radars at the major land systems exhibitions on a regular basis, such as the Association of the United States Army (AUSA) Annual Meeting in Washington, D.C., Eurosatory in Paris, DSEI in London, and in regional exhibitions such as Seoul Aerospace & Defense, MSPO in Poland, DefExpo in India and others.

Fixed Price Contracts

The vast majority of our contracts are fixed-price contracts, under which the price is not subject to adjustment by reason of the costs incurred in the performance of the contracts, as long as the costs incurred and work performed fall within governmental guidelines. Under our fixed-price contracts, we assume the risk of increased or unexpected costs that may reduce our profits or even generate losses. This risk can be particularly significant under fixed-price contracts for research and development involving new technologies.

Our books and records may be subject to audits by the Israeli Ministry of Defense and other governmental agencies, including the U.S. Department of Defense. These audits may result in adjustments to contract costs and profits.

Principal Customers

Generally, we complete a few major transactions each year, each in an amount comprising more than 10% of our revenues for such year. As a result, each year a significant portion of our revenues is derived from a small number of customers. The following table sets forth our principal customers in 2014, 2015 and 2016:

	Percentage of Revenues		
	2014	2015	2016
Israel Aerospace Industries	11%	24 %	20 %
Ministry of Defense	6 %	9 %	17 %
RAFAEL	3 %	7 %	16 %
Embraer S.A.	16%	10 %	13 %
Hindustan Aeronautics Ltd	23%	13 %	11 %
Lockheed Martin Corporation	14%	8 %	6 %

Although we continually strive to increase the number of our customers, we anticipate that a significant portion of our future revenues will continue to be derived from a small number of customers. Because of our dependency on a small number of customers and on government contracts, we are subject to business risks, including changes in governmental appropriations and changes in national defense policies and priorities. Although many of the programs in which we participate as a contractor or subcontractor may extend for several years, our business is dependent upon annual appropriations and funding of new and existing contracts. Most of the contracts are subject to termination for the convenience of the customer, pursuant to which the customer pays only for reimbursement of costs incurred and the applicable profit on work performed. The Israeli government or any other government may discontinue funding purchases of our products over the long term.

Geographical Markets

We sell our products to various air forces and companies worldwide. The following table presents our revenues by geographical markets for the periods indicated:

	2014	2015	2016
Israel	23 %	43 %	57 %
South and Latin America	13 %	11 %	10 %
Asia	27 %	20 %	19 %
North America	37 %	25 %	13 %
Europe	0 %	1 %	1 %

Competition

The markets for our products are highly competitive. Our principal competitors include Elbit Systems Ltd., United Technologies Aerospace Systems, Honeywell International Inc., IAI, Northrop Grumman Corporation, Sagem Avionics LLC., Thales Group, Zodiac Aerospace Group and SRC Inc. We expect to continue to face competition from these and other competitors. Currently, all of our competitors are larger and have substantially greater resources than us, including financial, technological, marketing and distribution capabilities, and enjoy greater market recognition than we do. These competitors may be able to achieve greater economies of scale and may be less vulnerable to price competition than us. We may not be able to offer our products as part of integrated systems to the same extent as our competitors or successfully develop or introduce new products that are more cost effective or offer better performance than those of our competitors. Failure to do so could adversely affect our business, financial condition and results of operations.

20

Government Regulations

Israel's defense export policy regulates the sales of our systems and products. Current Israeli policy encourages export to approved customers of defense systems and products, such as ours, as long as the export is consistent with Israeli government policy.

A license is required to initiate marketing activities. We are also required to obtain a specific export license for any hardware exported from Israel. We are regulated by an Israeli law regulating export of "dual use" items (items that are typically sold in the commercial market, but that also may be used in the defense market) and the Defense Export Control Law and its supplemental regulations. Those laws and regulations govern the enforcement of export control and defined certain new areas of licensing, particularly with respect to transfer of technology. It is not certain that we will receive all the required permits and licenses for which we may apply in the future. Our participation in governmental procurement processes in Israel and other countries is subject to specific regulations governing the process of procuring defense contracts. Furthermore, solicitations for procurements by governmental purchasing agencies in Israel and other countries are governed by laws, regulations and procedures relating to procurement integrity, including avoiding conflicts of interest and corruption in the procurement process.

In addition, antitrust laws and regulations in Israel and other countries often require governmental approvals for transactions that are considered to limit competition. Such transactions may include cooperative agreements for specific programs or areas, as well as mergers and acquisitions.

Proprietary Information

We generally do not consider patent protection significant to our current operations and rely upon a combination of security devices, trade secret laws and contractual restrictions to protect our rights in our products. Our policy is to require employees and consultants to execute confidentiality agreements upon the commencement of their relationships with us. These measures may not be adequate to protect our technology from third-party infringement, and our competitors might independently develop technologies that are substantially equivalent or superior to ours. Additionally, our products may be sold in foreign countries that provide less protection for intellectual property rights than that provided under U.S. or Israeli laws.

The Israeli government usually retains certain rights in technologies and inventions resulting from our performance as a prime contractor or subcontractor under Israeli government contracts and may generally disclose such information to third parties, including other defense contractors. When the Israeli government funds research and development, it may acquire rights to proprietary data and title to inventions; we may retain a non-exclusive, royalty-free license for such inventions. However, if the Israeli government purchases only the end product, we may retain the principal rights and the government may use the data and take an irrevocable, non-exclusive, royalty-free license.

Manufacturing and Quality Management

Our production plant is located in Beit She'an, Israel. The plant is equipped to handle most of our manufacturing processes and testing requirements. For a few specific processes we utilize outsourced resources. This structure allows us flexibility and versatility.

We place great emphasis on quality control in our production processes. Commencing with customer requirements and expectations, via raw material inspection through completion, specifications are repeatedly checked. We maintain a quality assurance team that participates in every stage of the design and manufacturing of the products. Our quality management system is certified by the Standards Institute of Israel, or SII, pursuant to ISO 9001:2008 for hardware design and production and ISO 90003:2004 for software design. SII performs quality system audits twice a year and various customers perform audits four to six times a year. Our environmental management system is certified by SII to ISO 14001:2004. Our quality management system is also certified according to AS-9100C, a quality management

system for aerospace requirements.

According to the standard warranty incorporated in most of our sales contracts, we warrant that our products will be free from defects in design, materials or workmanship, and guarantee repair or replacement of defective parts typically for periods between one to two years following delivery of a product to a customer. We also provide maintenance services to customers who sign maintenance contracts.

Source and Availability of Raw Materials

We acquire most of the components for the manufacturing of our products from suppliers and subcontractors, most of whom are located in Israel and the United States. Some of these suppliers are currently the sole source of one or more components upon which we are dependent. Since many of our purchases require long lead-times, a delay in supply of an item can significantly delay the delivery of a product. To date, we have not experienced any particular difficulties in obtaining timely deliveries of necessary components. We depend on a limited number of suppliers of components for our products and if we are unable to obtain these components when needed, we would experience delays in manufacturing our products and our financial results could be adversely affected.

C. Organizational Structure

We own 80% interest in CACS, a company based in China that is engaged in aircraft repair services. In 2010, we and our local partner in China, Tianzhu Forest Development Co., or Tianzhu, agreed that Tianzhu would divest its 20% interest and CACS would become a wholly-owned subsidiary, but the necessary approvals for such sale have never been obtained. Recently, we resolved to pursue a sale of our interest in our CACS subsidiary. The results presented in this annual report were adjusted to present CACS' results in a separate line as "Discontinued Operations".

D. Property, Plants and Equipment

We own a 30,000 square feet industrial building in Beit She'an, Israel. The building, which includes manufacturing facilities and warehouse space, is situated on land leased from the Israel Land Authority for a period of 49 years ending in 2034. The plant has sufficient capacity to meet our current requirements.

Our executive offices and research and development facilities are located in a 17,782 square feet office facility in Netanya, Israel. The lease for this facility expires in January 2022. The aggregate annual rent for our offices in Israel was approximately $320,000 in 2016.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion of our results of operations should be read together with our consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Overview

We develop, manufacture and sell defense electronics including military avionics systems for manned and unmanned aircraft, inertial navigation systems, and tactical land radars for force and border protection applications. We sell and

support our commercial aviation electronic products and services, mainly through CACS, our 80% -owned Chinese subsidiary. Recently, we resolved to pursue a sale of our interest in our CACS subsidiary. The results presented in this annual report were adjusted to present CACS' results in a separate line as "Discontinued Operations".

General

Our consolidated financial statements appearing in this annual report are prepared in dollars and in accordance with U.S. GAAP. Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into dollars in accordance with the principles set forth in the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC 830. The majority of our sales are made outside of Israel and a substantial part of them are in dollars. In addition, a substantial portion of our costs are incurred in dollars. Since the dollar is the primary currency of the economic environment in which we operate, the dollar is our functional and reporting currency and, accordingly, monetary accounts maintained in currencies other than the dollar are remeasured using the foreign exchange rate at the balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the exchange rate in effect at the date of the transaction. All monetary balance sheet accounts have been remeasured using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been remeasured using the average exchange rate for the period. The financial statements of our foreign subsidiary, whose functional currency is not the dollar, have been translated into dollars. All balance sheet amounts have been translated using the exchange rates in effect at balance sheet date. Statement of operation amounts have been translated using the average exchange rate prevailing during the year. Such translation adjustments are reported as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Discussion of Critical Accounting Policies and Estimations

Our critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the notes to our consolidated financial statements. These policies have been consistently applied in all material respects. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, we believe the estimates and judgments associated with the reported amounts are appropriate under the circumstances. We believe the following accounting policies are the most critical in fully understanding and evaluating our financial condition and results of our operations under U.S. GAAP.

Revenue Recognition. Our revenues are mainly derived from sales of defense electronics (solid-state recorders, computers, radars, etc.) and their supporting ground systems (automated testers, data debriefing stations). Product revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product to the customer has occurred and the collection of the fee is probable. If the product requires specific customer acceptance, revenue is deferred until customer acceptance occurs or the acceptance provisions lapse, unless we can objectively and reliably demonstrate that the criteria specified in the acceptance provisions are satisfied.

Revenues from long-term fixed price contracts are recognized by the percentage-of-completion method in accordance with the "input method." We apply this method when the total of the costs and revenues of the contract can reasonably be estimated. The percentage of completion is determined based on the ratio of actual costs incurred to total costs estimated to be incurred over the duration of the contract. With regard to contracts for which a loss is anticipated, a provision is made for the entire amount of the estimated loss at the time such loss becomes evident. Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit or loss are recorded in results of operations when they are reasonably determined by management, on a cumulative catch-up basis. Revenues under long-term fixed-price contracts that involve both development and production are recorded using the cost-to-cost method (development phase) and units-of-delivery method (production phase) as applicable to each phase of the contract, as the basis to measure progress toward completion.

We also generate revenues from repair services using our automated test equipment, mainly through CACS (now classified as a discontinued operation). Revenues from services are recognized when the service is performed.

Impairment of Long-Lived Assets. We are required to assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of our assets based on a number of factors, including any significant changes in the manner of our use of the respective assets or the strategy of our overall business and significant negative industry or economic trends. Upon determination that the carrying value of a long-lived asset may not be recoverable, based upon a comparison of expected undiscounted future cash flows to the carrying amount of the asset, an impairment charge is recorded in the amount of the carrying value of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2016 and 2015, no impairment losses have been identified

Accounting for income taxes. On January 1, 2007, we adopted FASB ASC 740-10 "Income Taxes," which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740-10. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement ASC 740-10. We provided a valuation allowance in respect to the deferred tax assets resulting from operating loss carryforwards and other temporary differences. Our management currently believes that since our company has a history of losses, it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary differences will not be realized in the foreseeable future.

Inventory valuation. The majority of our inventory consists of work in progress, raw materials and components. Inventories are valued at the lower of cost or market. Cost of finished goods is determined on the basis of direct manufacturing costs plus allocable indirect costs representing allocable operating overhead expenses and manufacturing costs. Raw material is valued using the “FIFO” method. We assess the valuation of our inventory on a quarterly basis and periodically write down the value for different finished goods and raw material items based on their potential utilization. If we consider specific inventory to be damaged, we write such inventory down to zero. Inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, and excess inventories. The process for evaluating these write-offs often requires us to make subjective judgments and estimates concerning the future utilization of the inventory items. Inventory write-offs were $144,000, $153,000 and $138,000 as of December 31, 2016, 2015 and 2014, respectively.

Allowance for doubtful accounts. Our trade receivables are derived from sales to customers all over the world. We perform ongoing credit evaluations of our customers. In certain circumstances, we may require letters of credit or prepayments. We maintain an allowance for doubtful accounts for estimated losses from the inability of our customers to make required payments that we have determined to be doubtful of collection. We determine the adequacy of this allowance by regularly reviewing our accounts receivable and evaluating individual customers’ receivables, considering customers’ financial condition, credit history and other current economic conditions. If a customer’s financial condition were to deteriorate which might impact its ability to make payment, then additional allowances may be required. Provisions for doubtful accounts are recorded in general and administrative expenses. Our allowance for doubtful accounts was $14,000, $2,000, $16,000 as of December 31, 2016, 2015 and 2014, respectively.

We account for stock-based compensation in accordance with the provisions of ASC 718, “Compensation - Stock Compensation”. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. We estimate the fair value of stock options granted using the Black-Scholes-Merton option-pricing model.

The fair value of an award is affected by our stock price on the date of grant and other assumptions, including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. Share-based compensation expense recognized in our consolidated statements of operations was reduced for estimated forfeitures.

Discontinued Operations. Under ASC 205, "Presentation of Financial Statements - Discontinued Operation" when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its component are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations; that is, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the company's consolidated operations and the company will have no significant continuing involvement in the operations of the component. Subsequent to our determination to sell our interest in CACS, CACS’ results are accounted as discontinued operation and appear in this annual report in a separate line item as “Discontinued Operations”.

Explanation of Key Income Statement Items

Revenues. Our revenues are mainly derived from sales of defense electronics and their supporting ground systems.

Cost of Revenues. Cost of revenues consists primarily of salaries, raw materials, subcontractor expenses, related depreciation costs, inventories write-downs and overhead allocated to cost of revenues activities.

Marketing and Selling Expenses Marketing and selling expenses consist primarily of salaries for marketing and business development personnel, marketing activities, public relations, promotional materials, travel expenses, trade show exhibit expenses, and success fees to business development consultants.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, legal, administrative personnel, professional fees, provisions for doubtful accounts and other general corporate expenses.

Research and Development Expenses, net. Research and development expenses consist primarily of salaries for research and development personnel, use of subcontractors and other costs incurred in the process of developing product prototypes.

Financial Expenses, Net. Financial expenses consist of interest and bank expenses, interest on convertible note and loans, amortization expenses of discount on convertible note, deferred charges and currency remeasurement losses. Financial income consists of interest on cash and cash equivalent balances and currency remeasurement gains.

Results of Operations

The following table presents certain financial data expressed as a percentage of total revenues for the periods indicated:

	Year Ended December 31,		
	2014	2015	2016
Revenues	100 %	100 %	100 %
Cost of revenues	70.7 %	82.9 %	88.7 %
Gross profit	29.3 %	17.1 %	11.3 %
Research and development, net	3.6 %	4.9 %	5.9 %
Marketing and selling	11.1 %	16.7 %	17.7 %
General and administrative	7.7 %	14.9 %	14.1 %
Operating income (loss)	6.9 %	(19.5)%	(26.5)%
Financial expenses, net	(5.8)%	(25.4)%	(11.9)%
Net income (loss) from continuing operations	1.1 %	(44.9)%	(38.4)%
Net income (loss) from discontinued operations	(0.17)%	(1.3)%	0.1 %
Net income (loss	0.93 %	(46.2)%	(38.3)%
Net income (loss) attributable to non-controlling interest	(0.0)%	(0.2)%	0.0 %
Net income (loss) attributable to RADA Electronic Industries' shareholders	0.9 %	(45.9)%	(38.3)%

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Revenues. Our revenues decreased by 9% to $12.8 million in 2016 from $14.1 million in 2015 mainly due to delays in securing expected contracts that were delayed to later dates.

Cost of Revenues. Cost of revenues decreased by 2% to $11.4 million in 2016 from $11.7 million in 2015. The decrease in our cost of revenues is attributable to the reduction in sales .

Gross Profit. Our gross profit decreased by 40% to $1.4 million in 2016 from $2.4 million in 2015. Our gross profit margin was approximately 11.2% in 2016 and 17% in 2015. The decrease in our gross profit and gross profit margin in 2016 was mainly attributable to the decrease in revenues and the relatively lower decrease in cost of revenues.

Research and Development Expenses, Net. Our research and development expenses increased by 9.4% to $758,000 in 2016 from $693,000 in 2015. The relatively low level of expenditures in both 2016 and 2015 reflects maturation of our radar products.. We expect that our research and development expenses in 2017 will remain similar to those we incurred in 2016 and we will sustain a base level of development for our existing products, as well as developing new applications for our products.

Marketing and Selling Expenses. Marketing and selling expenses decreased by 4% to approximately $2.27 million in 2016 from $2.36 million in 2015. We maintained a similar level of marketing and selling expenses primarily due to our efforts to sell our new radar products, mainly reflected in the costs incurred as part of our participation in field demonstrations requested by our potential customers.

General and Administrative Expenses. General and administrative expenses decreased by 14% to approximately $1.8 million in 2016 from $2.1 million in 2015. Our general and administrative expenses in 2015 include a $0.6 million charge due to goodwill impairment. We expect that in 2017 our general and administrative expenses will remain similar to those we incurred in 2016.

Financial Expenses, Net. Our financial expenses, net, decreased by 57% to $1.5 million in 2016 compared to $3.6 million in 2015. Our non-cash financial expense resulting from the amortization of the discount on a convertible note and loans from shareholders was $1,116,000 in 2016 compared to $2,684,000 in 2015. Our interest expense, net, was $270,000 in 2016 compared to $575,000 in 2015. We expect that in 2017 our financial expenses will decrease in comparison to those we incurred in 2016 as our current convertible loan does have a beneficial conversion feature.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

Revenues. Our revenues decreased by 35% to $14.1 million in 2015 from $21.6 million in 2014 mainly due to delays in securing expected contracts that were delayed to later dates.

Cost of Revenues. Cost of revenues decreased by 24% to $11.7 million in 2015 from $15.3 million in 2014. The decrease in our cost of revenues is attributable to the reduction in sales and the significant reduction of low margin programs in 2015 compared to 2014. Cost of revenues as a percentage of sales increased to 82.8% from 70.6% in 2014 due to the large reduction in overall sales.

Gross Profit. Our gross profit decreased by 62% to $2.4 million in 2015 from $6.3 million in 2014. Our gross profit margin was approximately 17% in 2015 and 29% in 2014. The decrease in our gross profit and gross profit margin in 2015 was mainly attributable to the decrease in revenues and the relatively lower decrease in cost of revenues.

Research and Development Expenses, Net. Our research and development expenses, net, decreased by 12% to approximately $0.7 million in 2015 from $0.8 million in 2014. Our research and development expenses decreased as the result of the maturation of our radar products.

Marketing and Selling Expenses. Marketing and selling expenses decreased by 1% to approximately $2.36 million in 2015 from $2.4 million in 2014. We have maintained a similar level of marketing and selling expenses primarily due to our efforts to sell our new radar products, mainly reflected in the costs incurred as part of our participation in field demonstrations requested by potential customers.

General and Administrative Expenses. General and administrative expenses increased by 26% to approximately $2.1 million in 2015 from $1.7 million in 2014. Our general and administrative expenses in 2015 include an approximately $0.6 million charge due to goodwill impairment.

Financial Expenses, Net. Our financial expenses, net, increased by 185% to $3.6 million in 2015 compared to $1.2 million in 2014. Our non-cash expense resulting from the amortization of the discount on a convertible note and loans

from shareholders was $2,684,000 in 2015 compared to $43,000 in 2014. Our interest expense, net, was $575,000 in 2015 compared to $708,000 in 2014. Foreign currency exchange differences, net resulted in a loss of $30,000 in 2015 compared to loss of $63, 000 in 2014, primarily due to changes in the NIS/dollar exchange rate.

Our Location in Israel

We are incorporated under the laws of the State of Israel, and our principal executive offices and principal manufacture, research and development facilities are located in Israel. See Item 3D "Key Information – Risk Factors – Risks Relating to Our Location in Israel" for a description of governmental, economic, fiscal, monetary or political polices or factors that have materially affected or could materially affect our operations.

Corporate Tax Rate

Israeli companies were generally subject to corporate tax at a rate of 25% in 2016. In December 2016, the Israeli Parliament approved a measure whereby the corporate tax rate would be reduced in two stages from 25% to 23%, starting with a corporate income tax rate of 24% beginning in January 2017 which is to be reduced to 23% beginning in January 2018.

As of December 31, 2016, our net operating loss carry forward for Israeli tax purposes was approximately $71 million, including capital loss carry forwards of approximately $3.4 million.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. Israel is a member of the Organization for Economic Co-operation and Development, or the OECD, an international organization whose members are governments of mostly developed economies. The OECD's main goal is to promote policies that will improve the economic and social well-being of people around the world. In addition, Israel has been granted preferences under the Generalized System of Preferences from the U.S., Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Union Community, known as the "European Union," concluded a Free Trade Agreement in July 1975 that confers some advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the U.S. entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as the "EFTA," established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which includes a redefinition of rules of origin and other improvements, such as allowing Israel to become a member of the Research and Technology programs of the European Union. Israel has established commercial and trade relations with other nations, including Russia, China, India, Turkey and other nations in Eastern Europe and the Asia-Pacific region.

Impact of Currency Fluctuation and of Inflation

A significant portion of the cost of our Israeli operations, primarily personnel and facility-related, is incurred in NIS. Therefore, our NIS related costs, as expressed in dollars, are influenced by the exchange rate between the dollar and the NIS. In addition, if the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the dollar, or if the timing of such devaluations were to lag considerably behind inflation, our cost as expressed in dollars may increase. NIS linked balance sheet items, may also create foreign exchange gains or losses, depending upon the relative dollar values of the NIS at the beginning and end of the reporting period, affecting our net income and earnings per share. Although we may use hedging techniques, we may not be able to eliminate the effects of currency fluctuations. Therefore, exchange rate fluctuations could have a material adverse impact on our operating results and share price. The caption "Financial expenses, net" in our consolidated financial statements includes the impact of these factors as well as traditional interest income or expense. See Note 14 to our consolidated financial statements.

28

The following table sets forth, for the periods indicated, (i) depreciation or appreciation of the NIS against the most important currency for our business, the dollar, until December 31 each year and the year before, and (ii) inflation as reflected in changes in the Israeli consumer price index.

	Year Ended December 31,				
	2012	2013	2014	2015	2016
NIS vs. U.S. Dollar	(2.3)%	(7.0)%	12 %	0.3 %	(1.5)%
Israeli Consumer Price Index	1.6 %	1.8 %	(0.2)%	(1)%	(0.2)%

Since exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on our profitability and period-to-period comparisons of our results. We cannot assure you that in the future our results of operations may not be materially adversely affected by currency fluctuations

Recently Issued Accounting Standards

ASU 2014-15 - Presentation of Financial Statements - Going Concern (Subtopic 205-40):

In August 2014, the FASB issued guidance on disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15), which defines management's responsibility to evaluate whether there is substantial doubt about a company's ability to continue as a going concern. ASU 2014-15 also provide principles and definitions that are intended to reduce diversity in the timing and content of disclosures in the financial statement footnotes. This guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. we adopted the provisions of ASU 2014-15 for the year ended December 31, 2016. The adoption of ASU 2014-15 did not have a material impact on the consolidated financial statements.

ASU 2016-09 - Compensation - Stock Compensation (Topic 718):

In March 2016, the FASB issued guidance on improvements to Employee Share-Based Payments. The standard requires among others that excess tax benefits or deficiencies for share-based payments be recorded as income tax benefit of expense, rather then within additional paid in capital, in the period the shares vest. Cash flows related to excess tax benefits will be included in operating activities instead of separately classified as a financing activity. The new guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. We do not expect this guidance to have a material effect on its consolidated financial statements at the time of adoption of this standard.

ASU 2016-18 - Statement of Cash Flows (Topic 230):

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The ASU requires that the Consolidated Statement of Cash Flows explain the change in total cash and equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. The ASU also requires a reconciliation between the total of cash and equivalents and restricted cash presented on the Consolidated Statement of Cash Flows and the cash and equivalents balance presented on the Consolidated Balance Sheet. ASU 2016-18 is effective retrospectively on January 1, 2018, with early adoption permitted. We are currently evaluating the potential effect of the guidance on its consolidated financial statements.

ASU 2016-02 - Leases (Topic 842):

In February 2016, the FASB issued guidance on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e, lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. Topic 842 supersedes the previous leases standard, ASC 840, "Leases". The guidance is effective for the interim and annual periods beginning on or after December 15, 2018 (early adoption is permitted). We are currently evaluating the potential effect of the guidance on its consolidated financial statements.

ASU 2015-11 - Inventory (Topic 330):

In July 2015, the FASB issued guidance on current accounting for inventory measurement. The new guidance requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is defined by the guidance as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is permitted). We do not expect this guidance to have a material effect on its consolidated financial statements at the time of adoption of this standard.

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606):

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606), which will replace existing requirements in U.S. GAAP, including industry-specific requirements, significantly expand the disclosure requirements and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. ASU 2014-09 also provides for additional disclosure requirements. The FASB has recently issued several amendments to the new standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. The amendments include ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606)-Principal versus Agent Considerations", which was issued in March 2016, and clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing", which was issued in April 2016, and amends the guidance in ASU No. 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property.

The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. While ASU 2014-09 was to be effective for annual periods and interim periods beginning after December 15, 2016, on July 9, 2015, the FASB approved the deferral of the effective date to periods beginning on or after December 15, 2017.

Accordingly, the Company intends to adopt ASU 2014-09 on January 1, 2018 and continues to deliberate the selection of the transition method. The Company has made progress toward completing the evaluation of the potential changes from adopting the new standard in its financial reporting and disclosures. The Company expects to predominantly complete the contract evaluation and validate the impact of the accounting and disclosure changes on its business processes, controls and systems during the first half of 2017, design any changes to such business processes, controls and systems by the middle of 2017, and implement the changes over the remainder of 2017.

30

The adoption of the new standard may primarily impact the Company's contracts where revenue is currently recognized using the percentage-of-completion units-of-delivery method, with the possible resulting impact being revenue which may be recognized earlier in the performance period as it incur costs, as opposed to when units are delivered. This change may also impact the Company's balance sheet presentation with a possible decrease in inventories, an increase in contract assets (i.e., unbilled receivables) and a net increase to retained earnings to primarily reflect the impact of converting units-of-delivery contracts to the cost-to-cost method for recognizing revenue and profits.

ASU 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued guidance on the classification of Certain Cash Receipts and Cash Payments which intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the Consolidated Statement of Cash Flows by providing guidance on eight specific cash flow issues. ASU 2016-15 is effective retrospectively on January 1, 2018, with early adoption permitted. We are currently evaluating the potential effect of the guidance on its consolidated cash flow statement.

B. Liquidity and Capital Resources

We have historically met our financial requirements primarily through cash generated by operations, funds generated by our public offering in 1985, private placements of our ordinary shares and debt securities, loans from our principal shareholders, short-term loans and credit facilities from banks (most recently Bank Leumi Le-Israel B.M. and the Israeli branch of State Bank of India, or the Banks), research and development grants from the government of Israel and the Israel-U.S. Binational Industrial Research and Development Foundation, investment grants for approved enterprise programs and marketing grants from the government of Israel.

We had working capital of $11.1 million as of December 31, 2016 compared with a working capital of $6.5 million at December 31, 2015. Cash and cash equivalents amounted to $1.2 million as of December 31, 2016 compared to $0.7 million as of December 31, 2015. Short-term and long-term bank deposits and restricted bank deposits amounted to $0.32 million as of December 31, 2016 compared to $0.68 million as of December 31, 2015.

As of December 31, 2016, we had $0.6 million of secured borrowing with a bank against specific accounts receivable. In addition, the Banks provided $0.6 million of guarantees on our behalf, mainly to our customers and suppliers in the ordinary course of business. The guarantees are secured by a first priority floating charge on all of our assets and by a fixed charge on our property in Beit She'an, unpaid share capital and insurance rights (rights to proceeds on insured assets in the event of loss). Our agreements with the Banks prohibit us from: (i) selling or otherwise transferring any assets except in the ordinary course of business; (ii) placing a lien on our assets without the Banks' consent; or (iii) declaring dividends to our shareholders.

In April 2014, we borrowed $1.0 million from Faith Content Development Limited, or FCD, a company controlled by Mr. Yeung, who was at the time our controlling shareholder, in order to facilitate further development of our INS technology and for working capital. This loan carried interest at LIBOR + 3.5% payable at the beginning of every quarter and the principal was due on January 31, 2015. Due to our cash flow and working capital difficulties, we were not able to timely and fully make the repayment of interest and principal amounts to FCD for this loan and previous loans from FCD and Mr. Ben Zion Gruber, our director. As a result we were required to pay the default interest on account of all such loans, which were subject to acceleration. However, we entered into a standstill agreement with our lenders, according to which, except in extraordinary circumstances, no action was to be taken to accelerate the loans or to exercise their rights prior to January 31, 2014. On April 2014 and June 2015, the standstill agreement was amended and the forbearance period pursuant to such agreement was extended until August 31, 2016. Pursuant to an amendment of the standstill agreement, as of and after February 1, 2015 the default interest on all outstanding principal amounts was Libor + 9%.

On July 30, 2015, we completed a public offering of 3,455,284 ordinary shares, offered at a price to the public of $2.46 per share. We received gross proceeds of $8.5 million before deducting underwriting discounts and commissions and other offering expenses. Issuance costs amounted to approximately $1.07 million.As of December 31, 2015 the remaining principal amount of the debt owed under the Standstill Agreement was $3.09 million.

On May 15, 2016, our shareholders approved the sale to DBSI of 8,510,638 of our ordinary shares in consideration for approximately $4 million, reflecting a price per share of $0.47. In addition, we issued to DBSI warrants to purchase: (i) an additional 4,255,319 ordinary shares at an exercise price per share of $0.47 (resulting in an aggregate exercise price of $2 million), exercisable for a period of 24 months following the date of the initial investment and (ii) warrants to purchase an additional 3,636,363 shares at an exercise price per share of $0.55 (resulting in an aggregate exercise price of $2 million), exercisable for a period of 48 months following the date of the initial investment.

DBSI also granted the company an option, exercisable by either us or DBSI, for us to obtain a three -year loan in the principal amount of up to $3.175 million solely for the purpose of the repayment of the outstanding shareholders' debt. We exercised such option in June 2016 and used the funds to fully repay our outstanding shareholders' debt.

During the term of the loan which has a three -year term, DBSI has the right, but not the obligation, at its sole discretion, to convert the then remaining convertible loan amount into ordinary shares at a price per share equal to the lower of: (i) $2.40, or (ii) a five percent (5%) discount to the FMV (the average of the closing prices of our Ordinary Shares over the 5 consecutive trading days ending on the last trading day prior to the date of conversion), but in no event less than $0.47. These additional issuances would substantially dilute the ownership interests and voting rights of our shareholders.

In connection with the DBSI transaction, we issued warrants to purchase 255,319 ordinary shares to each of Legos Advisors Ltd. and Mr. Avi Geffen as commission and finder’s fees.

On November 15, 2016, we completed a $2 million directed registered offering of 1,904,762 ordinary shares at a price per share of $1.05 to The Phoenix Insurance Company Ltd. and its affiliate, Shotfut-Menayot-Israel-HaPhoenix Amitim Ltd. At the same time, DBSI invested an additional $1 million in our company through the exercise of 2,127,660 warrants.

On August 29, 2016, DBSI exercised warrants to purchase 531,915 ordinary shares at an exercise price per share of $0.47 resulting in proceeds of $0.25 million to our company,

On January 17, 2017 DBSI exercised warrants to purchase 531,915 ordinary shares at an exercise price per share of $0.47 resulting in proceeds of $0.25 million to our company.

On May 15, 2016, our shareholders approved a NIS 675,000 increase to our share capital. Following the increase, our authorized share capital is NIS 1,125,000 divided into 37,500,000 ordinary shares, par value NIS 0.030 each (as adjusted to reflect the one share for two shares reverse share split effected in September 2016).

On September 13, 2016 we effected a one share for two shares reverse share split in order to meet the minimum market price requirements of the NASDAQ. All historical share amounts have been adjusted in this annual report to reflect that reverse split.

We made capital expenditures of $0.41 million in the year ended December 31, 2016, primarily for machinery and equipment. We currently do not have any significant capital spending or purchase commitments.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2014	2015	2016
	(U.S. dollars in thousands)		
Net cash provided by (used in) operating activities from continuing operations	184	(3,018)	(4,919)
Net cash provided by (used in) investing activities from continuing operations	98	(370)	(44)
Net cash provided by (used in) financing activities from continuing operations	(528)	3,227	5,442
Net cash provided by (used in) operating activities from discontinued operations	(62)	253	298
Net cash used in investing activities from discontinued operations	(32)	(8)	(34)
Net cash provided by (used in) financing activities from discontinued operations	-	-	-
Effect of exchange rate changes on cash and cash equivalents	(11)	(116)	(133)
Increase (decrease) in cash and cash equivalents	(351)	(32)	610
Cash and cash equivalents at beginning of the year	2,137	1,786	1,754
Cash and cash equivalents at end of the year	1,786	1,754	2,364
Less cash and cash equivalents of discontinued operation at the end of the year	1,075	1,020	1,159
	711	734	1,205

Continuing Operation:

Net cash used in operating activities was $4,919,000 in 2016. This was primarily due to our loss in 2016 and increase in inventories of $1,503,000, an increase in trade receivables of $1,360,000 This was offset by a decrease in costs and estimated earnings in excess of billings of $403,000,.Net cash used in operating activities was $3,018,000 in 2015. This was primarily due to our loss in 2015 and a decrease in other accounts payables and accrued expenses of $1,437,000, an increase in trade receivables of $607,000, and increase in inventories of $499,000. This was offset by a decrease in costs and estimated earnings in excess of billings of $1,467,000, an increase in trade payables of $602,000 and a decrease in other accounts receivable and prepaid expenses of $81,000. Net cash provided by operating activities was $184,000 in 2014. This was primarily due to a decrease in trade receivables of $1,583,000, depreciation and amortization of $575,000 and a decrease in inventories of $153,000. This was offset by an increase in costs and estimated earnings in excess of billings of $599,000, decrease in trade payables of $1,598,000 and a decrease in other payables of $172,000.

Net cash used in investing activities was approximately $44,000 in 2016, primarily due to change in restricted deposits, net of $356,000 which was offset by the investment of $411,000 in property, plant and equipment. Net cash used in investing activities was approximately $370,000 in 2015, primarily due to a change in restricted deposits of $6, which was offset by the investment of $366,000 in property, plant and equipment. Net cash provided by investing activities was approximately $98,000 in 2014, primarily due to a change in restricted deposits of $392,000 and offset by investment of $296,000 in property, plant and equipment.

Net cash provided by financing activities was $5,442,000 in 2016, reflecting net proceeds of $7,096,000 mainly from our transactions with DBSI and The Phoenix Insurance Company Ltd. and its affiliate, the net repayment of $2,988,000 of shareholders loans and a decrease in short-term bank credit of $1,841,000. Net cash provided by financing activities was $3,227,000 in 2015, reflecting the issuance of ordinary shares in a public offering that provided us with net proceeds of $7,430,000, the net repayment of $5,030,000 of shareholders loans and an increase in short-term bank credit of $827,000. Net cash used in financing activities was $528,000 in 2014, reflecting net repayment of $230,000 from a shareholder loans transaction and a decrease in short-term bank credit of $298,000

Discontinued Operation:

Net cash provided by operating activities from discontinued operations was $298,000 in 2016. This was primarily due to a decrease in inventories of $29,000 and decrease in trade receivables of $148,000. This was offset by an increase in trade payables of $44,000. Net cash provided by operating activities from discontinued operations was $253,000 in 2015. This was primarily due to depreciation of $ 101,000. Net cash used in operating activities from discontinued operations was $62,000 in 2014. This was primarily due to an increase in trade receivables of $148,000, and an increase in inventories of $43,000. This was offset by depreciation of $116,000

Net cash used in investing activities from discontinued operations was approximately $34,000 in 2016, due to investment of $34,000 in property, plant and equipment. Net cash used in investing activities from discontinued operations was approximately $8,000 in 2015, due to investment of $8,000 in property, plant and equipment. Net cash used in investing activities from discontinued operations was approximately $32,000 in 2014, due to investment of $32,000 in property, plant and equipment

As a result of the foregoing, at December 31, 2016, we had a working capital of $11,106,000 and cash and cash equivalents of $1,205,000 as compared to working capital of $6,522,000 and cash and cash equivalents of $734,000 at December 31, 2015.

We expect to fund our short-term liquidity needs in 2017, including our obligations under our credit facilities, other contractual agreements and any other working capital requirements, from our cash and cash equivalents, operating cash flow and our credit facilities. We project that our current cash and cash equivalents, credit facilities and our expected cash flow from operations, together with a commitment from our controlling shareholder to financially support us as needed, will be sufficient to meet our cash requirements at least through april 2018.

C. Research and Development, Patents and Licenses

Research and Development

Our research and development investments focus on improvements to our existing products and the development of complementary products that would provide continued support for our current customers and would improve our capability to market our products to new customers. In 2016, 2015 and 2014 we incurred $0.8 million, $0.7 million and $0.8 million, respectively, of research and development expenses, net. The vast majority of these expenses are attributable to the development of our radars. In 2017, we intend to continue to invest in the research and development of new products. As of December 31, 2016, we employed 35 engineers (including 2 sub-contractors) in research and development who concentrate mainly on research and development activities generated through customer orders and to a lesser extent on internal research and development activities.

The Israel Innovation Authority ("IIA") encourages research and development by providing grants to Israeli companies, pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, as amended. The terms of such grants prohibit the manufacture of the developed products outside of Israel and the transfer of technologies developed using the grants to any person without the prior written consent of the IIA. During 2012, 2011 we developed a new radar sensor for APS, partly financed by the IIA. In 2013 and 2012, we received royalty bearing grants of $15,000 and $142,000, respectively, from the IIA. Pursuant to applicable Israeli law, we are currently required to pay royalties at the rate of 3-5% of sales of products developed with certain grants received from the IIA, up to 100% of the amount of such grants, adjusted by the exchange rate with the dollar. As of December 31, 2016, our total obligation for royalty payments, net of royalties paid or accrued was approximately $1.5 million.

We were committed to pay royalties to the Israel - United States Binational Industrial Research and Development Foundation (BIRD) at the rate of 5% of the sales proceeds up to 150% of the research and development expenses financed by the foundation. Since the company had stated to BIRD that no revenues were generated from the funded

projects, the foundation had agreed no royalties are due until future revenues, if any.

D. Trend Information

In 2016, our revenues decreased by approximately 9% compared to our revenues in 2015. We expect that in 2017 our revenues will be increase significantly compared to 2016.

Our future revenues will, in great measure, be dependent upon the success of our sales and marketing strategy. We are currently focusing our sales efforts on:

·Military Avionics & INS; and

·Tactical radar systems for force and border protection solutions.

We cannot provide any assurances that we will be successful in meeting our targets in the future. As a result of the unpredictable business environment in which we operate, we are unable to provide any specific guidance as to sales and profitability trends. If we are unsuccessful in our sales efforts, it is unlikely that we will be able to achieve profitability in the future and we will require additional capital

E. Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements. In addition, we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our minimum contractual obligations and commercial commitments, as of December 31, 2016 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Long-term debt obligations	$3,226,000	$32,000	$3,194,000	-	-
Operating lease obligations	768,000	598,000	170,000	-	-
Total	$3,994,000	$630,000	$3,364,000	-	-

In addition, we have long-term liabilities for severance pay for certain employees that are calculated pursuant to Israeli law generally based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Under Israeli law, employees are entitled to one month's salary for each year of employment or a portion thereof upon termination of employment in certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. As of December 31, 2016 our severance pay liability was $644,000.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Set forth below are the name, age, principal position and a biographical description of each of our directors and executive officers:

Name	Age	Position
Yossi Ben Shalom[2]	60	Executive Chairman of the Board of Directors
Herzle Bodinger	74	Director
Nir Cohen	44	Director
Dr. Alon Dumanis [1][2]	67	Director
Ben Zion Gruber	58	Director
Israel Livnat[2]	65	Director
Nurit Mor [1]	73	External Director
Elan Sigal [1][2]	49	External Director
Kineret Ya'ari	33	Director
Guy Zur	55	Director
Dov Sella	61	Chief Executive Officer
Shiri Lazarovich	42	Chief Financial Officer
Oleg Kiperman	63	Chief Technology Officer

(1) Member of the Audit and Compensation Committee
(2) Member of the Business Development Committee

Messrs. Yossi Ben Shalom, Herzle Bodinger, Nir Cohen, Israel Livnat, Mrs. Kineret Ya'ari and Mr. Guy Zur will serve as directors until our 2017 annual general meeting of shareholders. Messrs. Ben Zion Gruber and Alon Dumanis will serve as directors until our 2018 annual general meeting of shareholders. Ms. Mor and Mr. Sigal serve as our external directors and each currently holds office for three year terms until October 21, 2018 and August 30, 2019, respectively.

Yossi Ben Shalom was appointed as a director effective as of May 18, 2016 and has served as the Chairman of our Board of Directors since June 14, 2016. Mr. Ben-Shalom was Executive Vice President and Chief Financial Officer of Koor Industries Ltd. (KOR) from 1998 through to 2000. Before that, Mr. Ben-Shalom served as Chief Financial Officer of Tadiran Ltd. Mr. Ben-Shalom was an active director on numerous boards, including: NICE Systems (NICE), (computer telephony); Machteshim Agan (chemistry); and Investec Bank, among others. He also participated in the creation of TDA VC fund (a joint venture between Templeton and Tadiran) and was an active Chairman of Scopus – a technology company with sales of over $30 million. Yossi is a co-founder of DBSI Investments Ltd. As such, he currently serves as the Chairman of Pointer Telocation Ltd. (NASDAQ: PNTR) and Chairman of Shagrir Group Car Services Ltd. (TASE: SHGR). Mr. Ben-Shalom also serves as a director in several companies: Taldor Computer Systems (1986) Ltd.; Danel (Adir Joshua) Ltd.; D.B.S.I. Investments Ltd.; The 8 Note Production & Distribution Ltd.; Hatav Hashmini Hachadash 2000 Ltd.; Car 2 Go Ltd.; Matzman Et Merutz Milenum Ltd.; Kafrit Industries (1993) Ltd.; Ben Shalom Edna and Joseph (Holdings) Ltd.; Pulpit Rock Investments Ltd.; White Condor Holdings Ltd.; Ecommunity - Social Corporation For The Recycling Of Electronic Waste Ltd. Mr. Ben-Shalom holds a B.A. degree in Economics and an M.A. degree in Business Management from Tel Aviv University.

Herzle Bodinger served as the executive chairman of our board of directors from July 1998 until June 2016, and has since served as director. General (Res.) Bodinger first joined us in May 1997 as the chief executive officer of our U.S. subsidiary and was appointed our chief executive officer in June 1998. General Bodinger served as our chief executive officer from 1998 until 2001 and from June 2006 until July 2007. General Bodinger served as the Commander of the

Israeli Air Forces from January 1992 through July 1996. During the 35 years of his service in the Israeli Defense Forces, he also served as a fighter pilot while holding various command positions. General Bodinger holds a B.A. degree in Economics and Business Administration from the Bar-Ilan University and completed the 100th Advanced Management Program at Harvard University.

Nir Cohen has served as a director since May 18, 2016. Mr. Cohen serves as Chief Financial Officer of DBSI Investments Ltd. and of its affiliate – Shiraz DS Investments Ltd. As the CFO of both DBSI and Shiraz, Mr. Cohen serves as a director in several companies: Taldor Computer Systems (1986) Ltd.; Pointer Telocation Ltd. (NASDAQ: PNTR); Danel (Adir Joshua) Ltd.; Shagrir Group Vehicle Services Ltd.(TASE: SHGR). Until December 2016 Mr. Cohen had also served as a director in Altshuler Shaham Insurance Company Ltd.; Altshuler Shaham Investment Portfolio Management Ltd.; Altshuler Shaham Mutual Funds Management Ltd and in Altshuler Shaham Provident Funds and Pension Ltd.. Before joining DBSI Investments, Mr. Cohen served as partner and CFO of Argoquest Holdings, LLC, a privately held U.S.-based investment company specializing in high-tech investments. Prior to joining Argoquest, Mr. Cohen served as a senior associate at Kesselman & Kesselman, an Israeli affiliate of the global accounting firm PricewaterhouseCoopers (PwC). Before joining PwC, Mr. Cohen worked as an auditor for the accounting firm KPMG in Israel. Mr. Cohen holds a B.A. degree in Accounting and Business Management from the College of Management and is a Certified Public Accountant in Israel.

Dr. Alon Dumanis has served as one of our directors since September 2015. Until December 31, 2015, Dr. Dumanis acted as the Chief Executive Officer of Crecor B.V., Docor International B.V., Docor Levi Lassen I B.V., Docor Levi Lassen II B.V. and Docor International Management Ltd., all Dutch investment companies, subsidiaries of The Van-Leer Group Foundation, and currently Dr. Dumanis is a member of the management teams of the foregoing companies. Dr. Dumanis is a member of the board of directors of Nova Measuring Instruments (NASDAQ-NVMI) and Dr. Dumanis is currently a chairman of Aposense, a public company traded on TASE, Xsight System, Softlib, SPNano, Bondex, Clariton, DNR Imaging, and a member of the board of directors of other Hi Tech companies in Docor's investment portfolio. Dr. Dumanis is a former member of the board of directors of Tadiran Communications (a public company traded on TASE), of El Al Israel Airlines (a public company traded on TASE), of Protalix Biotherapeutics (a public company traded on the New York Stock Exchange), and a former member of the board of directors of Inventech Investments Co. Ltd. (a public company traded on TASE), Spectronix (a public company traded on TASE) and Ice Cure (a public company traded on TASE). Previously, Dr. Dumanis was the Head of the Material Command in the Israel Air Force at the rank of Brigadier General. Dr. Dumanis currently serves as chairman and member of several national steering committees and is the author of many papers published in a number of subject areas, including technology and management. Dr. Dumanis holds a Ph.D. in Aerospace Engineering from Purdue University, West Lafayette, Indiana, USA.

Ben Zion Gruber has served as a director since June 2002. Mr. Gruber is a founder and manager of several real estate and construction companies and an entrepreneur involved in several hi-tech companies. Mr. Gruber is a Colonel (Res.) of the IDF serving as Brigadier Commander of a tank battalion. Mr. Gruber is a member of the Board of Employment Service of the government of Israel. Mr. Gruber also serves on the board of directors of the Company for Development of Efrat Ltd., and the Association of Friends of Kefar Shaul Hospital. Mr. Gruber serves on the Ethics Committees of the Eitanim and Kefar Shaul Hospitals as well as a director of several other charitable organizations. Mr. Gruber holds a B.Sc. degree in Engineering of Microcomputers from "Lev" Technology Institute, an M.A. degree in Behavioral Sciences from Tel Aviv University and is currently studying for his Ph. D degree in Behavioral Sciences at the University of Middlesex, England. In addition, Mr. Gruber is a graduate of a summer course in Business Administration at Harvard University, as well as several other courses and training in management, finance and entrepreneurship.

Israel Livnat has served as a director since May 18, 2016. Mr. Livnat is the founder and Chairman of Anteo WW AG, which developed a software platform for physical-security, cyber-security safety and other business continuity applications. Mr. Livnat was the President of the Security Group at Nice Systems Ltd. from May 2006 until August 2011. Prior to joining NICE and since 2001, he served as the President and CEO of Elta Systems Ltd., the leading defense company in Israel for radar, signal intelligence and communication systems. Prior to his position with Elta, Mr. Livnat headed the MLM division of Israeli Aircraft Industries, leading the development of the Arrow weapons system, the Israeli Shavit satellite launcher and other airborne command and control systems. Before that he was VP Engineering of the MLM division and director for hardware engineering at Daisy Systems of Mountain View, California, a leading developer of hardware and software for large computer-embedded systems. Mr. Livnat holds a

B.Sc. degree and a M.Sc. degree in Electrical Engineering from the Technion-Israel Institute of Technology, and an Executive MBA degree from Stanford University, California. He was awarded the prestigious Israeli Industry Prize for 2004.

Nurit Mor has served as one of our outside directors since August 2006. Ms. Mor has served as an outside director of two subsidiaries of Bank of Jerusalem since 2010, Aspen Real Estate Ltd., an Israeli public company, since September 2005 and of I.B.I Investment House Ltd., an Israeli public company, since May 2004. From 1973 to 2003, Ms. Mor served in senior positions at the Bank of Israel, including in the public complaints and banking supervision department. Ms. Mor holds a B.A. degree in Economics and Statistics and a diploma in Business Administration from the Hebrew University of Jerusalem, and an M.A. degree in Labor Studies from Tel Aviv University.

Elan Sigal has served as one of our outside directors since August 2013. Since January 2013, Mr. Sigal has served as the chief financial officer of Landa Corporation (Israel), an Israeli company that develops printing systems with proprietary nanography technology for the commercial market. Between January 2008 and December 2012, Mr. Sigal was the chief financial officer of Objet Geometries Ltd., an Israeli company that is engaged in the design, development and manufacture of 3D printers. Between 2004 and December 2007, Mr. Sigal served as the chief financial officer of our company. From May 2000 to December 2003, Mr. Sigal worked as a management consultant in the London office of McKinsey & Co., a leading global management consulting firm. For ten years Mr. Sigal served as a fighter pilot in the Israeli Air Force. Mr. Sigal holds a B.A. degree in Economics from Tel Aviv University.

Kineret Ya'ari has served as a director since May 18, 2016. Mrs. Ya’ari serves as an Economist at DBSI Investments Ltd. Mrs. Ya'ari also serves as a director of Taldor Computer Systems (1986) Ltd. and Shagrir Group Vehicle Services Ltd. (TASE: SHGR). Before joining DBSI Investments, Mrs. Ya'ari served as a senior business analyst at Giza Singer Even, a financial advisory and investment banking firm in Israel. Mrs. Ya'ari holds a B.A. degree in Economics and Management and an M.B.A. degree in Accounting and Finance from Tel Aviv University.

Guy Zur has served as a director since March 27, 2017. Mr. Zur joined the IDF in 1983 and served in the military until 2016 in a variety of positions and finished a very long career in the IDF with the rank of General . Mr. Zur served as the commander of the Ground Forces from 2013 until 2016. Between 2010 and 2013 Mr. Zur served as the Head of the IDF Planning Division. Between 2007 and 2010 Mr. Zur served as the commander of the National Training Center for Ground Trainings (NTC). Mr. Zur holds a MBA from Be'er Sheva University, an alumnus of the Royal College of Defense Studies, London, and a BcS in Mechanical Engineering from Tel Aviv University.

Dov Sella has served as our chief executive officer since November 2016 and has previously, since July 2007, served as our chief business development officer. Prior to that and from January 2003, Mr. Sella served as our chief operating officer. Mr. Sella has over 20 years of senior management and product development experience. From 1982 until 1997, Mr. Sella worked for Elbit Systems Ltd., a leading Israeli defense contractor. Among his positions at Elbit, he served as director of programs, director of avionics engineering and director of business development. Between 1997 and 2000, Mr. Sella served as executive vice president and vice president of business development and vice president of research and development of UltraGuide Ltd., a medical devices start-up. During the three years prior to joining our company, Mr. Sella was the president of NeuroVision Inc., a medical technology start-up. Mr. Sella has a B.Sc. degree (cum laude) in Computer Engineering from the Technion - Israeli Institute of Technology. Mr. Sella served as a fighter aircraft navigator in the IAF.

Shiri Lazarovich has served as our chief financial officer since December 2007. Ms. Lazarovich previously served as our controller from September 2004. Prior to that and from January 2000, Ms. Lazarovich served as a manager in the accountant, assurance and business advisory services department of PricewaterhouseCoopers, Israel. Ms. Lazarovich holds a B.A. degree in Accounting and in Economics from the Hebrew University of Jerusalem and is a Certified Public Accountant in Israel.

Oleg Kiperman has served as our chief technology officer since July 2007. Mr. Kiperman joined us in 1984 as project manager of several embedded avionics development programs and in 2000 was named as our director of engineering. From 1982 until 1984, Mr. Kiperman served as a hardware development team leader at Tadiran Ltd. developing digital communication systems. From 1977 until 1982, Mr. Kiperman served as a senior engineer in the IAF Weapons

Control Branch. Mr. Kiperman holds a B.Sc. degree in Electrical Engineering from the Technion - Israeli Institute of Technology.

B. Compensation

For so long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic companies, including the requirement to disclose information concerning the amount and type of compensation paid to its chief executive officer, chief financial officer and the three other most highly compensated executive officers, rather than on an aggregate basis. Nevertheless, regulations promulgated under the Israeli Companies Law requires us to disclose the annual compensation of our five most highly compensated officers (or all the named executive officers if there are less than five) on an individual basis, rather than on an aggregate basis, as was previously permitted for Israeli public companies listed overseas. Under the Companies Law regulations, this disclosure is required to be included in the notice of our annual meeting of shareholders each year or in a public document that accompanies such notice, which we furnish to the SEC under cover of a Report of Foreign Private Issuer on Form 6-K. The Companies Law regulations permit us to refer to a report filed pursuant to the laws of the country in which our shares are listed for trading that includes the required information in lieu of its inclusion in the notice of annual meeting. Because of that disclosure requirement under Israeli law, we are including such information in this annual report.

The following table includes information for the year ended December 31, 2016 concerning the five (5) most highly compensated executive officers of our company, (the figures below reflect the applicable cost of employment on an annual basis):

	Herzle Bodinger	Zvi Alon [1]	Dov Sella [2]	Oleg Kiperman	Shiri Lazarovich
Annual salary cost and other benefits ($)[3]	286,972	307,156	267,618	244,048	213,978
Total ($)	286,972	307,156	267,618	244,048	213,978

(1) Mr. Zvi Alon served as our Chief Executive Officer from July 2007 until November 10, 2016, when our Board of Directors accepted his resignation. Pursuant to his terms of employment, Mr. Alon had a 60 days' notice period, i.e., was entitled to compensation for two additional months following resignation. At the time of his resignation, Mr. Alon held options to purchase 168,750 of our ordinary shares at an exercise price of $0.90 per ordinary share, none of which options had vested as of the date his resignation was accepted by the Board of Directors. In January 2017, our shareholders approved the extension of Mr. Alon's notice period for an additional month and the acceleration of the vesting of 126,563 of the options as of his resignation date. Pursuant to the terms of our 2015 Share Option Plan, Mr. Alon was eligible to exercise such vested options (or any part thereof) within 90 days of the termination of his employment relationship. The remaining 42,187 of his options expired.

(2) In January 2017, our shareholders approved a new employment agreement with our chief executive officer, Mr. Dov Sella, who had previously served as our chief business development officer. Mr. Sella is entitled to a monthly gross base salary of NIS 75,000. In addition to the options to purchase 131,250 ordinary shares that were granted to Mr. Sella on June 14, 2016, our shareholders approved the grant of additional options to Mr. Sella as follows: (i) options to purchase 68,750 ordinary shares at an exercise price of $1.16 per ordinary share that will vest ratably over a period of four (4) years and (ii) options to purchase 150,000 ordinary shares at an exercise price of $1.16 per ordinary share that will vest immediately instead of 99 vacation days that were accrued and redeemable for the benefit of Mr. Sella.

(3) Includes the gross salary of the five (5) most highly compensated executive officers plus payments of (i) social benefits such as payments for savings funds, education funds, pension, severance, insurances, social security; (ii) general benefits such as car (including maintenance and gas), cell phone; and (iii) option compensation and other benefits pursuant to our company's policy; including tax gross-up in respect therewith.

Mr. Yossi Ben Shalom has served as the Executive Chairman of our Board of Directors since May 18, 2016. In January 2017, our shareholders approved that in addition to the directors' fees to be paid to all of our directors commencing as of January 1, 2017, we will pay DBSI an additional monthly payment of NIS 17,500 (approximately $4,600) for time devoted by Mr. Ben Shalom to such position. As of the first calendar year in which our consolidated audited financial statements will reflect net income (before taxes), such additional payment will be increased to NIS 35,000 (approximately $9,200).

Mr. Israel Livnat has served as a member of our Board of Directors since May 18, 2016. In January 2017, our shareholders approved a new engagement letter with Mr. Livnat, according to which he will be entitled to receive a commission of 2.5% of the net revenues received by our company with respect to specific transactions introduced to us by Mr. Livnat, subject to a detailed agreement to be entered into by Mr. Livnat and the company and the prior approval of any such transaction by the Audit Committee and the Company.

During the year ended December 31, 2016, the aggregate compensation paid to all of our executive officers and directors as a group was approximately $ 1,061,973. As of December 31, 2016, the aggregate amount set aside or accrued for pension, retirement, recreation payments and vacation or similar benefits for our directors and executive officers was approximately $282,128.

During the year ended December 31, 2016, we paid each of our outside directors a per-meeting attendance fee of NIS 1,862 (approximately $500) and an annual fee of NIS 29,270 (approximately $8,000).

Pursuant to the Israeli Companies Law, we have adopted a compensation policy and are required to follow certain approval requirements with respect to the compensation of our directors and executive officers. See below “Board of Directors – Compensation Committee” and Item 10. Additional Information –Office Holders.

We follow Israeli law and practice instead of the requirements of the NASDAQ Stock Market Rules regarding the compensation of our chief executive office and other executive officers. See Item 16G. “Corporate Governance.”

C. Board Practices

Introduction

According to the Israeli Companies Law and our articles of association, the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. Our executive officers are responsible for our day-to-day management. The executive officers have individual responsibilities established by our chief executive officer and board of directors. Executive officers are appointed by and serve at the discretion of the board of directors, subject to any applicable agreements.

Election of Directors

Our Articles of Association provide for a board of directors consisting no less than four (4) and no more than twelve (12) members, or such other number as may be determined from time to time at a general meeting of shareholders. All the directors in the company must be qualified to serve as a director and the time required for such position, taking into consideration the type and size of the company and the scope and complexity of its operation. The directors must provide the electing general meeting with a detailed declaration as to the compliance with the above-listed requirements. Our board of directors is currently composed of ten (10) directors.

40

Pursuant to our Articles of Association, our directors, except for the External Directors, are elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors, and each director generally serves until the Annual General Meeting next following the Annual General Meeting at which such director was appointed, or his earlier vacation of office or removal. Except with respect to the removal of External Directors, the shareholders are entitled to remove any director(s) from office, by a simple majority of the voting power of the company represented at the meeting in person or by proxy and voting thereon. All the members of our board of directors (except the external directors as detailed below) may be reelected upon completion of their term of office. The majority of directors may appoint additional directors to fill any vacancies in the board of directors until the next annual general meeting; provided, however that the total number of directors will not exceed the maximum number, if any, fixed by or in accordance with our Articles of Association. We do not follow the requirements of the NASDAQ Marketplace Rules with regard to the nomination process of directors and instead follow Israeli law and practice. See Item 16G. “Corporate Governance."

External and Independent Directors

External Directors. The Israeli Companies Law requires publicly held Israeli companies to appoint at least two external directors. The Israeli Companies Law provides that a person may not be appointed as an external director if the person, or the person’s relative, partner, employer or an entity under that person’s control, has or had during the two years preceding the date of appointment any affiliation with the company, or any entity controlling, controlled by or under common control with the company. The term “relative” means a spouse, sibling, parent, grandparent, child or child of spouse or spouse of any of the above as well as a sibling, brother, sister or parent of the foregoing relatives. In general, the term “affiliation” includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder. Furthermore, if the company does not have a controlling shareholder or a shareholder holding at least 25% of the voting rights “affiliation” also includes a relationship, at the time of the appointment, with the chairman of the board, the chief executive officer, a substantial shareholder or the most senior financial officer of such company. Regulations promulgated under the Israeli Companies Law include certain additional relationships that would not be deemed an “affiliation” with a company for the purpose of service as an external director. In addition, no person may serve as an external director if the person’s position or other activities create, or may create, a conflict of interest with the person’s responsibilities as director or may otherwise interfere with the person’s ability to serve as director. If, at the time an external director is appointed, all current members of the board of directors are of the same gender, then that external director must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

At least one of the elected external directors must have “accounting and financial expertise” and any other external director must have “accounting and financial expertise” or “professional qualification,” as such terms are defined by regulations promulgated under the Israeli Companies Law. However, Israeli companies listed on certain stock exchanges outside Israel, including the NASDAQ Capital Market, such as our company, are not required to appoint an external director with “accounting and financial expertise” if a director with accounting and financial expertise who qualifies as an independent director for purposes of audit committee membership under the laws of the foreign exchange serves on its board of directors. All of the external directors of such a company must have “professional qualification.”

The external directors are elected by shareholders at a general meeting. The shareholders voting in favor of their election must include at least a simple majority of the shares voted by shareholders other than controlling shareholders or shareholders who have a personal interest in the election of the external director (unless such personal interest is not related to such persons relationship with the controlling shareholder). This majority requirement will not be required if the total number of shares of such non-controlling shareholders and disinterested shareholders who vote against the election of the external director represent 2% or less of the voting rights in the company.

In general, under the Israeli Companies Law, external directors serve for a three-year term and may be reelected to two additional three-year terms, at the nomination of either the board of directors or any shareholder(s) holding at least 1% of the voting rights in the company. If the board of directors proposed the nominee, the reelection must be approved by the shareholders in the same manner required to appoint external directors for an initial term, as described above. If such reelection is proposed by shareholders, such reelection requires the approval of the majority of the shareholders voting on the matter, excluding the votes of any controlling shareholder and other shareholders having a personal interest in the matter as a result of their relationship with the controlling shareholder(s), provided that, the aggregate votes cast by shareholders who are not controlling shareholders and do not have a personal interest in the matter as a result of their relationship with the controlling shareholder(s) who voted in favor of the nominee constitute more than 2% of the voting rights in the company and provided further that, at the time of the appointment, such reelected external director is not (i) a related or competitor shareholder, or (ii) a relative of such related or competitor shareholder or otherwise affiliated with a related or competitor shareholder either at the time of appointment or at any time during the two years period prior to such appointment. A related or competitor shareholder is defined by the Israeli Companies Law as the shareholder that proposed the reelection or a holder of 5% or more of the outstanding share capital of the company, provided that at the time of appointment (i) such shareholders, their controlling shareholder or any entity controlled by either of them has business relations with company, or (ii) such shareholders, their controlling shareholder or any entity controlled by either of them are competitors of the company. External directors can be removed from office only by the same special percentage of shareholders that can elect them, or by a court order, and then only if the external directors cease to meet the statutory qualifications with respect to their appointment or if they violate their fiduciary duty to the company.

Each committee of the board of directors that is authorized to exercise powers vested in the board of directors must include at least one external director and the audit committee and the Compensation Committee must include all the external directors. An external director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Independent Directors. In general, NASDAQ Stock Market Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors and its audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective "independence" requirements of NASDAQ and the SEC. However, foreign private issuers, such as our company, may follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. We do not follow the requirement of the NASDAQ Stock Market Rules to maintain a majority of independent directors on our board and instead follow Israeli law and practice (see Item 16G. "Corporate Governance"). However, we have the mandated three independent directors on our audit committee, in accordance with the rules of the SEC and NASDAQ Stock Market.

Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an external director; or (ii) a director that serves as a board member less than nine years and the audit committee has approved that he or she meets the independence requirements of an external director. A majority of the members serving on the audit committee and the compensation committee must be independent under the Israeli Companies Law.

Our board of directors has determined that Ms. Mor, Mr. Sigal and Mr. Dumanis and Mr. Guy Zur qualify as independent directors under the SEC and NASDAQ requirements and as independent directors under the Israeli Companies Law requirements.

We do not follow the requirements of the NASDAQ Stock Market Rules with regard to regularly scheduled meetings of independent directors. Under Israeli law, external directors are not required to hold executive sessions. See Item 16G. “"Corporate Governance."

42

Committees of the Board of Directors

Audit Committee. Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must be comprised of at least three directors, the majority of which must be independent directors. Such independent directors must meet all of the standards required of an external director and may not serve as a director for more than consecutive nine years (a cessation of service as a director for up to two years during any nine year period will not be deemed to interrupt the nine year period). The audit committee may not include the chairman of the board of directors; any director employed by the company or providing services to the company on an ongoing basis; a controlling shareholder or any of the controlling shareholder's relatives; and any director who rendered services to the controlling shareholder or an entity controlled by the controlling shareholder. Any person who is not permitted to be a member of the audit committee may not be present in the meetings of the audit committee unless the chairman of the audit committee determines that such person's presence is necessary in order to present a specific matter. However, an employee who is not a controlling shareholder or relative of a controlling shareholder may participate in the audit committee's discussions but not in any vote, and at the request of the audit committee, the secretary of the company and its legal counsel may be present during the meeting. The chairman of the audit committee must be an external director.

Under Israeli law, an audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting in which an approval was granted.

The role of the audit committee, pursuant to the Israeli Companies Law, includes:

- monitoring deficiencies in the management of the company, including in consultation with the independent auditors or the internal auditor, and to advise the board of directors on how to correct such deficiencies. If the audit committee finds a material deficiency, it will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors but without the presence of the senior management of the company. However, a member of the company's senior management can participate in the meeting in order to present an issue which is under his or her responsibility;

- determining, on the basis of detailed arguments, whether to classify certain engagements or transactions as material or extraordinary, as applicable, and therefore as requiring special approval under the Israeli Companies Law. The audit committee may make such determination according to principles and guidelines predetermined on an annual basis;

- determining if transactions (excluding extraordinary transactions) with a controlling shareholder, or in which a controlling shareholder has a personal interest, are required to be rendered pursuant to a competitive procedure;

- deciding whether to approve engagements or transactions that require the audit committee approval under the Israeli Companies Law;

- determining the approval procedure of non-extraordinary transactions, following classification as such by the audit committee, including whether such specific non-extraordinary transactions require the approval of the audit committee;

- examining and approving the annual and periodical working plan of the internal auditor;

- overseeing the company's internal auditing and the performance of the internal auditor; confirm that the internal auditor has sufficient tools and resources at his disposal, taking into account, among other, the special requirements of the company and its size;

- examining the scope of work of the independent auditor and its pay, and bringing such recommendations on these issue before the Board; determining the procedure of addressing complaints of employees regarding shortcomings in the management of the company and ensure the protection of employees who have filed such complaints;

- determining with respect to transactions with the controlling shareholder or in which such controlling shareholder has personal interest, whether such transactions are extraordinary or not, an obligation to conduct competitive process under supervisions of the audit committee or determination that prior to entering into such transactions the company shall conduct other process as the audit committee may deem fit, all taking into account the type of the company. The audit committee my set such qualifications for one year in advance; and

- determining the manner of approval of transactions with the controlling shareholder or in which it has personal interest which (i) are not negligible transactions (pursuant to the committee's determination) and (ii) are not qualified by the committee as extraordinary transactions.

In addition, the NASDAQ Stock Market Rules require us to establish an audit committee comprised of at least three members, all of whom must be financially literate, satisfy the respective "independence" requirements of the SEC and NASDAQ and one of whom must have an accounting or related financial management expertise at senior levels within a company.

Pursuant to recent amendment to the Israeli companies Law, effective as of February 2016, an audit committee that complies with the requirements of the Israeli Companies Law may act also as compensation committee. Our board of directors has determined that our audit committee complies with such requirements and therefore, commencing as of May 2016, it shall serve also as compensation committee.

The current members of our audit and compensation committee are Ms. Nurit Mor, Mr. Elan Sigal and Dr. Alon Dumanis, each of whom satisfies the "independence" requirements of both the SEC and NASDAQ. We also comply with Israeli law requirements for audit committee members. The audit committee meets at least once each quarter.

Compensation Committee. Our Board of Directors is required to appoint a compensation committee, whose role is to: (i) recommend to the board on a compensation policy for office holders and to recommend to the board, once every three years, on the approval of the continued validity of the compensation policy that was determined for a period exceeding three years; (ii) recommend an update the compensation policy from time to time and to examine its implementation; (iii) determine whether to approve the Terms of Service and Employment of Office Holders that require the committee’s approval; and (iv) exempt a transaction from the requirement for shareholders’ approval. The compensation committee also has oversight authority over the actual terms of employment of directors and officers and may make recommendations to the board of directors and the shareholders (where applicable) with respect to deviation from the compensation policy that was adopted by the company. Under Israeli law, our compensation committee must consist of no less than three members, including all of our external directors (who must constitute a majority of its members of the committee), and the remainder of the members of the compensation committee must be directors whose terms of service and employment were determined pursuant to the applicable regulations. The same restrictions on the actions and membership in the audit committee apply to the compensation committee with respect to, among other things, the requirement that an external director serve as the chairman of the committee and the list of persons who may not serve on the committee. Our board of directors established a compensation committee composed of Ms. Nurit Mor, Mr. Elan Sigal and Dr. Alon Dumanis. In August 2016, our shareholders approved an updated compensation policy for an additional period of three years.

Business Development Committee. In November 2016, our Board of Directors established a Business Development Committee whose role is to review and make recommendations to the Board of Directors with respect to business development strategies, plans and targets. The Business Development Committee is composed of Messrs. Yossi Ben Shalom, Israel Livnat, Alon Dumanis, Elan Sigal and Dov Sella.

Internal Audit

The Israeli Companies Law also requires the board of directors of a publicly held company to appoint an internal auditor nominated by the audit committee. An internal audit must satisfy the Israeli Companies Law's independence

requirements. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. Under the Companies Law, the internal auditor may not be an interested party or an office holder, or a relative of any of the foregoing, nor may the internal auditor be the company's independent accountant or its representative. Our internal auditor complies with the requirements of the Israeli Companies Law.

Directors' Service Contracts

We do not have any service contracts with our directors. However, all of our directors receive directors fees that are equal to those paid to our External Directors. There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

Approval of Related Party Transactions under Israeli Law

Fiduciary Duties of Office Holders

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An "office holder" is defined in the Israeli Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a fiduciary duty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The fiduciary duty includes (i) avoiding any conflict of interest between the office holder's position in the company and any other position he holds or his personal affairs, (ii) avoiding any competition with the company's business, (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company's affairs that the office holder has received due to his position as an office holder.

Disclosure of Personal Interests of an Office Holder; Approval of Transactions with Office Holders

The Israeli Companies Law requires that an office holder promptly and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their position, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, however, a transaction that is adverse to the company's interest may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, and under certain circumstances shareholder approval may also be required. A director who has a personal interest in a transaction that is considered at a meeting of the board of directors or the audit committee may not be present during the board of directors or audit committee discussions and may not vote on the transaction, unless the transaction is not an extraordinary transaction or the majority of the members of the board or the audit committee have a personal interest, as the case may be. In the event the majority of the members of the board of directors or the audit committee have a personal interest, then the approval of the general meeting of shareholders is also required.

Approval of a Compensation Policy for Office Holders

The Israeli Companies Law and the regulations adopted thereunder require the compensation committee to adopt a policy for director and office holders. In adopting the compensation policy, the compensation committee must take into account factors such as the office holder's education, experience, past compensation arrangements with the company, and the proportional difference between the person's cost of compensation and the average cost of compensation of the company's employees.

The compensation policy must be approved at least once every three years at the company's general meeting of shareholders, and is subject to the approval of a majority vote of the votes of the shareholders present and voting at a shareholders' meeting, provided that either: (i) such majority includes at least a majority of the votes of all shareholders who are not controlling shareholders and do not have a personal interest in the approval of the compensation policy, present and voting at such meeting (excluding abstentions); or (ii) the total number of ordinary shares of non-controlling shareholders and shareholders who do not have a personal interest in the approval of the compensation policy, voting against the resolution does not exceed 2% of the aggregate voting rights in the company.

The Board may approve the compensation policy even if such policy was not approved by the shareholders, provided that the compensation committee and the board of directors resolve, based on detailed consideration of the compensation policy that approval of the policy, is in the best interest of the company, despite the fact that it was not approved at the shareholders' meeting.

The compensation policy shall serve as the basis for decisions concerning the financial terms of employment or engagement of officer holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business and its long-term strategy, and creation of appropriate incentives for executives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation committee must also consider among others, the ratio between the cost of terms offered to the relevant director or office holder and the average and median cost of compensation of the other employees of the company, including those employed through manpower companies, the effect of disparities in salary upon work relationships in the company, the possibility of reducing variable compensation at the discretion of the board of directors; the possibility of setting a limit on the exercise value of non-cash variable compensation; and as to severance compensation (in excess of those promulgated by applicable labor law), the period of service of the director or office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the link between variable compensation and long-term performance and measurable criteria, the relationship between variable and fixed compensation, and the upper limit for the value of variable compensation, the conditions under which a director or an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements, the minimum holding or vesting period for variable, equity-based compensation whilst referring to appropriate a long-term perspective based incentives; and maximum limits for severance compensation.

Once a compensation policy is properly adopted, the Israeli Companies Law requires the compensation policy to be approved by the company's compensation committee, with subsequent approval of the board of directors. In addition, compensation of the directors and the chief executive officer is also subject to the approval of the shareholders at a general meeting. The approval of the compensation of the chief executive officer that complies with the compensation policy is subject to the same majority requirements as the approval of a transaction between a company and its controlling shareholder. Where the director is also a controlling shareholder, the requirements for approval of

transactions with controlling shareholders apply. The terms of employment of the company's directors and executive officers must satisfy the requirements of the compensation policy in respect of matters relating to compensation. Any deviations from the compensation policy in respect of the compensation of the office holders require the approval of the compensation committee, the board of directors and the shareholders. If the deviation is with respect to the compensation of the chief executive office then such approval must be made by the majority of the shareholders provided that such majority includes the majority of the votes of the non-controlling shareholder and other shareholders who have personal interest in the proposal (unless such personal interest is not related to the controlling shareholder) present and voting (excluding abstention). Such special majority is not required if the number of votes of the non-controlling shareholders and shareholder who do not have personal interest in the proposal as aforesaid is lower than 2% of the aggregate voting rights in the company.

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require the approval of the compensation committee prior and in addition to the approval of the board of directors. However, if the company duly adopts a compensation plan for its office holders, the approval of the board of directors is not required if the new arrangement only modifies an existing arrangement and the compensation committee determines that such modification is not material. Generally, the compensation of the CEO must be approved by the compensation committee, the board and of directors and by the majority of the shareholders provided that either: (i) such majority includes a majority of the total votes of shareholders who are not controlling shareholders and do not have a Personal Interest in the approval of the compensation policy and who participate in the voting, in person, by proxy or by written ballot, at the meeting (abstentions not taken into account); or (ii) the total number of votes of shareholders mentioned in (i) above that are voted against the approval of the compensation policy do not represent more than 2% of the total voting rights in the company. The compensation of office holders who are directors must be approved by the compensation committee, board of directors and simple majority vote of the shareholders.

External directors of the company are prohibited from receiving, directly or indirectly, any compensation from the company, other than for their services as external directors pursuant to the provisions and limitations set forth in regulations promulgated under the Israeli Companies Law, which compensation is determined prior to their appointment and may not be changed throughout the term of their service as external directors (except for certain exceptions set forth in such regulations).

Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders

Pursuant to the Israeli Companies Law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, but excludes a shareholder whose power derives solely from its position on the board of directors or any other position at the company. A person is presumed to be a "controlling shareholder" if it holds or controls, by itself or together with others, one half or more of any one of the "Means of Control" of the company. "Means of Control" is defined as any one of the following: (i) the right to vote at a General Meeting of the company, or (ii) the right to appoint directors of the company or its chief executive officer. For the purpose of related party translations, under the Israeli Companies Law, a controlling shareholder is also a shareholder who holds 25% or more of the voting rights if no other shareholder who holds more than 50% of the voting rights. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated. As of Admission, the company does not have a controlling shareholder.

Certain shareholders also have a duty of fairness toward the company. These shareholders include any controlling shareholder, together with any shareholder who knows that it has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or exercise any other rights available to it under the company's articles of association with respect to the company. The Israeli Companies Law does not define the substance of this duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty of fairness.

An extraordinary transaction between a public company and a controlling shareholder, or in which a controlling shareholder has a personal interest, including a private placement in which the controlling shareholder has a personal interest, and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or a controlling shareholder's relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder of the company, regarding his or her terms of employment, require the approval of a company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. Such transaction must be elected by a majority vote of the Ordinary Shares present and voting at a shareholders' meeting, provided that either: (i) such majority includes at least a majority of votes held by all shareholders who do not have a personal interest in such transaction, present and voting at such meeting (excluding abstentions); or (ii) the total number of votes of shareholders who do not have a personal interest in such transaction

voting against the approval of the transaction, does not exceed 2% of the aggregate voting rights in the company.

Pursuant to the Israeli Companies Law, the audit committee of the company should determine in connection with such transaction if it requires rendering pursuant to a competitive procedure or pursuant to other proceedings. See "Audit Committee" above.

To the extent that any such transaction with a controlling shareholder or his relative is for a period extending beyond three years, shareholder approval is required once every three years, unless, in respect to certain transactions, the audit committee determines that the longer duration of the transaction is reasonable under the circumstances.

Pursuant to regulations promulgated pursuant to the Israeli Companies Law, a transaction with a controlling shareholder that would otherwise require approval of the shareholders is exempt from shareholders' approval if each of the audit committee and the board of directors determine that the transaction meets certain criteria that are set out in specific regulations promulgated under the Israeli Companies Law. Under these regulations, a shareholder holding at least 1% of the issued share capital of the company may require, within 14 days of the publication of such determination, that despite such determination by the audit committee and the board of directors, such transaction will require shareholder approval under the same majority requirements that otherwise apply to such transactions.

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if, in general, (i) the acquisition was made in a private placement that received shareholder approval, (ii) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, if there is not already a 25% or greater shareholder of the company, or (iii) was from a shareholder holding a 45% interest in the company which resulted in the acquirer becoming a holder of a 45% interest in the company if there is not already a 45% or greater shareholder of the company.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a public company's outstanding shares or a class of shares, the acquisition must be made by means of a tender offer for all of the outstanding shares or a class of shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to the acquirer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer. However, in the event of a full tender offer, the offeror may determine that any shareholder who accepts the offer will not be entitled to appraisal rights. Such determination will be effective only if the offeror or the company has timely published all the information that is required to be published in connection with such full tender offer pursuant to all applicable laws.

Exculpation, Indemnification and Insurance of Directors and Officers

Exculpation of Office Holders

The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care in the event of distributions.

Insurance of Office Holders

The Israeli Companies Law provides that a company may, if permitted by its articles of association, enter into a contract to insure office holders in respect of liabilities incurred by the office holder with a respect to an act performed in his or her capacity as an office holder, as a result of:

- a breach of the office holder's duty of care to the company or to another person;
- a breach of the office holder's duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice the company's interests; or
- a financial liability imposed upon the office holder in favor of another person.

Indemnification of Office Holders

The Israeli Companies Law provides that a company may, if permitted by its articles of association, indemnify an office holder for acts or omissions performed by the office holder in such capacity for:

- a monetary liability imposed on the office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court;
- reasonable litigation expenses, including attorney's fees, actually incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any monetary liability in lieu of criminal proceedings, or concluded without the filing of an indictment against the office holder and a monetary liability was imposed on the officer holder in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent; and
- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or which were imposed on him or her by a court, in an action instituted by the company or on the company's behalf or by another person, against the office holder, or in a criminal charge from which he was acquitted, or in a criminal proceeding in which the office holder was convicted of a criminal offense which does not require proof of criminal intent.

In accordance with the Israeli Companies Law, a company's articles of association may permit the company to:

- prospectively undertake to indemnify an office holder, except that with respect to a monetary liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of events which the company's board of directors deems foreseeable considering the company's actual operations at the time of the undertaking, and to an amount or standard that the board of directors has determined as reasonable under the circumstances.

49

· retroactively indemnify an office holder of the company.

Limitations on Exculpation, Insurance and Indemnification

The Israeli Companies Law provides that neither a provision of the articles of association permitting the company to enter into a contract to insure the liability of an office holder, nor a provision in the articles of association or a resolution of the board of directors permitting the indemnification of an office holder, nor a provision in the articles of association exculpating an office holder from duty to the company shall be valid, where such insurance, indemnification or exculpation relates to any of the following:

· a breach by the office holder of his duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

· a breach by the office holder of his duty of care if such breach was committed intentionally or recklessly, unless the breach was committed only negligently.

· any act or omission done with the intent to unlawfully yield a personal benefit; or

· any fine or forfeiture imposed on the office holder.

Pursuant to the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our audit committee and our board of directors and, if the office holder is a director, also by our shareholders.

Our Articles of Association allow us to insure, indemnify and exempt our office holders to the fullest extent permitted by law, subject to the provisions of the Israeli Companies Law. We currently maintain a directors and officers liability insurance policy with per claim and aggregate coverage limit of $7.5 million. Furthermore, pursuant to the resolutions adopted by our shareholders on May 15, 2016, we intend to enter into agreements with our directors and officeholders providing for the indemnification and exemption of such directors and officeholders.

D. Employees

As of December 31, 2016, we employed 93 persons, of whom 35 persons were employed in research, development and engineering, 48 persons in manufacturing and logistics, 3 persons in sales and marketing, and 7 persons in administration, management and finance. All of our employees are located in Israel. In addition, CACS, our 80% owned subsidiary, employed 16 persons in China as of such date.

As of December 31, 2015, we employed 105 persons, of whom 45 persons were employed in research, development and engineering, 51 persons in manufacturing and logistics, 2 persons in sales and marketing, and 7 persons in administration, management and finance. All of our employees are located in Israel. In addition, CACS, our 80% owned subsidiary, employed 16 persons in China as of such date.

As of December 31, 2014, we employed 108 persons, of whom 45 persons were employed in research, development and engineering, 51 persons in manufacturing and logistics, 4 persons in sales and marketing, and 8 persons in administration, management and finance. All of our employees are located in Israel. In addition, CACS, our 80% owned subsidiary, employed 16 persons in China as of such date.

Our technical employees have signed nondisclosure agreements covering all proprietary information that they might possess or to which they might have access. Employees are not organized in any union, although they are employed according to provisions established by the Israeli Ministry of Economy and Industry. Certain provisions of the collective bargaining agreements between the General Federation of Labor in Israel (Histadrut) and the Coordination

Bureau of Economic Organizations (including the Industrialists Association) are applicable to our Israeli employees by order of the Israeli Ministry of Economy and Industry. These provisions primarily concern the length of the workday, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums. Under the collective bargaining agreements, the wages of most of our employees are linked to the Israeli consumer price index, although the extent of the linkage is limited.

Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. Further, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute; such amounts also include payments for national health insurance. Most of our ongoing severance obligations for our Israeli employees are provided for by monthly payments made by us for insurance policies to cover these obligations.

E. Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of March 21, 2017 regarding the beneficial ownership by each of our directors and executive officers:

Name	Number of Ordinary SharesBeneficially Owned [1]	Percentage of Ownership[2]
Yossi Ben Shalom [3]	13,423,907	50.7 %
Herzle Bodinger	-	
Nir Cohen	-	
Alon Dumanis	-	
Ben Zion Gruber	-	
Israel Livnat	-	
Nurit Mor	-	
Elan Sigal	-	
Kineret Ya'ari	-	
Dov Sella	150,000	*
Shiri Lazarovich	-	
Oleg Kiperman	5,000	*
All directors and executive officers as a group (12 persons)	-	*

* Less than 1%

Except as otherwise indicated, the business address of all directors and executive officers is c/o RADA Electronic Industries Ltd., 7 Giborei Israel Street, Netanya, Israel

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options and warrants currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) The percentages shown are based on 21,778,418 ordinary shares issued and outstanding as of March 21, 2017.

(3) Mr. Yossi Ben Shalom and Mr. Barak Dotan, by virtue of their relationship with and indirect interests in DBSI may be deemed to control DBSI and consequently share the beneficial ownership of the 13,423,907 Ordinary Shares of the company beneficially owned by DBSI, including the right to jointly direct the voting of, and disposition of, such shares. Mr. Barak Dotan holds his shares of DBSI through his control of B.R.Y.N. Investments Ltd., or BRYN. Mr. Barak Dotan controls BRYN pursuant to the terms of a power of attorney granted to him by Mr. Boaz Dotan and Mrs. Varda Dotan (collectively referred to as the Dotans). Pursuant to the power of attorney, Barak

Dotan is entitled to take all actions to which the Dotans would be entitled by virtue of their shareholdings in BRYN, with the exception of the disposition of such shares. According to the terms of the power of attorney, the Dotans are required to give notice of not less than 90 days to (i) revoke the power of attorney, thereby acquiring the ability to vote the shares of BRYN; and (ii) dispose of the shares of BRYN. Mr. Yossi Ben Shalom holds his shares of DBSI through his control of White Condor Holdings Ltd. and Pulpit Rock Investments Ltd. The address of DBSI is 85 Medinat Hayehudim Street, Herzliya 4676670, Israel.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information as of March 21, 2017, regarding the beneficial ownership by all shareholders known to us to own beneficially 5% or more of our ordinary shares:

Name	Number of Ordinary Shares Beneficially Owned[1]	Percentage of Ownership[2]	
DBSI Investments Ltd. [3] [4]	13,423,907	50.7.	%
Howard P.L. Yeung [5]	1,786,009	8	%
Phoenix Insurance Company[6]	1,904,762	8.7	%
Sphera Capital Ltd. [7]	1,440,504	6.6	%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options and notes currently exercisable or convertible or exercisable or convertible within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) The percentages shown are based on 21,778,418 ordinary shares issued and outstanding as of March 21, 2017.

(3) The number of Ordinary Shares beneficially owned includes 5,532,224 remaining Ordinary Shares that were initially purchased by DBSI in May 2016; 3,191,490 Ordinary Shares issued to DBSI upon exercise of warrants; and 4,700,193 issuable to DBSI upon exercise of outstanding warrants. The foregoing number of Ordinary Shares beneficially owned by DBSI excludes up to a maximum of 6,755,319 convertible loan shares potentially issuable to DBSI upon conversion of a convertible loan in an amount of $3,175,000 that was funded by DBSI to our company on June 15, 2016. The conversion price per share for the convertible loan (and, accordingly, the number of shares issuable upon conversion) is variable and will equal 95% of the average closing trading price of the Ordinary Shares during the five trading days preceding conversion (subject to a maximum conversion price of $2.40 per share and a minimum conversion price of $0.47 per share).

(4) Mr. Yossi Ben Shalom and Mr. Barak Dotan, by virtue of their relationship with and indirect interests in DBSI may be deemed to control DBSI and consequently share the beneficial ownership of the 13,423,907 Ordinary Shares of the company beneficially owned by DBSI, including the right to jointly direct the voting of, and disposition of, such shares. Mr. Barak Dotan holds his shares of DBSI through his control of B.R.Y.N. Investments Ltd., or BRYN. Mr. Barak Dotan controls BRYN pursuant to the terms of a power of attorney granted to him by Mr. Boaz Dotan and Mrs. Varda Dotan (collectively referred to as the Dotans). Pursuant to the power of attorney, Barak Dotan is entitled to take all actions to which the Dotans would be entitled by virtue of their shareholdings in BRYN, with the exception of the disposition of such shares. According to the terms of the power of attorney, the Dotans are required to give notice of not less than 90 days to (i) revoke the power of attorney, thereby acquiring the ability to vote the shares of BRYN; and (ii) dispose of the shares of BRYN. Mr. Yossi Ben Shalom holds his shares of DBSI through his control of White Condor Holdings Ltd. and Pulpit Rock Investments Ltd. The address of DBSI is 85 Medinat Hayehudim Street, Herzliya 4676670, Israel.

(5) Based on a Schedule 13D/A filed by Howard P.L. Yeung on August 8, 2016. Includes 1,560,995 outstanding ordinary shares. In addition, as an admission of beneficial ownership by Mr. Howard P.L. Yeung, we are including 225,015 ordinary shares held by Horsham Enterprises Ltd., a British Virgin Islands corporation jointly owned by Messrs. Howard P.L. Yeung and his brother Kenneth Yeung. The address of Messrs. Howard P.L. Yeung and Kenneth Yeung is 2202 Kodak House II, 39 Healthy Street, North Point, Hong Kong.

(6) Held by The Phoenix Insurance Company Ltd. and its affiliate, Shotfut-Menayot-Israel-HaPhoenix Amitim Ltd., following a direct registered offering by the company of 1,904,762 Ordinary Shares on November 10, 2016. The address of The Phoenix Insurance Company is Derech Hashalom 53, Givataim, 5345433, Israel.

(7) Based on a Schedule 13G filed by Sphera Capital and Mr. Ron Senator on January 19, 2017. Includes 1,260,504 Ordinary Shares and 180,000 options (each exercisable into one Ordinary Share). The securities are beneficially owned by Sphera Capital Ltd., which acts as the investment management company for Sphera Small Cap Fund Ltd. Sphera Small Cap Fund has delegated its investment management authority to Sphera Capital. In addition, Ron Senator may be considered the beneficial owner of shares held by the Sphera Small Cap Fund, since he serves as portfolio manager for Sphera Capital. The address of Ron Senator and Sphera Capital is 21 Ha'arba'ah Street, Tel Aviv 6473921, Israel.

Significant Changes in the Ownership of Major Shareholders

On April 7, 2015, Howard Yeung reported on a Schedule 13D/A that he owned directly 1,560,995 ordinary shares, representing 34.73% of our outstanding ordinary shares. On August 28, 2015, Mr. Yeung reported on a Schedule 13D/A that he owned 1,560,995 ordinary shares, representing 19.63% of our outstanding ordinary shares. This dilution was the result of our public offering conducted in July 2015. On August 8, 2016, Mr. Yeung reported that the secured convertible note in the amount of U.S. $3,000,000 issued to Mr. Yeung on December 10, 2007 was fully repaid on June 16, 2016, which reduced Mr. Yeung’s holdings on a beneficial basis, taking into account the termination of the conversion feature of the note. In addition, the issuance of 8,510,638 Ordinary Shares to DBSI Investments Ltd. in a transaction which closed on May 18, 2016, significantly diluted Mr. Yeung’s holdings to 10.85% based on 16,460,120 ordinary shares issued and outstanding as of June 14, 2016.

MMCAP International Inc. SPC reported on Schedule 13G on August 14, 2015 that it acquired ownership of 500,000 of our ordinary shares or 6.29% of our outstanding share capital. On February 16, 2016, it filed a Schedule 13G/A representing that it held 109,618 of our ordinary shares, or 1.38% of our outstanding share capital.

On June 2, 2016, DBSI t reported beneficial ownership of more than five percent (5%) of our issued and outstanding ordinary shares. DBSI purchased 8,510,638 newly issued ordinary shares as well as warrants to purchase up to 4,255,319 shares, at an exercise price of $0.47 per share, that may be exercised within 24 months following the closing, and warrants to purchase up to 3,636,363 shares, at an exercise price of $0.55 per share, that may be exercised within 48 months following the closing, as well as the right to acquire up to a maximum of 6,755,319 additional ordinary shares pursuant to the conversion by DBSI of a convertible loan in an amount of $3,175,000. These holdings amounted to a 67.4% ownership of our company. On June 15, 2016, DBSI funded the full loan amount ($3,175,000) due to the request of a special, independent committee of our board of directors. On August 29, 2016, DBSI reported that it has sold an aggregate of 166,142 of the ordinary shares that had acquired and that it had exercised warrants to purchase 531,915 ordinary shares.

On November 23, 2016, DBSI reported that it has sold an aggregate of 5,250 ordinary shares and had exercised warrants to purchase an additional 2,127,660 ordinary shares. As of December 31, 2016, DBSI held 10,889,036 shares . On January 25, 2017, DBSI reported that it has sold an aggregate of 1,402,389 additional ordinary shares and that it had exercised warrants to purchase an additional 531,915 ordinary shares. The aggregate impact of these transactions reduced DBSI's beneficial ownership from 61.3% to 56.0%.

On February 6, 2017, DBSI reported that it has sold an aggregate of 521,833 additional ordinary shares that had been acquired by it, thereby reducing DBSI's beneficial ownership of our ordinary shares by more than one percent.

On November 10, 2016, The Phoenix Insurance Company Ltd. and its affiliate, Shotfut-Menayot-Israel-HaPhoenix Amitim Ltd. purchased 1,904,762 ordinary shares from us in a registered offering. As of December 31, 2016, Phoenix Insurance Company held 1,904,762 shares

On January 19, 2017, Sphera Capital Ltd., an investment management company for Sphera Small Cap Fund Ltd., and the portfolio manager of Sphera Capital reported that they purchased 1,260,504 ordinary shares of our company for a total beneficial ownership of 6.78% of our company.

On August 29 2016, DBSI exercised warrants to purchase 531,915 ordinary shares at an exercise price per share of $0.47 resulting in proceeds of $0.25 million to our company,

On January 17 2017 DBSI exercised warrants to purchase 531,915 ordinary shares at an exercise price per share of $0.47 resulting in proceeds of $0.25 million to our company.

Shareholders Voting Rights

Our major shareholders do not have different voting rights.

Record Holders

Based on a review of the information provided to us by American Stock Transfer & Trust Company, our transfer agent, as of March 23, 2017, there were 112 holders of record of our ordinary shares, of which 99 record holders holding approximately 60% of our ordinary shares had registered addresses in the United States, including banks, brokers and nominees. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by banks, brokers or other nominees.

B. Related Party Transactions

In April 2014, we borrowed $1.0 million from FCD, a company controlled by Mr. Yeung, who was at the time our controlling shareholder, in order to facilitate further development of our INS technology and for working capital. This loan carried interest at LIBOR + 3.5% payable at the beginning of every quarter and the principal was due on January 31, 2015.

Due to our cash flow and working capital difficulties, we were not able to timely and fully make the repayment of interest and principal amounts to FCD for this loan and previous loans from FCD and Mr. Ben Zion Gruber, our director. As a result we were required to pay the default interest on all such loans and all such loans could have been be accelerated. However, we entered into a standstill agreement with our lenders, effective as of February 1, 2013, according to which, except in extraordinary circumstances, no action was to be taken to accelerate the loans or to exercise their rights prior to January 31, 2014. On April 2014 and June 2015, the standstill agreement was amended and the forbearance period pursuant to such agreement was extended until August 31, 2016. Pursuant to an amendment of the standstill agreement, as of and after February 1, 2015 the default interest on all outstanding

principal amounts was Libor + 9%.

On July 30, 2015, we completed a public offering of 3,455,284 ordinary shares, offered at a price to the public of $2.46 per share. We received gross proceeds of $8,500,000 before deducting underwriting discounts and commissions and other offering expenses. Issuance costs amounted to approximately $1,070,000. As of December 31, 2015 the remaining principal amount of the debt owed under the standstill agreement was $3,090,000.

On May 18, 2016, we completed the sale to DBSI of 8,510,638 of our ordinary shares in consideration for approximately $4,000,000, reflecting a price per share of $0.47. In addition, we issued to DBSI warrants to purchase 4,255,319 ordinary shares at an exercise price per share of $0.47 (resulting in an aggregate exercise price of $2,000,000), exercisable for a period of 24 months following the date of the initial investment and warrants to purchase an additional 3,636,363 shares at an exercise price per share of $0.55(resulting in an aggregate exercise price of $ 2,000,000), exercisable for a period of 48 months following the date of the initial investment.

DBSI also granted our company an option, exercisable either by either us or DBSI, for us to obtain a loan in the principal amount of up to $3,175,000 solely for the purpose of the repayment of the outstanding shareholders' debt. We exercised such option in June 2016.

During the term of the loan, DBSI has the right, but not the obligation, at its sole discretion, to convert the then remaining convertible loan amount into ordinary shares at a price per share equal to the lower of: (i) $2.4, or (ii) a five percent (5%) discount to the FMV (the average of the closing prices of our ordinary shares over the 5 consecutive trading days ending on the last trading day prior to the date of conversion), but in no event less than $0.47. These additional issuances would substantially dilute the ownership interests and voting rights of our shareholders.

On November 15, 2016, DBSI invested an additional $1 million in our company through the exercise of 2,127,660 warrants. This exercise of warrants is part of DBSI’s right, described above, to purchase up to 4,255,319 ordinary shares at an exercise price of $0.470 per share, that may be exercised within 24 months following the date of the initial investment.

Form F-3 Registration Statement

Pursuant to the registration rights agreements we entered into with DBSI, we filed a registration statement on Form F-3 and a prospectus relating to the resale by DBSI, of up to 2,649,827 of our ordinary shares. The registration statement became effective on June 23, 2016.

Form S-8 Registration Statements and Reoffer Prospectus

On August 24, 2016, we filed a registration statement on Form S-8 which included a “reoffer prospectus” prepared in accordance with the requirements of Part I of Form F-3 in connection with reoffers and resales of “control securities” by certain of our officers that they acquired or will acquire by reason of the exercise of options granted or to be granted to them under our 2015 Share Option Plan. We registered 168,750 ordinary shares on behalf of Zvi Alon, our former CEO, and 131,250 ordinary shares for each of Dov Sella, Oleg Kiperman and Shiri Lazarovich.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Export Sales

Export sales constitute a significant portion of our sales. In 2016, we had approximately $5.463 million of export sales, constituting approximately 43% of our total sales. For further information regarding the allocation of our revenues by geographic region see Item 4 –"Information on the Company-Markets."

Legal Proceedings

Currently, we are not a party to any legal proceedings; however, from time to time we are involved in legal proceedings arising from the operation of our business. Based on the advice of our legal counsel, management believes such current proceedings, if any, will not have a material adverse effect on our financial position or results of operations.

Dividend Distribution Policy

We have never paid cash dividends to our shareholders. We intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our ordinary shares in the foreseeable future. Any future dividend policy will be determined by the board of directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions as the board of directors may deem relevant.

According to the Israeli Companies Law, a company may distribute dividends out of its profits, so long as the company reasonably believes that such dividend distribution will not prevent the company from paying all its current and future debts. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years. In the event cash dividends are declared, such dividends will be paid in NIS.

B. Significant Changes

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2016.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Annual Stock Information

All of the share price information provided below has been adjusted to give effect to a 1 share for 2 shares reverse share split effected on September 14, 2016.

The following table sets forth for each of the years indicated, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market:

Year	High	Low
2012	$4.36	$2.00
2013	$4.20	$2.10

2014	$11.94	$2.60
2015	$5.80	$0.70
2016	$1.50	$0.56

Quarterly Stock Information

The following table sets forth for each of the full financial quarters in the years indicated, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market:

2015	High	Low
First Quarter	$5.80	$3.22
Second Quarter	$5.64	$3.62
Third Quarter .	$4.34	$1.40
Fourth Quarter	$1.58	$0.70

2016	High	Low
First Quarter	$0.92	$0.56
Second Quarter	$1.40	$0.72
Third Quarter .	$1.50	$0.93
Fourth Quarter	$1.28	$1.00

2017	High	Low
First Quarter (through March 24)	$1.35	$1.14

Monthly Stock Information

The following table sets forth, for the most recent six months, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market:

	High	Low
September 2016	$1.19	$0.93
October 2016	$1.28	$1.00
November 2016	$1.28	$1.12
December 2016	$1.25	$1.05
January 2017	$1.35	$1.20
February 2017	$1.29	$1.17
March 2017 (through March 24)	$1.23	$1.14

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares traded on the NASDAQ Global Market under the symbol "RADIF" from 1985 until June 10, 2002, when the listing of our ordinary shares was transferred to the NASDAQ Capital Market. On December 13, 2005, we changed our symbol to "RADI," and on March 15, 2007, we changed our symbol to "RADA."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Purposes and Objectives of the Company

We are registered with the Israeli Companies Registry and have been assigned company number 52-003532-0. Section 2 of our memorandum of association provides that we were established for the purpose of engaging in the business of providing services of planning, development, consultation and instruction in the electronics field. In addition, the purpose of our company is to perform various corporate activities permissible under Israeli law.

On February 1, 2000, the Israeli Companies Law came into effect and superseded most of the provisions of the Israeli Companies Ordinance (New Version), 5743-1983, except for certain provisions which relate to liens, bankruptcy, dissolution and liquidation of companies. Under the Israeli Companies Law, as recently amended, various provisions, some of which are detailed below, overrule the current provisions of our articles of association.

The Powers of the Directors

Under the provisions of the Israeli Companies Law, and our articles of association, a director cannot participate in a meeting nor vote on a proposal, arrangement or contract in which he or she is materially interested. In addition, our directors cannot vote compensation to themselves or any members of their body without the approval of our audit committee and our shareholders at a general meeting. The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our articles of association, retirement of directors from office is not subject to any age limitation and our directors are not required to own shares in our company in order to qualify to serve as directors.

Rights Attached to Shares

Our authorized share capital consists of 37,500,000 ordinary shares of a nominal value of NIS 0.030 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to the ordinary shares are as follows:

The rights attached to the ordinary shares are as follows:

Dividend rights. Holders of our ordinary shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of the retained earnings, in accordance with the provisions of the Israeli Companies Law. Our articles of association provide that the declaration of a dividend requires approval of the board of directors. See Item 8A. "Financial Information – Consolidated and Other Financial Information – Dividend Distribution Policy." If after one year a dividend has been declared and it is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend.

Voting rights. Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

58

Except as otherwise required by the Israeli Companies Law , a resolution of the Shareholders shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the General Meeting in person or by proxy and voting thereon, as one class, and disregarding abstentions from the count of the voting power present and voting.

Pursuant to our Articles of Association, our directors, except for the external directors, shall be elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors, and each director shall generally serve until the Annual General Meeting next following the Annual General Meeting at which such director was appointed, or his earlier vacation of office or removal pursuant to the Articles of Association. Except with respect to the removal of external directors, the shareholders shall be entitled to remove any director(s) from office, by a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon. All the members of our Board of Directors (except the external directors) may be reelected upon completion of their term of office. For information regarding the election of external directors, see Item 6C "Directors, Senior Management and Employees - Board Practices -Election of Directors."

Rights to share in the company's profits. Our shareholders have the right, in accordance with the Board of Directors resolution, to share in our profits distributed as a dividend and any other permitted distribution. See this Item 10B. "Additional Information – Memorandum and Articles of Association – Rights Attached to Shares – Dividend Rights."

Rights to share in surplus in the event of liquidation. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Liability to capital calls by the company. Under our memorandum of association and the Israeli Companies Law, the liability of our shareholders is limited to the par value of the shares held by them.

Limitations on any existing or prospective major shareholder.

See Item 6C. "Directors, Senior Management and Employees - Board Practices – Approval of Related Party Transactions under Israeli Law."

Changing Rights Attached to Shares

According to the Articles of Association, in order to change the rights attached to any class of shares, unless otherwise provided by the terms of the class, such change must be adopted by a general meeting of the shareholders with a simple majority of the class of shares so effected, and a simple majority vote of all classes of shares voting together as a single class at a General Meeting.

Annual and Extraordinary General Meetings

The board of directors must convene an annual meeting of shareholders at least once every calendar year, within 15 months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. Our board of directors may, in its discretion, convene additional meetings as "Extraordinary General Meetings." In addition, the board of directors must convene an Extraordinary General Meeting upon the demand of two of the directors, 25% of the nominated directors, one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company.

The quorum required for a General Meeting of shareholders consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least 25% of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders or to such day and at such time and place as the Chairman of the General Meeting shall determine. At the reconvened meeting, if the original meeting was convened upon the demand of one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company, the quorum will be one or more Shareholders, present in person or by proxy, and holding the number of shares required for making such requisition. In any other case the required quorum consists of any two members present in person or by proxy.

Limitations on the Rights to Own Securities in Our Company

Neither our memorandum of association or our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries which are in a state of war with Israel.

Provisions Restricting Change in Control of Our Company

The Israeli Companies Law requires that mergers between Israeli companies be approved by the board of directors and general meeting of shareholders of both parties to the transaction. The approval of the board of directors of both companies is subject to such board's confirmation that there is no reasonable doubt that after the merger the surviving company will be able to fulfill its obligations towards its creditors. Each company must notify its creditors about the contemplated merger. Generally, under the Israeli Companies Law, our articles of association are deemed to include a requirement that such merger be approved by a special resolution of the shareholders, as explained above. The approval of the merger by the general meetings of shareholders of the companies is also subject to additional approval requirements as specified in the Israeli Companies Law and regulations promulgated thereunder. For purposes of the shareholders' approval, the merger shall not be deemed as granted, unless the court determines otherwise, if it is not supported by the majority of the shares represented at the general meeting, other than those shares that are held by the other party to the merger or by any shareholder holding 25% or more of the outstanding share capital of the company or the right to appoint 25% or more of the members of the board of directors. The Israeli Companies Law also provides that an acquisition of shares of a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company and there is no existing 25% or greater shareholder in the company. An acquisition of shares of a public company must also be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company and there is no existing 45% or greater shareholder in the company. These requirements do not apply if the acquisition (i) was made through a private placement that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted in the acquirer becoming a 45% shareholder of the company. The special tender offer must be extended to all shareholders but, the offer may include explicit limitations allowing the offeror not to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. The special tender offer may be effected only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of the outstanding shares, the acquisition must be made by means of a tender offer for the entire outstanding shares. In such event, if less than 5% of the outstanding shares are not tendered in the tender offer, all the shares of the company will be deemed as tendered and sold. However, if more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire any shares at all. The law provides for appraisal allowing any shareholder to file a motion to the court within six months following the consummation of a full tender offer. However, in the event of a full tender offer, the offeror may determine that any shareholder who accepts the offer will not be entitled to appraisal rights. Such determination will be effective only if the offeror or the company has timely published all the information that is required to be published in connection with such full tender offer pursuant to all applicable laws.

In addition, the purchase of 25% or more of the outstanding share capital of a company or the purchase of substantial assets of a company requires, under certain conditions the approval of the Restrictive Practices Authority. Furthermore if the target company has received tax incentives of grants from the Innovation Authority, changes in ownership may require also the approval of the tax authorities or the Innovation Authority, as applicable.

Disclosure of Shareholders Ownership

The Israeli Securities Law and regulations promulgated thereunder do not require a company whose shares are publicly traded solely in a stock exchange outside of Israel, as in the case of our company, to disclose its share ownership.

Changes in Our Capital

Changes in our capital are subject to the approval of the shareholders at a general meeting by a simple majority of the votes of shareholders participating and voting in the general meeting.

C. Material Contracts

We do not deem any individual contract to be a material contract which is not in the ordinary course of our business.

D. Exchange Controls

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares.

Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repairable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. Taxation

The following is a discussion of Israeli and United States tax consequences material to us and our shareholders. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Considerations

The following is a summary of the current tax structure applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of the material Israeli tax consequences to purchasers of our ordinary shares and Israeli government programs benefiting us. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Since some parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion.

General Corporate Tax Rate

The Israeli corporate tax rate was 25% in 2013 and 26.5% in 2014 and 2015. Effective January 1, 2016, the corporate tax rate was reduced to 25% in 2016. In December 2016, the Israeli Parliament approved a measure whereby the corporate tax rate would be reduced in two stages from 25% to 23%, starting with a corporate income tax rate of 24% beginning January 2017 which is to be reduced to 23% beginning January 2018.

Israeli companies are generally subject to capital gains tax at the corporate tax rate.

Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for industrial companies. We believe that we currently qualify as an "Industrial Company" within the meaning of the Industry Encouragement Law. The Industry Encouragement Law defines "Industrial Company" as a company resident in Israel, of which 90% or more of its income (determined in Israeli currency) in any tax year, with some exceptions, is derived from an "Industrial Enterprise" owned by it. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity.

The Israeli Parliament on December 22, 2016, approved the Israeli Budgetary Law for 2017 and 2018, or the Budget Law. The Budget Law reduces the regular corporate tax rate from 25% to 24% in 2017 and 23% in 2018. The Budget Law also introduces two new tax incentive regimes for companies with qualifying operations under the Investment Law in addition to several changes to the current tax incentive regimes.

The following corporate tax benefits, among others, are available to Industrial Companies:

- Amortization of the cost of purchased know how and patents and/or right to use a patent and know-how which are used for the development or advancement of the company, over an eight-year period;
- Accelerated depreciation rates on equipment and buildings;
- Under specified conditions, an election to file consolidated tax returns with additional related Israeli Industrial Companies; and
- Expenses related to a public offering are deductible in equal amounts over three years.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. We cannot assure that we qualify or will continue to qualify as an "Industrial Company" or that the benefits described above will be available in the future.

Capital Gains Tax on Sales of Our Ordinary Shares

Capital gains tax is imposed on the disposal of capital assets by an Israeli resident and on the disposal of such assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company, or (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Income Tax Ordinance distinguishes between “Real Capital Gain” and “Inflationary Surplus.” The Real Capital Gain on the disposition of a capital asset is the amount of total capital gain in excess of Inflationary Surplus. Inflationary Surplus is computed, generally, on the basis of the increase in the Israeli Consumer Price Index between the date of purchase and the date of disposal of the capital asset.

Under income tax regulations shareholders that are not Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of our ordinary shares, provided that: (1) the securities were purchased upon or after the registration of the securities on a stock exchange (this requirement generally does not apply to shares purchased on or after January 1, 2009); (2) the seller of the securities does not have a permanent establishment in Israel to which the generated capital gain is attributed; and (3) such gains did not derive from a permanent establishment or business activity of such shareholders in Israel. However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

62

Under the U.S.-Israel Tax Treaty, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) holding the ordinary shares as a capital asset is exempt from Israeli capital gains tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting capital during any part of the 12 month period preceding such sale, exchange or disposition, (ii)) or the seller, if an individual, has been present in Israel for more than 183 days (in the aggregate) during the taxable year, or (iii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel. However, under the U.S.-Israel Tax Treaty, U.S. Residents would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to limitations in U.S. laws applicable to foreign tax credits. The treaty does not relate to U.S. state or local taxes.

Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a tax rate of 24% for a corporation in 2011, 25% in 2012 and 2013 and 26.5% in 2014 and 2015 and 25% in 2016 and thereafter) and a marginal tax rate of up to 45% for an individual in 2011, 48% in 2012 and thereafter. In 2014, an additional tax liability of 2% was added to the applicable tax rate on the annual taxable income of individuals (whether any such individual is an Israeli resident or non-Israeli resident) exceeding NIS 810,720 ($207,770).

Taxation of Foreign Resident Holders of Shares

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. With respect to a substantial shareholder, the applicable tax rate is at 30% Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our Approved Enterprise, that are paid to a U.S. corporation holding 10% or more of our outstanding voting capital throughout the tax year in which the dividend is distributed as well as the previous tax year, is 12.5%.

A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income; provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

Foreign Exchange Regulations

Dividends (if any) paid to the holders of our ordinary shares, and any amounts payable with respect to our ordinary shares upon dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of the ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely reparable U.S. dollars at the rate of exchange prevailing at the time of conversion, however, Israeli income tax is required to have been paid or withheld on these amounts.

Controlled Foreign Corporation

In general, and subject to the provisions of all relevant legislation, an Israeli resident who holds, directly or indirectly, 10% or more of the rights in a foreign corporation whose shares are not publicly traded, in which more than 50% of the rights are held directly or indirectly by Israeli residents, and a majority of whose income in a tax year is considered passive income (generally referred to as a Controlled Foreign Corporation, or CFC), is liable for tax on the portion of his income attributed to holdings in such corporation, as if such income was distributed to him as a dividend.

Share Allocations to controlling shareholders

Controlling shareholders will be taxable under section 3(i) to the Tax Ordinance, according to which, the grantee pays income tax rate (according to the marginal tax rate of the grantee- up to 48% in 2012) on the profit upon the sale of the underlying shares. As of January 1, 2013 the marginal tax rate (48%) of an individual will increase in 2% in case his taxable income in a tax year exceed the amount of NIS 810,720 (including capital gains from marketable securities, dividends and interest income).

United States Federal Income Tax Consequences

The following is a description of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax considerations that are relevant to U.S. Holders (as defined below) who hold our ordinary shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, or the Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. There can be no assurance that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. This description does not address all tax considerations that may be relevant with respect to an investment in our ordinary shares. In addition, this description does not account for the specific circumstances of any particular investor, such as:

- broker-dealers;
- financial institutions;
- certain insurance companies;
- investors liable for alternative minimum tax;
- regulated investment companies, real estate investment trusts, or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt organizations;
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar;
- persons who hold ordinary shares through partnerships or other pass-through entities;
- persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as compensation for services;
- direct, indirect or constructive owners of investors that actually or constructively own 10% or more of our shares by vote or value; or
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns our ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns our ordinary shares and the partners in such

partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation. You are urged to consult your tax advisors regarding the non-U.S. and U.S. federal, state and local tax consequences of an investment in ordinary shares.

For purposes of this summary, as used herein, the term "U.S. Holder" means a person that is eligible for the benefits of the Treaty and is a beneficial owner of an ordinary share who is, for U.S. federal income tax purposes:

- an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

Unless otherwise indicated, this discussion assumes that the Company is not, and will not become, a "passive foreign investment company," or a PFIC, for U.S. federal income tax purposes. See "—Passive Foreign Investment Companies" below.

Taxation of Distributions

Subject to the discussion below under the heading "—Passive Foreign Investment Companies," the gross amount of any distributions received with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that the entire amount of any distribution will generally be reported as dividend income to you. Dividends are included in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of your tax basis in our ordinary shares and any amount in excess of your tax basis will be treated as gain from the sale of ordinary shares. See "—Disposition of Ordinary Shares" below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, some of which vary depending upon the U.S. Holder's circumstances, any Israeli withholding tax imposed on dividends paid with respect to our ordinary shares, at a rate not exceeding the applicable rate provided by the Treaty, will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). Israeli taxes withheld in excess of the applicable rate allowed by the Treaty will not be eligible for credit against a U.S. Holder's federal income tax liability. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific

classes of income. Dividends generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate (see discussion below). A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our ordinary shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such U.S. Holder's position in ordinary shares is hedged. An election to deduct foreign taxes instead of claiming foreign tax credit applies to all foreign taxes paid or accrued in the taxable year. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations (including the PFIC rules discussed below), "qualified dividend income" received by a non-corporate U.S. Holder will be subject to tax at the lower long-term capital gain rates (currently at 20%). Distributions taxable as dividends paid on our ordinary shares should qualify for a reduced rate provided that either: (i) we are entitled to benefits under the Treaty, or (ii) our ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our ordinary shares currently are readily tradable on an established securities market in the United States (see discussion below). However, no assurance can be given that our ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below), in respect of certain risk-reduction transactions, or in certain other situations. The legislation enacting the reduced tax rate on qualified dividend income contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of our ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Sale or Disposition of Ordinary Shares

Subject to the discussion of PFIC rules below, if you sell or otherwise dispose of our ordinary shares, you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in our ordinary shares, in each case determined in U.S. dollars. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently at 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of our ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A cash basis U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss, which would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of our ordinary shares that are traded on an established securities market, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as U.S.- source ordinary income or loss and would be in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

We believe that we were not a PFIC for U.S. federal income tax purposes for the taxable year of 2015. However, since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we were a PFIC for any taxable year during which a U.S. Holder owned an ordinary share (and under proposed Treasury regulations, a right), certain adverse consequences could apply to the U.S. Holder. Specifically, gain recognized by a U.S. Holder on a sale or other disposition of such ordinary share (or right) would be allocated ratably over the U.S. Holder's holding period for the ordinary share (or right). The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our ordinary shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. Certain elections (such as a mark-to-market election) may be available to U.S. Holders and may result in alternative tax treatment. In addition, if we were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the Internal Revenue Service, or the IRS, on IRS Form 8621.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains from the sale or exchange of our ordinary shares.

Backup Withholding and Information Reporting

Payments in respect of our ordinary shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 28%. Backup withholding will not apply, however, if you (i) are a corporation, or fall within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. citizens and individuals taxable as resident aliens of the United States that own "specified foreign financial assets" with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets." Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. A U.S. Holder is urged to consult his tax advisor regarding its reporting obligation.

Any U.S. Holder who acquires more than $100,000 of our ordinary shares or holds 10% or more in vote or value of our ordinary shares may be subject to certain additional U.S. information reporting requirements.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation

F. Dividend and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain of the reporting requirements of the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the SEC reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website (www.rada.com) promptly following the filing of our annual report with the SEC. The information on our website is not incorporated by reference into this annual report.

This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the SEC public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference room in Washington, D.C. by calling the SEC at 1-800-SEC-0330. The Exchange Act file number for our SEC filings is 000-15375.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at 7 Giborei Israel Street, Netanya 4250407, P.O 8606, Israel.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

Interest Rate Risk

We currently do not invest in or otherwise hold, for trading or other purposes, any financial instruments subject to market risks. We pay interest on our credit facilities, convertible notes and short-term loans based on Libor, for dollar-denominated loans, and Israeli prime or adjustment differences to the Israeli consumer price index, for some of

our NIS-denominated loans. As a result, changes in the general level of interest rates may affect the amount of interest payable by us under these facilities. Accordingly, a 1% increase in the Libor rate would increase our financing expenses by approximately $31,750

Foreign Currency Exchange Risk

The depreciation of the NIS against the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the dollar). As of December 31, 2016, we had liabilities payable in NIS which are not linked to the dollar in the amount of $5.1 million and cash and receivables in the amount of $3.6 million denominated in NIS. Accordingly, 1% appreciation of the NIS against the dollar would increase our financing expenses by approximately $87,000. A 1% depreciation of the NIS against the dollar would decrease our financing expenses by the same amount. Neither a 10% increase nor decrease in current exchange rates would have a material effect on our consolidated financial statements. However, the amount of liabilities payable and/or cash and receivables in NIS is likely to change from time to time.

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in continuing operations.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2016, our internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Elan Sigal, one of our external directors, within the meaning of the Israeli Companies Law, and an independent director, as defined by the rules of the Securities and Exchange Committee and NASDAQ, meets the definition of an audit committee financial expert, as defined by rules of the SEC. For a brief listing of Mr. Sigal's relevant experience, see Item 6.A. "Directors, Senior Management and Employees -- Directors and Senior Management."

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chief executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controller, or persons performing similar

functions. Written copies of our code of ethics are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm Fees

The following table sets forth, for each of the years indicated, the fees billed by our principal independent registered public accounting firm, Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global ("EY Israel"). All of such fees were pre-approved by our Audit Committee.

	Year Ended December 31	
Services Rendered:	2015	2016
Audit [1]	$81,000	$83,000
Audit -related [2]	$70,000	$17,000
Tax [3]	5,000	5,000
Total [2]	$156,000	$105,000

(1) Audit fees are the aggregate fees for the audit of our consolidated annual financial statements. It also includes fees billed for accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

(2) Audit-related fees relate to assurance and associated services that traditionally are performed by the independence auditor including SEC filings, comfort letters, consents and comment letters in connection with regulatory filings.

(3) Tax fees are the aggregate fees billed for professional services rendered for tax compliance and tax advice, other than in connection with the audit. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

EY Israel and other EY affiliates did not bill the company for services other than the fees described above for fiscal year 2016 or fiscal year 2015.

Pre-Approval Policies and Procedures

Our Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm, Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global ("EY Israel"). Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent auditor, or on an individual basis. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the Securities and Exchange Committee, and also requires the Audit Committee to consider whether proposed services are compatible with the independence of the public accountants.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Issuer Purchase of Equity Securities

Neither we, nor any "affiliated purchaser" of our company, has purchased any of our securities during 2016.

71

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a) (3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ rules must submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

We have notified NASDAQ pursuant to Rule 5615(a) (3), that we do not comply with the following Rules and instead follow Israeli law and practice in respect of such Rules:

- The Rule requiring maintaining a majority of independent directors, as defined under the NASDAQ Marketplace Rules. Instead, under Israeli law and practice, we are required to appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors. In addition, in accordance with the rules of the SEC and NASDAQ, we have the mandated three independent directors, as defined by the rules of the SEC and NASDAQ, on our audit committee. See above in Item 6C. "Directors, Senior Management and Employees - Board Practices Outside and Independent Directors."

- The Rule requiring that our independent directors have regularly scheduled meetings at which only independent directors are present: instead, we follow Israeli law according to which independent directors are not required to hold executive sessions.

- The Rule regarding independent director oversight of director nominations process for directors. Instead: instead, we follow Israeli law and practice according to which our board of directors recommends directors for election by our shareholders. See above Item 6C. "Directors, Senior Management and Employees - Board Practices - Election of Directors."

- The requirements regarding the directors' nominations process. Instead, we follow Israeli law and practice in accordance with which our directors are recommended by our board of directors for election by our shareholders. See Item 6C "Directors, Senior Management and Employees - Board Practices - Election of Directors.

- The requirement to obtain shareholder approval for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under Israeli law and practice, the approval of the board of directors is required for the establishment or amendment of equity based compensation plans and private placements. Under Israeli regulations, Israeli companies whose shares have been publicly offered only outside of Israel or are listed for trade only on an exchange outside of Israel, such as our company, are exempt from the Israeli law requirement to obtain shareholder approval for private placements of a 20% or more interest in the company. For the approvals and procedures required under Israeli law and practice for an issuance that will result in a change of control of the company and acquisitions of the stock or assets of another company, see Item 6C "Directors, Senior Management and Employee - Board Practices - Approval of Related Party Transactions Under Israeli Law - Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders" and Item 10B "Additional Information - Memorandum and Articles of Association - Provisions Restricting Change in Control of Our Company."

- Shareholder Approval. We seek shareholder approval for all corporate action requiring such approval in accordance with the requirements of the Israeli Companies Law rather than under the requirements of the NASDAQ Listing Rules, including (but not limited to) the appointment or termination of auditors, appointment and dismissal of directors, approval of interested party acts and transactions requiring general meeting approval as discussed above and a merger.

- Shareholder Approval. We seek shareholder approval for all corporate action requiring such approval in accordance with the requirements of the Israeli Companies Law rather than under the requirements of the NASDAQ Listing Rules, including (but not limited to) the appointment or termination of auditors, appointment and dismissal of directors, approval of interested party acts, adoption of Stock Option Plans and any amendment thereto, and transactions requiring general meeting approval as discussed above and a merger.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements

Index to Financial Statements	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3 - F-4
Consolidated Statements of Operations	F-5
Consolidated Statements of Other Comprehensive Income (loss)	F-6
Consolidated Statements of Changes in Shareholders' Equity	F-7
Consolidated Statements of Cash Flows	F-8 - F-10
Notes to Consolidated Financial Statements	F-11 - F-40

ITEM 19. EXHIBITS

Index to Exhibits

Exhibit	Description
1.1	Memorandum of Association of the Registrant [1]
1.2	Articles of Association of the Registrant [2]
2.1	Specimen of Share Certificate
4.1	Compensation Policy of Office Holders (August 31, 2016) [3]
4.2	Purchase Agreement between the Registrant and DBSI Investments Ltd., dated April 14, 2016 [4]
4.3	Registration Rights Agreement between the Registrant and DBSI Investments Ltd., dated April 14, 2016 [5]
4.4	Convertible Loan Agreement between the Registrant and DBSI Investments Ltd., dated April 14, 2016 [6]
4.5	First Amendment to Convertible Loan Agreement between the Registrant and DBSI, dated May 15, 2016 [7]
4.6	Warrant to Purchase Ordinary Shares of the Registrant granted to DBSI, dated April 14, 2016 (up to 20,105,282 ordinary shares) [8]
4.7	Warrant to Purchase Ordinary Shares of the Registrant granted to DBSI, dated April 14, 2016 (up to 7,272,727 ordinary shares) [9]
4.8	Warrant to Purchase Ordinary Shares of the Registrant granted to Legos Advisors Ltd and Avi Gefen dated April 14, 2016

4.9 Share Purchase Agreement between RADA and The Phoenix Insurance Company dated November 9, 2016[10]

4.10 Form of Indemnification Agreement of the Registrant with its officers and directors [11]

4.11 2015 Share Option Plan[12]

8.1 List of Subsidiaries of the Registrant

12.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended

12.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended

13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

(1) Filed as an exhibit to our Annual Report on Form 20-F for the year ended December 31, 2000 and incorporated herein by reference.

(2) Filed as Annex A to our Proxy Statement on Form 6-K furnished on April 4, 2016 and incorporated herein by reference.

(3) Filed as Exhibit A to Exhibit 99.1 to our Proxy Statement on Form 6-K furnished on July 27, 2016 and incorporated herein by reference.

(4) Filed as Exhibit 4.4 to our Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference.

(5) Filed as Exhibit 4.5 to our Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference.

(6) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference.

(7) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference.

(8) Filed as Exhibit 4.8 to our Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference.

(9) Filed as Exhibit 4.8 to our report on Form 6-K furnished on June 9, 2016 and incorporated herein by reference.

(10) Filed as Exhibit 10.1 to a Report on Form 6-K furnished on November 10, 2016 and incorporated herein by reference.

(11) Filed as an Annex B to our Proxy Statement on Form 6-K furnished on April 4, 2016 and incorporated herein by reference.

(12) Filed as Exhibit 4.3 to Registration Statement on Form S-8 filed on August 24, 2016 and incorporated herein by reference.

75

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

U.S. DOLLARS IN THOUSANDS

INDEX

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3 – F-4
Consolidated Statements of Operations	F-5
Consolidated Statements of Comprehensive Income (Loss)	F-6
Consolidated Statements of Changes in Equity	F-7
Consolidated Statements of Cash Flows	F-8 – F-10
Notes to Consolidated Financial Statements	F-11 – F-40

Kost Forer Gabbay & Kasierer
2 Pal-Yam Blvd. Brosh Bldg.
Haifa 3309502, Israel

Tel: +972-4-8654000
Fax: +972-3-5633433
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

RADA ELECTRONIC INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheets of RADA Electronic Industries Ltd. (the "Company") and its subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

Haifa, Israel
March 27, 2017

/s/ Kost Forer Gabbay & Kasierer
Kost Forer Gabbay & Kasierer
A member of Ernst & Young Global

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,205	$734
Restricted deposits	317	609
Trade receivables (net of allowance for doubtful accounts of $14 and $2 at December 31, 2016 and 2015)	5,006	3,646
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 3)	1,096	2,207
Other accounts receivable and prepaid expenses	349	204
Inventories, net (Note 5)	7,102	5,691
Current assets related to discontinued operations	2,254	2,288
Total current assets	17,329	15,379
LONG-TERM ASSETS:		
Long-term receivables and other deposits (Note 6)	742	119
Property, plant and equipment, net (Note 7)	2,650	2,687
Long-term assets related to discontinued operations	266	391
Total assets	$20,987	$18,576

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

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2016	2015
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Bank credit (Note 9)	$575	$2,416
Trade payables	2,557	1,951
Convertible note and loans from shareholders, net (Note 9)	-	1,634
Other accounts payable and accrued expenses (Note 10)	1,987	2,630
Advances from customers, net	839	-
Current liabilities related to discontinued operations	265	226
Total current liabilities	6,223	8,857
LONG-TERM LIABILITIES:		
Convertible loan from shareholders, net (Note 9)	3,072	-
Accrued severance pay and other long term liability	663	660
Total long-term liabilities	3,735	660
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)		
EQUITY:		
Share capital (Note 12) -		
Ordinary shares of NIS 0.03 par value - Authorized: 37,500,000 and 15,000,000 shares at December 31, 2016 and at December 31, 2015 respectively; Issued and outstanding: 21,246,502 and 7,949,444 at December 31, 2016 and at December 31, 2015 respectively.	250	146
Additional paid-in capital	89,407	82,427
Accumulated other comprehensive income	222	387
Accumulated deficit	(79,363)	(74,453)
Total RADA Electronic Industries shareholders' equity	10,516	8,507
Non-controlling interest	513	552
Total equity	11,029	9,059
Total liabilities and equity	$20,987	$18,576

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

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2016	2015	2014
Revenues:			
Products	$11,663	$12,375	$20,927
Services	1,158	1,699	698
	12,821	14,074	21,625
Cost of revenues:			
Products	10,594	11,139	15,124
Services	785	526	160
	11,379	11,665	15,284
Gross profit	1,442	2,409	6,341
Operating costs and expenses:			
Research and development, net	758	693	789
Marketing and selling	2,269	2,357	2,392
General and administrative	1,814	1,513	1,667
Goodwill impairment	-	587	-
Total operating costs and expenses	4,841	5,150	4,848
Operating income (loss)	(3,399)	(2,741)	1,493
Amortization of shareholders' convertible loans discount and beneficial conversion feature (BCF)	1,116	2,684	43
Other financial expenses, net	405	893	1,213
Total financial expenses, net (Note 14)	1,521	3,577	1,256
Net income (loss) from continuing operations	(4,920)	(6,318)	237
Net income (loss) from discontinued operations	13	(179)	(36)
Net income (loss)	$(4,907)	$(6,497)	$201
Net income (loss) attributable to non-controlling interest	3	(36)	(7)
Net income (loss) attributable to RADA Electronic Industries' shareholders	(4,910)	(6,461)	208
Basic and diluted net income (loss) from continuing operations	$(0.35)	$(0.53)	$0.03
Basic and diluted net income (loss) from discontinued operations per Ordinary share	$0.00	$(0.00)	$(0.00)
Basic and diluted net income (loss)	$(0.35)	$(0.55)	$(0.02)
	14,029,346	11,904,088	8,944,803

Weighted average number of Ordinary shares used for computing basic and diluted net income (loss) per share

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

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Year ended December 31,		
	2016	2015	2014
Net income (loss)	$(4,907)	$(6,497)	$201
Other Comprehensive Income (loss):			
Change in foreign currency translation adjustment	(207)	(186)	(14)
Total comprehensive income (loss)	(5,114)	(6,683)	187
Less: comprehensive income (loss) attributable to non-controlling interest	(39)	(73)	(10)
Comprehensive income (loss) attributable to RADA Electronic Industries' shareholders	$(5,075)	$(6,610)	$197

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

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands, except share data

	Number of Ordinary shares (**)	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Non controlling interest	Total equity
Balance at January 1,2014	4,459,285	$ 119	$ 70,884	$ 547	$ (68,200)	$ 635	$ 3,985
Cashless exercise of Warrants	34,875	(*)	(*)				-
Net income (loss)					208	(7)	201
Other comprehensive loss				(11)		(3)	(14)
Balance at December 31, 2014	4,494,160	$ 119	$ 70,884	$ 536	$ (67,992)	$ 625	$ 4,172
Issuance of Ordinary shares, net of issuance costs of $1,070	3,455,284	27	7,403	-	-	-	7,430
Beneficial conversion feature related to convertible loans from shareholders (Note 9)	-	-	4,140	-	-	-	4,140
Net loss	-	-	-	-	(6,461)	(36)	(6,497)
Other comprehensive loss				(149)	-	(37)	(186)
Balance at December 31, 2015	7,949,444	$ 146	$ 82,427	$ 387	$ (74,453)	$ 552	$ 9,059
Beneficial conversion feature related to convertible loans from shareholders (Note 9)	-	-	123	-	-	-	123
Extinguishment of convertible loan	-	-	(359)	-	-	-	(359)
Share-based compensation to employees	-	-	111	-	-	-	111
Issuance of shares and warrants, net of issuance costs of $204	10,415,400	82	5,714	-	-	-	5,796
Exercise of warrants and conversion of convertible loan to Ordinary shares	2,881,658	22	1,391	-	-	-	1,413
Net income (loss)	-	-	-	-	(4,910)	3	(4,907)
Other comprehensive loss	-	-	-	(165)	-	(42)	(207)
Balance at December 31, 2016	21,246,502	$ 250	$ 89,407	$ 222	$ (79,363)	$ 513	$ 11,029

(*) Represents an amount lower than $1.
(**) See Note 12a.

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

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$(4,907)	$(6,497)	$201
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	554	548	575
Impairment of goodwill	-	587	-
Extinguishment and amortization expenses related to beneficial conversion feature and discount of convertible loans	1,116	2,684	43
Severance pay, net	37	53	(15)
Decrease (increase) in trade receivables, net	(1,360)	(607)	1,583
Decrease (increase) in other accounts receivable and prepaid expenses	(135)	81	13
Share based compensation to employees	111	-	-
Decrease (increase) in costs and estimated earnings in excess of billings	403	1,467	(599)
Decrease (increase) in inventories	(1,503)	(499)	153
Increase (decrease) in trade payables	592	602	(1,598)
Increase (decrease) in other accounts payable, accrued expenses and advances from customers, net	173	(1,437)	(172)
Net cash provided by (used in) operating activities from continuing operations	(4,919)	(3,018)	184
Cash flows from investing activities:			
Purchase of property, plant and equipment	(411)	(366)	(296)
Decrease (increase) in deposits, net	11	(10)	2
Change in restricted deposits, net	356	6	392
Net cash provided by (used in) investing activities from continuing operations	(44)	(370)	98

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2016	2015	2014
Cash flows from financing activities:			
Proceeds from convertible loans from shareholders	3,175	-	1,000
Issuance of Ordinary shares, net	5,796	7,430	-
Exercise of warrants	1,300	-	-
Proceeds from (repayment of) short-term bank credit, net	(1,841)	827	(298)
Repayment of short-term loans from shareholders	(2,988)	(5,030)	(1,230)
Net cash provided by (used in) financing activities from continuing operations	5,442	3,227	(528)
Net cash provided by (used in) operating activities from discontinued operations	298	253	(62)
Net cash used in investing activities from discontinued operations	(34)	(8)	(32)
Net cash provided by (used in) financing activities from discontinued operations	-	-	-
Effect of exchange rate changes of discontinued operation on cash and cash equivalents	(133)	(116)	(11)
Increase (decrease) in cash and cash equivalents	610	(32)	(351)
Cash and cash equivalents at the beginning of the year	1,754	1,786	2,137
Cash and cash equivalents at the end of the year	2,364	1,754	1,786
Less cash and cash equivalents of discontinued operation at the end of the year	1,159	1,020	1,075
	$1,205	$734	$711

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2016	2015	2014
(b) Supplemental disclosures of cash flow activities:			
Net cash paid during the year for:			
Income taxes	$ 16	$ 15	$ 35
Interest	$ 658	$ 2,106	$ 57
(c) Non-cash transactions			
Conversion of convertible loan including unpaid interest	$ 113	$ -	$ -
Transfer of inventory to property, plant and equipment	$ 92	$ 573	$ 37
Purchase of property, plant and equipment in credit	$ 14	$ 62	$ 144

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

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. RADA Electronic Industries Ltd. (the "Company") is an Israeli based defense electronics contractor that specialize in the development, manufacture and sale of data recording and management systems (such as digital video and data recorders, ground debriefing stations, head-up display cameras), inertial navigation systems for air and land applications, avionics solutions (such as aircraft upgrades, avionics for unmanned aircraft vehicles, ("UAVs"), store management systems and interface computers) and land radar for defense forces and border protection applications (active protective systems for armored fighting vehicles, hostile fire detection and perimeter surveillance).

The Company also provides test and repair shop using its Automated Test Equipment ("ATE") products in Beijing, China, through its 80% owned Chinese subsidiary, Beijing Huari Aircraft Components Maintenance and Services Co. Ltd. ("CACS" or the "subsidiary"). CACS was established with a Chinese third party, which owns the remaining 20% equity interest (see Note 1b).

The Company is organized and operates as one operating segment.

b. Discontinued operations

During 2016, the Company committed to a plan to sell its test and repair services activity (provide through the Company's 80% owned subsidiary, CACS) in order to focus in its core business.

The results of the discontinued operations including prior periods' comparable results, assets and liabilities which have been retroactively included in discontinued operations as separate line items in the statements of operations and balance sheets, are presented below:

	Year ended December 31,		
	2016	2015	2014
Revenues	$909	$790	$856
Cost of sales	698	626	660
Operating expenses	197	347	239
Operating income (loss)	14	(183)	(43)
Finance income (expenses), net	(1)	4	7
Net income (loss)	13	(179)	(36)

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

The major classes of assets and liabilities that were classified as discontinued operations were:

	Year ended December 31,	
	2016	2015
Cash and cash equivalents	$ 1,159	$ 1,020
Trade receivables	244	392
Other accounts receivable and prepaid expenses	6	2
Inventories	845	874
PROPERTY, PLANT AND EQUIPMENT, NET	266	391
Total assets of discontinued operations	2,520	2,679
Trade payables	54	10
Accrued expenses and other liabilities	211	216
Total liabilities of discontinued operations	$ 265	$ 226

c. Revenues from major customers accounted for 83%, 84% and 83% of total revenues for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 16c).

d. Liquidity and Capital Resources:

On May 15, 2016, the Company's shareholders approved an investment transaction with new investor (the "Investor") after which the Investor has become a controlling shareholder of the Company. The Company issued 8,510,638 Ordinary shares, in consideration for an aggregate amount of approximately $4,000, or a price per each share of $0.47 (the "Initial Investment"). The Company have also issued to the Investor, warrants to purchase: (i) 4,255,319 additional Ordinary shares at an exercise price per Ordinary share of $0.47 (resulting in an aggregate exercise price of $2,000) exercisable for a period of 24 months following the date of the Initial Investment and (ii) warrants to purchase an additional 3,636,363 Ordinary shares at an exercise price per Ordinary share of $0.55 (resulting in an aggregate exercise price of $2,000) exercisable for a period of 48 months following the date of the Initial Investment (collectively: the "Warrants").

In addition, as part of the investment transaction, the Investor has agreed to grant the Company an option, exercisable in the discretion of either the Investor or the Company, to obtain a convertible loan from the Investor in the principal amount of up to $3,175, which may be used solely for the purpose of the repayment of the outstanding convertible loan and accrued interest to existing shareholder due on August 31, 2016.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

During the term of the loan, the Investor will have the right, but not the obligation, at its sole discretion, to convert the then remaining convertible loan amount into Ordinary shares, par value NIS 0.03, at a price per share equal to the lower of: (i) $2.40, or (ii) a five percent (5%) discount to the FMV (the average of the closing prices of the Company's Ordinary shares over the 5 consecutive trading days ending on the last trading day prior to the date of conversion), but in no event less than $0.47.

On June 16, 2016, the Company obtained the loan from the Investor and repaid the outstanding loan balance in the amount of $2,988, including accrued interest of $247 to its former controlling shareholder.

In August and November 2016, the Investor had exercised warrants for an aggregate of 2,659,575 Ordinary shares, at an exercise price of $0.47 per share, for an aggregate total consideration of $1,250.

On November 15, 2016, the Company completed a $2,000 directed registered offering of 1,904,762 Ordinary shares at a price per share of $1.05 to an additional investor.

In January 2017, subsequent to the balance sheet date, the Investor had exercised warrants to 531,915 Ordinary shares at an exercise price per share of $0.47, for a total consideration of $250.

Since incorporation, the Company incurred an accumulated deficit of $79,363. As of December 31, 2016, the Company's cash position (cash and cash equivalents) totaled approximately $2,364 (including cash and cash equivalents attributable to the discontinued operations). In addition, for the years ended December 31, 2016 and 2015, the Company had recurring losses and negative cash flow from operating activity. The Company’s current operating plan includes various assumptions concerning the level and timing of cash receipts from existing and anticipated orders in 2017, current credit facilities available, the abovementioned Initial Investment and cash outflow from operating activity and capital expenditures. Management believes that these funds together with a commitment from the Company's controlling shareholder to financially support the Company as needed, are sufficient for the Company and its subsidiaries to meet their obligations as they come due at least for a period of twelve months from the date of issuance of the consolidated financial statements.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

a. Use of estimates:

The preparation of financial statements in conformity with ("US GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they were made.

b. Financial statements in U.S. dollars:

The majority of the revenues of the Company are generated in U.S. dollars. In addition, substantial portions of the costs of the Company are incurred in U.S dollars.

The Company's management believes that the dollar is the currency of the primary economic environment in which the Company operates. Thus, its functional and reporting currency is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses of the re-measured monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate, in the period in which the currency exchange rate changes.

The financial statements of the Company's foreign subsidiary, whose functional currency is not the U.S. dollar, have been translated into dollars. All balance sheet amounts have been translated using the exchange rates in effect at balance sheet date. Statement of operation amounts have been translated using the average exchange rate prevailing during the year. Such translation adjustments are reported as a separate component of accumulated other comprehensive income (loss) in equity.

c. Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary. Inter-company transactions and balances have been eliminated upon consolidation.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash equivalents:

All highly liquid investments that are readily convertible to cash and are not restricted as to withdrawal or use and the period to maturity of which did not exceed three months at time of deposit, are considered cash equivalents.

e. Restricted deposit:

Restricted cash is invested in short-term bank deposits (less than twelve months), which are mainly used as security for the Company's guarantees to customers and lines of credits with banks. The deposits are in U.S. dollars and bear a variable interest of up to 0.70%.

f. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items, excess inventories and for market prices lower than cost (see also Note 5).

Cost is determined as follows:

Raw materials and components - using the FIFO cost method.

Work in progress and finished goods - represents the cost of manufacturing with the addition of allocable indirect manufacturing costs.

Costs incurred on long-term contracts in progress include direct labor, material, subcontractors, other direct costs and an allocation of overhead, which represent recoverable costs incurred for production.

g. Property, plant and equipment:

Property plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets. Annual rates of depreciation are as follows:

	%
Factory and other buildings	4
Machinery and equipment	7 - 33
Office furniture and equipment	6 - 15

Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease period.

Assets, in respect of which investment grants have been received, are presented at cost less the related grant amount. Depreciation is based on net cost.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, plant and equipment", whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2016, 2015 and 2014, no impairment losses have been identified.

As required by ASC 820, "Fair Value Measurement", the Company applies assumptions that market place participations would consider in determines the fair value of long-lived assets (or asset group).

i. Research and development costs:

Research and development costs, net of participation grants, include costs incurred for research and development, are charged to the statement of operations as incurred.

The Company received royalty-bearing grants, from the Israeli Innovation Authority ("IIA") for the purpose of partially funding research and development projects. The grants are recognized as a deduction from research and development costs incurred (see also Note 11b).

j. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income taxes". This statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company applies ASC 740-10. ASC 740-10 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The adoption of ASC 740-10 did not result in a change in the Company's accumulated deficit. The Company did not record any provision in connection with ASC 740-10 as of December 31, 2016 and 2015.

k. Severance pay:

The Company's agreements with most of its employees are in accordance with section 14 of the Severance Pay Law - 1963, under which the Company's contributions for severance pay shall be instead of severance compensation. Upon release of the policy to the employee, no additional liability exists between the parties regarding the matter of severance pay and no additional payments will be made by the Company to the employee.

The Company's liability for severance pay for the employees that are not covered in section 14 is calculated pursuant to Israel's Severance Pay Law - 1963, based on the most recent salary of the employees as of the balance sheet date less monthly deposits for insurance policies and/or pension funds. Employees are entitled to one month's salary for each year of employment or a portion thereof.

The carrying value of deposited funds includes profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligations pursuant to Israeli severance pay law or labor agreements.

Severance expense recorded in the statement of operations is net of interest and other income accumulated in the deposits. Severance expense for the years ended December 31, 2016, 2015 and 2014 amounted to $251, $553 and $674, respectively.

l. Accounting for share-based compensation:

The Company accounts for share-based payment in accordance with ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's statement of operations.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value for the Company's stock options granted to employees and directors was estimated using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	December 31,		
	2016		2015
Dividend yield	0	%	-
Risk-free interest rate	1.19	%	-
Expected term (in years)	4.5		-
Volatility	80	%	-

The dividend yield assumption is based on the Company's historical and expectation of future dividend payouts and may be subject to changes in the future.

The computation of expected volatility is based on realized historical share price volatility of the Company's share.

The risk-free interest rate assumption is the implied yield currently available on the U.S treasury yield zero-coupon issues with a remaining term equal to the expected life term of the Company's options.

The expected term of the options represents the period of time that the options are expected to be outstanding and is based on the simplified method, as allowed under Staff Accounting Bulletin No. 110, which is the mid-point between the vesting date and the end of the contractual of the option.

m. Fair value of financial instruments:

The Company measures its financial instruments at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3.

The carrying amount of cash and cash equivalents, restricted deposits, trade receivables, other accounts receivable, bank credit and current maturities of long term loans, trade payables and other accounts payable approximate their fair value due to the short-term maturity of these instruments.

Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The following table presents the Company's assets (liabilities) measured at fair value on a recurring basis at December 31, 2016 and 2015:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Derivatives:				
Foreign currencies derivatives	$	(8)	$ -	(8)
Total	$	(8)	$ -	(8)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Derivatives:				
Foreign currencies derivatives	$-	(23)	$ -	(23)
Total	$-	(23)	$ -	(23)

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiary to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, trade receivables and long-term receivables.

The Company's and its subsidiary's cash and cash equivalents and restricted deposits are mainly held in U.S. dollars with major banks in Israel and China. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments.

The Company's and its subsidiary's trade receivables are derived from sales to large and solid organizations located mainly in the United States, Asia, Latin America and Israel. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for doubtful accounts is determined with respect to these amounts that the Company has determined to be doubtful of collection. The allowance is computed for specific debts and the collectability is determined based upon the Company's experience.

o. Comprehensive income (loss):

The Company accounts for comprehensive income in accordance with ASC 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components.

Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

Accordingly, the Company presents a separate consolidated statement of comprehensive income (loss).

The following tables summarizes the changes in accumulated balances of other comprehensive income, net of taxes for the years ended December 31, 2016 and 2015:

	Accumulated foreign currency translation differences	Total
Balance as of December 31, 2015	$ 387	$387
Net current period other comprehensive loss	(165)	(165)
Balance as of December 31, 2016	$ 222	$222

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Accumulated foreign currency translation differences	Total
Balance as of December 31, 2014	$ 536	$536
Net current period other comprehensive loss	(149)	(149)
Balance as of December 31, 2015	$ 387	$387

p. Warranty:

In connection with the sale of its products, the Company provides product warranties for periods between one to two years. Based on past experience and engineering estimates, the estimated liability from these warranties is $35 as of December 31, 2016 and 2015.

q. Revenue recognition:

The Company generates revenues mainly from the sale of products and from long-term fixed price contracts of defense electronics as follows: data recording and management systems, inertial navigation systems for air and land applications, avionics solutions, and avionics for UAVs, and land radar for defense forces and border protection applications. In addition, the Company provides manufacturing, development and product support services.

The Company also generates revenues from repair services using its ATE mainly through CACS. (See Note 1b)

Product revenues:

The Company recognizes revenue from sales of products in accordance with ASC 605-10, "Revenue Recognition" (Formerly "Staff Accounting Bulletin ("SAB") No. 104").

Product revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product to the customer has occurred and the Company has determined that collection of the fee is probable. If the product requires specific customer acceptance, revenue is deferred until customer acceptance occurs or the acceptance provisions lapse, unless the Company can objectively and reliably demonstrate that the criteria specified in the acceptance provisions are satisfied.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from long-term fixed price contracts which provide a substantial level of development efforts are recognized in accordance with ASC 605-35, "Construction-Type and Production-Type contracts", using contract accounting on a percentage of completion method in accordance with the "Input Method". The percentage of completion is determined based on the ratio of actual costs incurred to total costs estimated to be incurred over the duration of the contract. With regard to contracts for which a loss is anticipated, a provision is made for the entire amount of the estimated loss at the time such loss becomes evident. As of December 31, 2016 and 2015, the provision for estimated losses identified is $0 and $27, respectively.

Revenues from long-term fixed-price contracts that involve both development and production are recorded using the cost-to-cost method (development phase) and units-of-delivery method (production phase) as applicable to each phase of the contract, as the basis to measure progress toward completion.

Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit or loss are recorded in results of operations when they are reasonably determinable by management, on a cumulative catch-up basis.

The Company believes that the use of the percentage of completion method is appropriate as the Company 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 Company expects to perform its contractual obligations and its customers are expected to satisfy their obligations under the contract.

Service revenues:

Revenues from services are recognized as the services are performed.

r. Basic and diluted net income (loss) per share:

Basic net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year in accordance with ASC 260, "Earnings per share".

For the years ended December 31, 2016, 2015 and 2014, all options, convertible notes and warrants have been excluded from the computation of diluted net income (loss) per share, since their effect is anti-dilutive.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Derivatives and hedging:

The Company accounts for derivatives and hedging based on ASC 815, "Derivatives and hedging", as amended and related Interpretations. ASC 815 requires the Company to recognize all derivatives on the balance sheet at fair value. If a derivative meets the definition of a hedge and is so designated, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings (for fair value hedge transactions) or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings (for cash flow hedge transactions).

The ineffective portion of a derivative's change in fair value is recognized in earnings. If a derivative does not meet the definition of a hedge, the changes in the fair value are included in earnings. Cash flows related to such hedges are classified as operating activities.

The Company enters into forward exchange contracts and option contracts in order to limit the exposure to exchange rate fluctuation associated with payroll expenses mainly incurred in NIS. Since the derivative instruments that the Company holds do not meet the definition of hedging instruments under ASC 815, any gain or loss derived from such instruments is recognized immediately as financial expenses, net.

As of December 31, 2016 and 2015, the fair value of the outstanding forward contracts was $8 and $23, respectively, which was recorded in other accruals against financial expenses.

t. Recently Issued Accounting Standards:

ASU 2014-15 - Presentation of Financial Statements - Going Concern (Subtopic 205-40):
In August 2014, the FASB issued guidance on disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (ASU 2014-15), which defines management’s responsibility to evaluate whether there is substantial doubt about a company’s ability to continue as a going concern. ASU 2014-15 also provide principles and definitions that are intended to reduce diversity in the timing and content of disclosures in the financial statement footnotes. This guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company adopted the provisions of ASU 2014-15 for the year ended December 31, 2016. The adoption of ASU 2014-15 did not have a material impact on the consolidated financial statements.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ASU 2016-09 - Compensation - Stock Compensation (Topic 718):
In March 2016, the FASB issued guidance on improvements to Employee Share-Based Payments. The standard requires among others that excess tax benefits or deficiencies for share-based payments be recorded as income tax benefit of expense, rather then within additional paid in capital, in the period the shares vest. Cash flows related to excess tax benefits will be included in operating activities instead of separately classified as a financing activity. The new guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company does not expect this guidance to have a material effect on its consolidated financial statements at the time of adoption of this standard.

ASU 2016-18 - Statement of Cash Flows (Topic 230):
In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The ASU requires that the Consolidated Statement of Cash Flows explain the change in total cash and equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. The ASU also requires a reconciliation between the total of cash and equivalents and restricted cash presented on the Consolidated Statement of Cash Flows and the cash and equivalents balance presented on the Consolidated Balance Sheet. ASU 2016-18 is effective retrospectively on January 1, 2018, with early adoption permitted. The Company is currently evaluating the potential effect of the guidance on its consolidated financial statements.

ASU 2016-02 - Leases (Topic 842):
In February 2016, the FASB issued guidance on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e, lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. Topic 842 supersedes the previous leases standard, ASC 840, "Leases". The guidance is effective for the interim and annual periods beginning on or after December 15, 2018 (early adoption is permitted). The Company is currently evaluating the potential effect of the guidance on its consolidated financial statements.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ASU 2015-11 - Inventory (Topic 330):
In July 2015, the FASB issued guidance on current accounting for inventory measurement. The new guidance requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is defined by the guidance as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is permitted). The Company does not expect this guidance to have a material effect on its consolidated financial statements at the time of adoption of this standard.

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606):
In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606), which will replace existing requirements in U.S. GAAP, including industry-specific requirements, significantly expand the disclosure requirements and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. ASU 2014-09 also provides for additional disclosure requirements. The FASB has recently issued several amendments to the new standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. The amendments include ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606)-Principal versus Agent Considerations", which was issued in March 2016, and clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing", which was issued in April 2016, and amends the guidance in ASU No. 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property.

The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. While ASU 2014-09 was to be effective for annual periods and interim periods beginning after December 15, 2016, on July 9, 2015, the FASB approved the deferral of the effective date to periods beginning on or after December 15, 2017.

Accordingly, the Company intends to adopt ASU 2014-09 on January 1, 2018 and continues to deliberate the selection of the transition method. The Company has made progress toward completing the evaluation of the potential changes from adopting the new standard in its financial reporting and disclosures. The Company expects to predominantly complete the contract evaluation and validate the impact of the accounting and disclosure changes on its business processes, controls and systems during the first half of 2017, design any changes to such business processes, controls and systems by the middle of 2017, and implement the changes over the remainder of 2017.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The adoption of the new standard may primarily impact the Company's contracts where revenue is currently recognized using the percentage-of-completion units-of-delivery method, with the possible resulting impact being revenue which may be recognized earlier in the performance period as it incur costs, as opposed to when units are delivered. This change may also impact the Company's balance sheet presentation with a possible decrease in inventories, an increase in contract assets (i.e., unbilled receivables) and a net increase to retained earnings to primarily reflect the impact of converting units-of-delivery contracts to the cost-to-cost method for recognizing revenue and profits.

ASU 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued guidance on the classification of Certain Cash Receipts and Cash Payments which intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the Consolidated Statement of Cash Flows by providing guidance on eight specific cash flow issues. ASU 2016-15 is effective retrospectively on January 1, 2018, with early adoption permitted. The Company is currently evaluating the potential effect of the guidance on its consolidated cash flow statement.

NOTE 3:- CONTRACTS IN PROGRESS

Amounts included in the consolidated financial statements, which relate to unbilled receivables are classified as current assets. Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. Summarized below are the components of the amounts:

Costs and estimated earnings in excess of billings on uncompleted contracts:

	December 31,	
	2016	2015
Costs incurred on uncompleted contracts	$21,616	$19,167
Estimated earnings	9,067	6,465
	30,683	25,632
Less - billings and progress payments	28,879	23,425
Costs and estimated earnings in excess of billings on uncompleted contracts	1,804	2,207
Less: Long-term portion	708	-
Costs and estimated earnings in excess of billings on uncompleted contracts - Current portion	$1,096	$2,207

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2016	2015
Prepaid expenses	$248	$146
Government authorities	51	12
Advance payments to vendors	50	46
	$349	$204

NOTE 5:- INVENTORIES

	December 31,	
	2016	2015
Raw materials	$2,873	$2,323
Work in progress, net *)	3,032	2,087
Finished goods	1,197	1,281
	$7,102	$5,691

*) Net of provision for losses on long-term contracts as of December 31, 2016 and 2015, in the amount of $0 and $27, respectively.

Write-offs of inventories for the years ended December 31, 2016, 2015 and 2014 amounted to $144, $153 and $138, respectively. The write-offs were due to slow-moving items and excess inventories and were recorded in cost of revenues.

NOTE 6:- LONG TERM RECEIVABLES AND OTHER DEPOSITS

	December 31,	
	2016	2015
Costs and estimated earnings in excess of billings on uncompleted contracts (see Note 3)	$708	$-
Restricted deposits	-	64
Leasing deposits	34	55
	$742	$119

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT, NET

	December 31,	
	2016	2015
Cost:		
Factory building	$1,989	$1,989
Machinery and equipment *)	8,821	8,419
Office furniture and equipment	657	556
Leasehold improvements	241	227
	11,708	11,191
Accumulated depreciation:		
Factory building	1,974	1,958
Machinery and equipment *)	6,658	6,144
Office furniture and equipment	296	281
Leasehold improvements	130	121
	9,058	8,504
Depreciated cost	$2,650	$2,687

*) Includes machinery at cost of $374 as of December 31, 2016 and 2015, and accumulated depreciation of $74 and $37 as of December 31, 2016 and 2015, respectively, which are under operating leases to customers.

Write-offs of machinery and equipment (cost and accumulated depreciation) for the years ended December 31, 2016, 2015 and 2014 amounted to $0, $191 and $0, respectively. The write-offs are due to fully depreciated assets that are no longer in use.

Depreciation expense amounted to $554, $548 and $575 for the years ended December 31, 2016, 2015 and 2014, respectively.

As for charges, see Note 11d.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- GOODWILL

	December 31,	
	2016	2015
Opening balance	$-	$587
Impairment of Goodwill	-	(587)
	$-	$-

In 2015, the Company determined that sufficient indicators of potential impairment existed which require goodwill impairment analysis. These indicators included the trading value of the Company's stock at the time of the impairment test, coupled with existing market conditions and business trends. Based on the step one and step two analyses, the Company recorded goodwill impairment charge in 2015, in the amount of $587.

NOTE 9:- BANK CREDIT AND LOANS

A. Loans and convertible note from shareholders

	December 31,	
	2016	2015
Convertible note from shareholders	$3,175	$3,090
Less: Beneficial Conversion Feature	(103)	(1,456)
	$3,072	$1,634

In May 2016, as part of the investment transaction (see Note 1d), the Investor has agreed to grant the Company an option, exercisable in the discretion of either the Investor or the Company, to obtain a convertible loan from the Investor in the principal amount of up to $3,175, which may be used solely for the purpose of the repayment of the outstanding convertible loan and accrued interest to existing shareholders due on August 31, 2016. The convertible loan bears interest of LIBOR+6%, which paid on a quarterly basis.

On June 16, 2016, the Company obtained the loan from the Investor and repaid an outstanding loan balance in the amount of $2,988 and accrued interest of $247 to its former controlling shareholder.

On August 21, 2016, a shareholder of the Company converted the then outstanding loan balance in the amount of $102 and accrued interest of $11 into 115,700 Ordinary shares.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- BANK CREDIT AND LOANS (Cont.)

A. Loans and convertible note from shareholders (Cont.):

During the term of the loan, the Investor will have the right, but not the obligation, at its sole discretion, to convert the then remaining convertible loan amount into Ordinary shares, par value NIS 0.03, at a price per share equal to the lower of: (i) $2.40, or (ii) a five percent (5%) discount to the FMV (the average of the closing prices of the Company's Ordinary shares over the 5 consecutive trading days ending on the last trading day prior to the date of conversion), but in no event less than $0.47.

The Company accounted for the repayment of the then outstanding loan as extinguishment of convertible debt instrument with beneficial conversion feature in accordance with ASC 470-20-40-3. As a result, the Company recorded the amount of the requisition price to be allocated to the repurchase of the beneficial conversion feature in the amount of $359 against additional-paid-in capital and recognized a loss from extinguishment of $37. In addition, the Company recorded a beneficial conversion feature related to the convertible loan as debt discount in the amount of $123. The discount is amortized over the term of the convertible loan using the interest method.

Amortization of shareholders' convertible loans discount and beneficial conversion feature expenses amounted to $1,116, $2,684 and $43 for the years ended December 31, 2016, 2015 and 2014, respectively.

B. Bank Credit

	December 31,	
	2016	2015
Bank Credit	$575	$2,416

The Company may secure borrowing with one of its banks against specific accounts receivables of up to $2,250, out of which, $575 was utilized as of December 31, 2016. The annual average interest rate on the lines of credit is LIBOR + 3.5% at December 31, 2016. In addition, the Company has a line of credit for customers guarantees of $633, which was fully utilized as of December 31, 2016. The guarantees are secured by a first priority floating charge on all of the Company's assets and, unpaid share capital and insurance rights (rights to proceeds on insured assets in the event of loss).

The agreements with the banks prohibit the Company from: (i) selling or otherwise transferring any assets except in the ordinary course of business, (ii) placing a lien on the Company's assets without the bank's consent, or (iii) declaring dividend to its shareholders.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2016	2015
Payroll and related accruals	$1,269	$1,700
Accrued expenses – subcontractors	129	79
Accrued expenses	447	464
Accrued interest due to shareholders loan	71	115
Tax authorities	31	224
Derivatives instruments	8	23
Others	32	25
	$1,987	$2,630

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. As of December 31, 2016, the Company was not a party to any legal proceedings.

b. The Company's research and development efforts have been partially financed through royalty-bearing programs sponsored by the IIA. In return for the IIA's participation, the Company is committed to pay royalties at a rate ranging from 3% to 5% of sales of the products whose research was supported by grants received from the IIA, up to 100% of the amount of such participation received linked to the U.S. dollar. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required. As of December 31, 2016, the Company received total grants from the IIA in the amount of $5,545, including LIBOR interest.

The total amount of royalties charged to operations for the years ended December 31, 2016, 2015 and 2014, were approximately $130, $55 and $18, respectively. As of December 31, 2016, the Company's contingent liability for royalties, net of royalties paid or accrued, totaled approximately $1,469.

There were no research and development grants received from the IIA in the years ended December 31, 2016, 2015 and 2014.

c. The Company's offices in Netanya, Israel, are leased under a non-cancelable operating lease expiring on January 31, 2018. In March 2017, subsequent to the balance sheet date, the Company extended the lease period until January 31, 2022. In addition, the Company's motor vehicles are leased under operating leases.

Annual minimum future rental commitments under these leases, at exchange rates in effect on December 31, 2016, are approximately as follows:

2017	$598
2018	148
2019	22

$768

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Lease expenses for the years ended December 31, 2016, 2015 and 2014, were $707, $761 and $754, respectively.

d. Floating charges have been recorded on all of the Company's assets and specific charges have been recorded on certain assets in respect of the Company's liabilities to its banks and other creditors, including its shareholders.

e. The Company provides bank guarantees to its customers and others in the ordinary course of business. The guarantees which are provided to customers are to secure advances received at the commencement of a project or to secure performance of operational milestones. The total amount of bank guarantees provided to customers and others as of December 31, 2016, is approximately $633.

NOTE 12:- SHAREHOLDERS' EQUITY

a. Share capital:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends and the right to share in excess assets upon liquidation of the Company.

On August 31, 2016, the Company held an Extraordinary General Meeting of Shareholders on which it was approved to consolidate the registered (authorized) share capital of the Company as follows: every two (2) Ordinary shares with a nominal (par) value of NIS 0.015 each will be consolidated into one (1) Ordinary share with a nominal (par) value of NIS 0.03 each. All Ordinary shares, options, warrants, convertible loan, conversion options and per share amounts have been adjusted to give retroactive effect to this reverse split for all periods presented.

On May 15, 2016, the Company's shareholders had approved the increase of the Company's authorized share capital by NIS 675,000 and as a result the authorized share capital will equal NIS 1,125,000 divided into 37,500,000 Ordinary shares, par value NIS 0.03 each (adjusted to reflect the shares reverse share split effected in September 2016).

On July 30, 2015, the Company announced the closing of an underwritten public offering of 3,455,284 Ordinary shares, offered at a price to the public of $2.46 per share. The gross proceeds to the Company were $8,500, before deducting underwriting discounts and commissions and other offering costs of approximately $1,070.

On May 15, 2016, the Company's shareholders approved an investment transaction with the Investor according to which the Investor became a controlling shareholder of the Company and the Company issued 8,510,638 Ordinary shares and Warrants (see Note 12c), in consideration for the aggregate amount of approximately $4,000. Offering costs amounted to $169.

On August 21, 2016, a shareholder of the Company converted the outstanding loan balance in the amount of $102 and accrued interest of $11 into 115,700 Ordinary shares.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

On November 15, 2016, the Company completed a $2,000 directed registered offering of 1,904,762 Ordinary shares at a price per share of $1.05 to an additional investor. Offering costs amounted to $35.

b. Stock option plans:

In April 2015, the Company's Board of Directors adopted the "2015 Share Option Plan" (the "Plan"), which authorized the grant of options to purchase up to an aggregate of 1,500,000 Ordinary shares to officers, directors, consultants and key employees of the Company and its subsidiary. Options granted under the Plan expire within a maximum of ten years from adoption of the plan.

In June 2016, the Company granted options to certain employees and officers of the Company, to purchase a total 984,375 Ordinary shares at an exercise price of $0.9 per share. The options will vest as follows: 25% of the options granted to each employee will vest in June 2017; additional 75% shall vest in three equal annual installments of 25% each until June 2020. These options shall be exercisable for 48 months following the date of the vesting.

As part of the June 2016 grant, the Company's former CEO was granted options to purchase 168,750 Ordinary shares at an exercise price of $0.90 per Ordinary share. The former CEO resigned in November 2016.

In November 2016, the Company's Audit Committee (in its capacity as Compensation Committee) and Board of Directors have determined, subject to shareholders approval, to extend until January 2017, the exercise date of the former CEO options by accelerating the vesting of 126,563 Options as of December 31, 2016. Pursuant to the terms of the plan, the former CEO is eligible to exercise such number of the options (or any part thereof) within 90 days of the date of his resignation.

In November 2016, the Company's Audit Committee (in its capacity as Compensation Committee) and Board of Directors have determined, subject to shareholders approval to grant its new appointed CEO additional options as follows (i) options to purchase 68,750 Ordinary shares at an exercise price of $1.16 per Ordinary share that will vest ratably over a period of four (4) years and (ii) options to purchase 150,000 Ordinary shares at an exercise price of $1.16 per Ordinary share that will vest immediately in lieu of 99 vacation days that were accrued and redeemable for his benefit. These options shall be exercisable for 48 months.

On January 15, 2017, subsequent to balance sheet date, the Company's Shareholders had approved the CEO grant, and former CEO acceleration.

In December 2016, the Company granted options to purchase 40,000 Ordinary shares at an exercise price of $1.17 per Ordinary share, that will vest immediately in lieu of 36 vacation days that were accrued and redeemable for an employee benefit. These options shall be exercisable for 48 months.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2016, 513,125 options are available for future grant under the Plan.

A summary of the Company’s activity for options granted to employees and directors under the Plan is as follows:

	Year ended December 31, 2016		
	Number of options	Weighted average exercise price	Aggregate Intrinsic Value Price
Outstanding at the beginning of the period	-	$ -	
Granted	1,024,375	0.91	
Exercised	-	-	
Forfeited	(37,500)	0.9	
Cancelled	-	-	
Outstanding at the end of the period	986,875	$ 0.91	$ 246
Exercisable	-	-	-
Vested and expected to vest	892,187	$ 0.91	$ 221

Intrinsic value of exercisable options (the difference between the Company’s closing share price on the last trading day in the period and the exercise price, multiplied by the number of in-the-money options) represents the amount that would have been received by the employees and directors option holders had all option holders exercised their options on December 31, 2016. This amount changes based on the fair market value of the Company’s Ordinary share.

As of December 31, 2016, there was approximately $564 of unrecognized compensation expense related to non-vested stock options, expected to be recognized up to four years.

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the year ended December 31, 2016 and 2015, was comprised as follows:

	Year ended December 31,	
	2016	2015
Cost of revenues	70	-
Marketing and selling	12	-
General and administrative	29	-
	111	-

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

c. Warrants:

On May 18, 2016, the Company issued to the Investor (see Note 1d), warrants to purchase: (i) 4,255,319 additional Ordinary shares at an exercise price per Ordinary share of $0.47 (resulting in an aggregate exercise price of $2,000), exercisable for a period of 24 months following the date of the Initial Investment and (ii) warrants to purchase an additional 3,636,363 Ordinary shares at an exercise price per Ordinary share of $0.55 (resulting in an aggregate exercise price of $2,000), exercisable for a period of 48 months following the date of the Initial Investment.

On May 18, 2016, as part of the investment transaction, the Company issued to a consultant, 510,638 warrants to purchase Ordinary shares at an exercise price per Ordinary share of $0.47, exercisable for a period of 18 months following the date of the Initial Investment.

In August 2016, the Investor had exercised 531,915 Ordinary shares at an exercise price per share of $0.47 in consideration of $250 thousands to the Company and in November 2016 additional 2,127,660 Ordinary shares were exercised at an exercise price per share of $0.47 in consideration of $ 1,000 to the Company.

In September 2016, the consultant had exercised 106,383 Ordinary shares at an exercise price per share of $0.47, in consideration of $50.

The Company's outstanding warrants as of December 31, 2016, are as follow:

Issuance date	Outstanding and exercisable	Exercise price	Exercisable through
May 18, 2016	1,595,944	0.47	May 18, 2018
May 18, 2016	3,636,364	0.55	May 18, 2020
May 18, 2016	404,255	0.55	November 18, 2017

In January 2017, subsequent to the balance sheet date, the Investor had exercised additional 531,915 Ordinary shares at an exercise price per share of $0.47 in consideration of $250.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME

a. The Israeli corporate tax rate and real capital gains tax were 26.5% in 2014 and 2015 and 25% in 2016.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

b. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company qualifies as an "Industrial Company" under the Law for the Encouragement of Industry (Taxes), 1969 (the “Industrial Encouragement Law”). The Industrial Encouragement Law defines an “Industrial Company” as a company that is resident in Israel and that derives at least 90% of its income in any tax year, other than income from defense loans, capital gains, interest and dividends, from an enterprise whose major activity in a given tax year is industrial production.

The principal benefit from the above law is the deduction of expenses in connection with a public offering. Also, under the industrial Encouragement Law an "Industrial Company" is entitled to special rates of depreciation for industrial equipment and in addition to amortization of the cost of purchased know-how and patents over an eight year period for tax purposes and an accelerated depreciation rate on equipment.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

c. As of December 31, 2016, the net operating tax loss carryforward relating to the Company in Israel amounted to approximately $67,681, not including a carryforward capital loss amounting to approximately $3,450. Carryforward losses in Israel may be carried forward indefinitely and may be offset against future taxable income.

As the Company believes that it is more likely than not that the deferred tax assets in respect of these carryforward losses will not be utilize, the Company recorded a full valuation allowance for the entire balance of the deferred tax asset relating to the carryforward losses.

d. The main reconciling items between the statutory tax rate of the Company and the effective tax rate is the valuation allowance recorded in respect of the deferred tax assets relating to net operating loss carryforward and other temporary differences due to the uncertainty of the realization of such tax assets.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME (Cont.)

Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2016	2015
Net operating losses carryforward	$16,920	$16,439
Capital loss carryforward	862	862
Allowances and reserve	325	364
Total deferred tax assets before valuation allowance	18,107	17,665
Valuation allowance	(18,107)	(17,665)
Net deferred tax assets	$-	$-

As of December 31, 2016 and December 31, 2015, the Company has provided valuation allowances in respect of deferred tax assets resulting from tax losses carryforward and other temporary differences, since it has a history of operating losses and current uncertainty concerning its ability to realize these deferred tax assets in the future.

The Company accounts for its income tax uncertainties in accordance with ASC 740, which clarifies the accounting for uncertainties in income taxes recognized in a company’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

As of December 31, 2016 and 2015, there were no unrecognized tax benefits that if recognized would affect the annual effective tax rate.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2016	2015	2014
Income:			
Foreign currency exchange differences	$8	$131	$208
Interest on cash equivalents and restricted deposits	9	4	5
	17	135	213
Expenses:			
Amortization of shareholders' convertible loans discount and BCF	1,116	2,684	43
Interest on shareholders' convertible note and loans	270	575	708
Withholding taxes on interest of convertible note and loans from shareholders	-	119	294
Bank commissions and others	100	152	146
Foreign currency exchange differences	25	161	271
Interest on loans from banks and other credit balances	27	21	7
	1,538	3,712	1,469
Total financial expenses, net	$1,521	$3,577	$1,256

NOTE 15:- RELATED PARTY BALANCE AND TRANSACTIONS

For the year ended December 31, 2016, the Company incurred $270 in respect of interest on loans received from its shareholders.

In January 2017, subsequent to the balance sheet date, the Company's shareholders meeting approved that in addition to the directors' fees to be paid to all of the Company's directors commencing as of January 1, 2017, the Company will pay the Investor (see Note 1d) an additional monthly payment of approximately $4.6 (NIS 17,500) for time devoted by the Company's Executive Chairman of the Board of Directors, which is also a co-owner of the Investor, to such position. As of the first calendar year in which the Company's consolidated audited financial statements will reflect net income (before taxes), such additional payment will be increased to approximately $9 (NIS 35,000).

In addition, the Company's shareholders meeting approved a new engagement letter with a director of the Company (the "Director"), according to which the Director will be entitled to receive a commission of 2.5% of the net revenues received by the Company with respect to specific transactions introduced to the Company by the Director, subject to a detailed agreement to be entered into by the Director and the Company and the prior approval of any such transactions by the Company and the Audit Committee.

See also Note 9 for transactions with the Company's shareholders.

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

a. In accordance with Statement of ASC 280, "Segment Reporting", the Company is organized and operates as one business segment, which develops, manufactures and sells ATE products, avionics equipment and aviation data acquisition and debriefing systems.

b. Revenues by geographic areas:

Revenues are attributed to geographic area based on the location of the end customers as follows:

	Year ended December 31,		
	2016	2015	2014
Israel	$7,358	$6,062	$5,005
Asia	2,499	2,692	5,748
North America	1,553	3,558	8,072
Latin America	1,289	1,614	2,731
Europe	122	148	69
Total	$12,821	$14,074	$21,625

c. Major customers:

Revenues from single customers that exceed 10% of the total revenues in the reported years as a percentage of total revenues are as follows:

	Year ended December 31,		
	2016	2015	2014
	%		
Customer A	20	24	11
Customer B	17	9	6
Customer C	16	7	3
Customer D	13	10	16
Customer E	11	13	23
Customer F	6	8	14
Customer G	-	13	10

RADA ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

d. Long-lived assets by geographic areas:

	December 31,	
	2016	2015
Israel	$2,650	$2,687
China	266	391
	$2,916	$3,078

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

RADA ELECTRONIC INDUSTRIES LTD.

By: /s/ Dov Sella
Name: Dov Sella
Title: Chief Executive Officer

Dated: March 27, 2017