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

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

For the fiscal year ended December 31, 2015

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 0.015 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 0.015 per share…15,898,965
(As of December 31, 2015)

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

Yes ☐ No ☒

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 ☒

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 ☒ 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 ☒ 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 t 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 ☒

INTRODUCTION

We are an Israel based defense electronics contractor. We specialize in the development, manufacturing, marketing and sales of military avionics systems for manned and unmanned aircraft, inertial navigation systems for air and land platforms, 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," "anticipate" 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."

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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, 2013, 2014 and 2015 and the consolidated balance sheet data as of December 31, 2014 and 2015 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, 2011 and 2012, and the consolidated balance sheet data as of December 31, 2011, 2012 and 2013 from our audited consolidated financial statements that are not included in this annual report.

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(U.S. dollars in thousands, except share and per share data)				
Revenues	$ 19,405	$ 21,551	$ 21,761	$ 22,481	$ 14,864
Cost of revenues	13,800	16,233	17,160	15,944	12,291
Gross profit	5,605	5,318	4,601	6,537	2,573
Research and development, net	2,543	2,423	1,459	789	693
Marketing and selling	2,106	1,664	1,959	2,392	2,358
General and administrative	1,944	2,137	1,919	1,901	1,858
Goodwill impairment	-	-	-	-	587
Operating income (loss)	(988)	(906)	(736)	1,455	(2,923)
Financial expense, net	531	1,149	1,907	1,254	3,574
Net income (loss)	(1,519)	(2,055)	(2,643)	201	(6,497)
Net (income) loss attributable to non-controlling interest	(7)	4	8	7	36
Net income (loss) attributable to RADA Electronic Industries' shareholders	(1,526)	(2,051)	(2,635)	208	(6,461)
Basic and diluted net income (loss) per Ordinary share attributable for RADA Electronic Industries' shareholders	$ (0.17)	$ (0.23)	$ (0.30)	$ 0.02	$ (0.54)
Weighted average number of shares used to compute basic and diluted net income (loss) per share	8,919	8,919	8,919	8,945	11,904

	As of December 31,				
	2011	2012	2013	2014	2015
	(U.S. dollars in thousands)				
BALANCE SHEET DATA:					
Working capital (deficiency)	$ 2,954	$ 1,977	$ (152)	$ 35	$ 6,522
Total assets	24,190	22,886	22,007	20,097	18,576
Short-term credits and current maturities of long-term loans	6,338	7,140	7,194	6,709	-
Convertible note - short term	2,810	3,000	3,000	3,000	3,090
Long-term shareholders loans, net of current maturities	176	-	-	-	-
Shareholders' equity	7,224	5,906	3,350	3,547	8,507

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 2013 and 2015 and may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. As of December 31, 2015, our accumulated deficit was $74 million. 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 will need to raise additional capital in the future, which may not be available to us; we have entered into a standstill agreement with our controlling shareholder and other shareholders after not repaying fully and timely the interest and principal due on loans provided to us.

As a consequence of our need to invest in research and development, we incurred significant bank debt and sold equity and debt securities in private placements to fund our operating requirements. Our controlling shareholder and other shareholders provided us with loans, the principal amount of which as of December 31, 2015 totaled $3.1 million. These loans are secured by second degree liens over all of our properties. We have not timely and fully repaid the principal and interest due on a portion of such shareholders' loans and therefore such loans are subject to acceleration upon the demand of the lenders. However, we reached a standstill agreement with the lenders, or the Standstill Agreement, according to which, except under extraordinary circumstances, they will not take any action to accelerate the loans. The forbearance period created under the Standstill Agreement expired on January 31 2015. Following shareholder approval, we entered into amendments to the Standstill Agreement dated April 27, 2015 and June 2, 2015, according to which, the forbearance period was extended to August 31, 2016.

On July 30, 2015, we completed a public offering of 6,910,569 ordinary shares, offered at a price to the public of $1.23 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.

In order to repay our existing debt prior to the end of the standstill period of the Standstill Agreement, we intend to offer new ordinary shares in a proposed offering that will substantially dilute the holdings of our shareholders.

In order to repay the remaining debt subject to the Standstill Agreement**,** we entered into an investment transaction with a new investor, DBSI Investments Ltd., or DBSI, according to which we agreed to issue 17,021,277 ordinary shares, in consideration for the aggregate amount of approximately $4,000,000 reflecting a price per each share of $0.235, or the Initial Investment. We will also issue to DBSI, without additional consideration, warrants to purchase: (i) 8,510,638 additional ordinary shares at an exercise price per share of $0.235 (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 (ii) warrants to purchase an additional 7,272,727 ordinary shares at an exercise price per share of $0.275 (resulting in an aggregate exercise price of $2,000,000) exercisable for a period of 48 months following the date of the Initial Investment.

In addition, as part of the investment transaction, DBSI has agreed to grant the Company an option, exercisable in the discretion of either DBSI or the Company, to obtain a loan from the Investor in the principal amount of up to $3,175,000 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.

During the term of the loan, DBSI will have 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) $1.20, or (ii) a five percent (5%) discount to the FMV (the average of the closing prices of the Company's Ordinary Shares over the 5 consecutive trading days ending on the last trading day prior to the date of conversion), but in no event less than US$ 0.235. These additional issuances would substantially dilute the ownership interests and voting rights of our shareholders.

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 two radar hardware platforms for use in combat vehicles and short-range protection applications and in defense forces and border protection applications. 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 not received any large orders from other customers. In March 2015 we announced that we entered into a contract with Lockheed Martin, which selected our multi-mission hemispheric radar product to support internally funded high energy laser weapon system prototype testing, and that we had entered into an agreement with DRS Technologies, under which they agreed to sell, produce, and support, our tactical radars as part of its tactical radar portfolio. We have not yet received any orders from DRS Technologies with respect to the sale of our radars to third parties and there can be no assurance that we will ever receive any such orders.

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

The vast majority of our revenues are derived from the sale of products with military applications. These revenues totaled approximately $14.1 million, or 95% of our revenues, in 2015, $21.6 million, or 96% of our revenues, in 2014 and $20.3 million, or 93% of our revenues, in 2013. The defense budgets of a number of countries 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. Notwithstanding the improving economic conditions in some of our markets, many companies are still cutting back expenditures or delaying plans to add additional personnel or systems. Any further worsening of the global economic condition could result in longer sales cycles, slower adoption of new technologies and increased price competition for our products and services. We could also be exposed to credit risk and payment delinquencies on our accounts receivable, which are not covered by collateral. 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, 2015 and 2014, 51% and 61% of our revenues, respectively, were attributable to four 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 grantedsubsequent orders, that 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 a limited number of 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 a limited number of suppliers and subcontractors, most of whom are located in Israel and the United States. Certain 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 a global 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 distributors and other agents for the marketing and distribution of our products and capabilities. Many of these distributors 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 59% of our sales in 2015, 78% of our sales in 2014 and 81% of our sales in 2013. 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 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 or agents may not themselves are 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.

We are dependent on our senior management and key personnel, and the loss of any key member of our management team could adversely affect our business.

Our future success depends in large part on the continued services of our senior management and key personnel. In particular, we are dependent on the services of Herzle Bodinger, the executive chairman of our Board of Directors and Mr. Zvi Alon, our chief executive officer. Any loss of their services or the services of other members of senior management or other key personnel could negatively affect our business.

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 owns a majority of our outstanding shares, investors will not be able to affect the outcomes of shareholder votes.

As of May 15, 2016, Mr. Howard Yeung and an affiliate beneficially owned 3,572,019 outstanding ordinary shares and 9,169,213 ordinary shares issuable upon the conversion of a loan provided by an entity owned by him. Mr. Yeung owned approximately 22% of our outstanding shares as of May 15, 2016. Following the pending investment by DBSI, which was approved by our shareholders on May 15, 2016, DBSI will own 17,021,277 of our ordinary shares, or 52% of our outstanding shares, as of the closing of the Initial Investment which is expected to take place by the end of May, 2016. 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 for 30 consecutive business days. 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. We were granted the extension because we met the continued listing requirements for the market value of publicly held shares and all other initial listing standards for NASDAQ Capital Market (rule 5505 – Capital Market criteria), except for the bid price requirement and because we have provided written notice of our intention to cure the minimum bid price deficiency during the second compliance period by effecting a reverse stock split, if necessary. To regain compliance, our shares must close at US$1.00 per share or more for a minimum of ten (10) consecutive business days. If we are not deemed in compliance before the expiration of the additional 180 day compliance period, we may be delisted from NASDAQ, and 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 shareholder may depress our share price.

If our principal shareholder sells substantial amounts of his 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 shareholder 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, 2015. 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.

Since its establishment in 1948, Israel has been involved in a number of armed conflicts with its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has continued into 2015. Also, since 2011, 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. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in neighboring areas to Israel, such as Hamas in Gaza and Hezbollah in Lebanon. Following extensive missiles' attacks on its southern border and against Israeli population centers in July 2014, Israel has invaded the Gaza strip in order to destroy Hamas's military organization as well as its missiles' and tunnels' capabilities. On July 21, 2014, all U.S. airlines and most major airlines of other nationalities suspended their flights to Israel's Ben-Gurion International Airport for several days after a missile landed approximately 1.5 km away. 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 us 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 Office of the Chief Scientist in the Ministry of Economy, or OCS, 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 – Chief Scientist (OCS).*" 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, inertial navigation systems and tactical land radars for defense forces and border protection systems. In addition, we continue to sell and support our legacy commercial aviation products and services, mainly through our Chinese subsidiary.

B. Business Overview

Industry Overview

Our activity is primarily focused on the defense electronics market. This market has grown in recent years and is currently a large part of the defense business. 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).

In addition, we continue to support our legacy commercial aviation test stations. We also provide test and repair services through our China-based subsidiary.

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).

Our products 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 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.

Inertial Navigation Systems

Leveraging on our in-depth scientific research and algorithmic expertise, utilizing state-of-the-art fiber optic gyro, or FOG, and micro-electro mechanical systems, or MEMS, sensors, and taking advantage of our experience in electronic and mechanical design, we are introducing a line of advanced - yet affordable - inertial navigation systems, or INS. Our INS products are adaptable to the performance and interface requirements of multiple combat platforms and weapon systems. Among our navigation products are:

- R-100F: FOG-based, navigation-grade Embedded GPS-INS;
- R-200M: Compact, MEMS-based, multiple-sensor aided INS for combat platforms and weapons;
- MAVINS – Modular Avionics and MEMS-Based INS: Specially-designed compact integrated solution for UAVs and disposable applications; and
- Inertial measurement units, or IMUs.

Our navigation solutions introduce sophisticated and proprietary sensor fusion algorithms, and embed modular design principles leading to minimal integration efforts into larger mission systems. The compact, reliable, and affordable INS are applicable to manned and unmanned platforms, as well as to disposable applications.

Our INS line of products ranges from IMUs through fully-integrated and compact modular avionics and INS/GPS for UAVs, to navigation-grade, high-performance systems. Our navigation products are backed by our global, dedicated, and professional technical and maintenance services. We are continuing with our research and development efforts and intend to design a complete family of applications that will provide solutions for various manufacturers' needs. At the same time, we are marketing our products to our strategic customers and are working together to define the next versions of this family of solutions.

Among our customers for navigation solutions are leading air forces and prime integrators worldwide, including the IAF, IAI, Rafael, Embraer, Indra Sistemas S.A., and India's Defense Research and Development Organization.

Tactical Radars for Defense Forces and Border Protection Solutions

We develop advanced ground 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, provide the real-time knowledge of whether and from where they are threatened, detect all relevant threats from any firing angles (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 today the portable MHR, or pMHR, 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, Lockheed Martin, DRS, the U.S. Navy, Elettronica S.p.A and additional air defense integrators. 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 if the evaluation is successful and such systems begin full rate production.

Support of Legacy Products

We support our customers that use our commercial aviation test stations by providing ongoing maintenance and repair services through product support agreements.

Business Development, Sales and Marketing

Strategy

Our business development strategy is based on the following principles:

- Maintaining our business focus on electronic systems for the military and para-military markets;
- Expanding our product offerings by adding new applications to our existing product lines and by adapting our products to land systems;
- Expanding our customer base by including our products in solutions and integrated systems for airborne and land vehicles;
- Expanding our global presence by engaging business development consultants and service providers in all of the countries and territories to which our products are applicable;
- Establishing sales channels with system integrators and major manufacturers such as Embraer, HAL, Lockheed Martin, Boeing, IMI, IAI, Rafael, DRS and others; and
- Expanding our products base, business development and marketing activities to large potential markets, especially in the land systems and the Homeland Security segments, through identification of current and future applications that may become affordable by the injection of advanced commercial off-the-shelf technologies that offer superior performance and/or significant price savings, and developing new marketing channels aimed directly at these segments.

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. In July 2011, the “Iron Fist” APS successfully completed trials conducted by the U.S. Defense Department. In 2013, it was integrated and successfully demonstrated through live fire tests on the NAMER heavy infantry fighting vehicle.

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.

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.

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. Field testing of the MHR by Boeing demonstrates very good performance.

DRS Technologies, LLC. DRS is a major player in the defense electronics market in North America, with 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.

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. Our tactical radars are used by the US Navy 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 executive chairman, Maj. Gen. (Ret.) Herzle Bodinger, our chief executive officer, Mr. Zvi Alon, and our chief business development officer, Mr. Dov Sella, lead our business development and marketing efforts. We currently employ six additional professionals in the marketing and sales of our products, three of them part-time. Our chief technology officer and our engineering department 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 fees for sales generated by them, and two 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 LAAD in Brazil, Seoul Aerospace & Defense, 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 2013, 2014 and 2015:

	Percentage of Revenues		
	2013	2014	2015
Embraer S.A.	20%	16%	9%
Lockheed Martin Corporation	17%	13%	7%
Hindustan Aeronautics Ltd	17%	22%	12%
Israel Aerospace Industries	12%	10%	23%
A Latin America Customer	11%	-	-

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:

	2013	2014	2015
Israel	20%	22%	41%
South and Latin America	31%	12%	11%
Asia	25%	30%	23%
North America	23%	36%	24%
Europe	1%	0%	1%

Competition

The markets for our products are highly competitive. Our principal competitors in the defense electronics market 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. 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 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.

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 Supply

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 several 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 a limited number of 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 an 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. In consideration for the 20% interest in CACS, we agreed to provide Tianzhu our 80% interest in the land and building in CACS. The agreement is subject to the approval of the Chinese authorities and other procedures which need to be performed by both parties, which have not been completed as yet and the necessary approval may never be obtained.

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 2018. The aggregate annual rent for our offices in Israel was approximately $318,000 in 2015.

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 for air and land platforms, and tactical land radars for force and border protection applications. We sell and support our commercial aviation electronic products and services, mainly through our 80% -owned Chinese subsidiary.

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, inertial navigation systems, 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. 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. As of December 31, 2015 and 2014, no impairment losses have been identified

Impairment of Goodwill. We are required to assess the impairment of goodwill at least annually (or more frequently if impairment indicators arise). FASB ASC 350 "*Intangibles-Goodwill and other*" prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment while the second phase (if necessary) measures it. In the first phase of impairment testing, goodwill attributable to each reporting unit is tested for impairment by comparing the fair value of each reporting unit with its carrying value. We have only one reporting unit and we determine its fair value according to our market capitalization. The goodwill was tested for impairment by comparing the fair market value with its carrying amount and as of December 31, 2015 (our annual assessment date) impairment indicators have been identified and the company's goodwill was impaired, As of December 31, 2014, no impairment indicators 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.

Derivatives and hedging. We are required to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income as stipulated in FASB ASC 815 "*Derivatives and Hedging,*" or ASC 815. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. We use derivatives to hedge certain cash flow foreign currency exposures in order to further reduce our exposure to foreign currency risks.

In 2015, 2014 and 2013, we entered into forward contracts in order to hedge certain expense transactions denominated in NIS. Our forward contracts did not qualify as hedging instruments under ASC 815. Changes in the fair value of forward contracts are reflected in the consolidated statements of operations as financial income or expense and not against the Other Comprehensive Income. As of December 31, 2015, the fair value of the outstanding forward contracts was $23,000, which was recorded in other payables against financial expense and as of December 31, 2014, the fair value of the outstanding forward contracts was $216,000, which was recorded in other payables against financial expense.

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 $153,000, $138,000 and $313,000 as of December 31, 2015, 2014 and 2013, 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 $10,000, $24,000, $36,000 as of December 31, 2015, 2014 and 2013, respectively.

Explanation of Key Income Statement Items

Revenues. Our revenues are mainly derived from sales of defense electronics (solid-state recorders, computers, inertial navigation systems, etc.) and their supporting ground systems (automated testers, data debriefing stations).

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 and trade show exhibit expenses.

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,		
	2013	2014	2015
Revenues	100%	100%	100%
Cost of revenues	78.9%	70.9%	82.6%
Gross profit	21.1%	29.1%	17.3%
Research and development, net	6.7%	3.5%	4.6%
Marketing and selling	9.0%	10.6%	15.9%
General and administrative	8.8%	8.5%	16.4%
Operating income (loss)	(3.4)%	6.5%	(19.7)%
Financial expenses, net	(8.8)%	(5.6)%	(24.0)%
Net income (loss)	(12.2)%	0.9%	(43.7)%
Net Loss attributable to non-controlling interest	0.0%	0.0%	0.2%
Net income (loss) attributable to RADA shareholders	(12.2)%	0.9%	(43.5)%

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

Revenues. Our revenues decreased by 34% to $14.8 million in 2015 from $22.5 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 23% to $12.3 million in 2015 from $15.9 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**.** Percentage of cost of revenues from our sales increased to 82.6% from 70.9% in 2014 due to the large reduction in overall sales.

Gross Profit. Our gross profit decreased by 61% to $2.6 million in 2015 from $6.5 million in 2014. Our 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. We expect that our research and development expenses in 2016 will remain similar to those we incurred in 2015 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 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 our potential customers.

General and Administrative Expenses. General and administrative expenses increased by 29% to approximately $2.4 million in 2015 from $1.9 million in 2014. Our general and administrative expenses in 2015 include an approximately $0.6 million charge due to goodwill impairment. We expect that in 2016 our general and administrative expenses will remain similar to those we incurred in 2015, with no 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 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. We expect that in 2016 our financial expenses will decrease in comparison to those we incurred in 2015, due to the repayment of the debt that is subject to the Standstill Agreement.

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Revenues. Our revenues increased by 3% to $22.5 million in 2014 from $21.8 million in 2013.

Cost of Revenues. Cost of revenues decreased by 7% to $15.9 million in 2014 from $17.2 million in 2013. The decrease in our cost of revenues is attributable to the significant reduction of low margin programs in 2014 compared to 2013.

Gross Profit. Our gross profit increased by 42% to $6.5 million in 2014 from $4.6 million in 2013. Our profit margin was approximately 29% in 2014 and 21% in 2013. The increase in gross profit in 2014 was mainly attributable to the decrease in the cost of revenues.

Research and Development Expenses, Net. Our research and development expenses, net, decreased by 46% to approximately $0.8 million in 2014 from $1.5 million in 2013 (net of $15,000 in grants received from the OCS). Our research and development expenses decreased as the result of the maturation of our radar products. We expect that our research and development expenses in 2015 will remain similar to those we incurred in 2014 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 increased by 22% to approximately $2.4 million in 2014 from $2 million in 2013. This increase is primarily due to our increased 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 1% to approximately $1.9 million in 2014 from $1.92 million in 2013. We expect that in 2015 our general and administrative expenses will remain similar to those we incurred in 2014.

Financial Expenses, Net. Our financial expenses, net, decreased by 34% to $1.25 million in 2014 compared to $1.9 million in 2013. Our interest expense, net, was $708,000 in 2014 compared to $729,000 in 2013. Our expense resulting from the amortization of the discount on a convertible note and loans from shareholders was $43,000 in 2014 compared to $489,000 in 2013. Foreign currency exchange differences, net resulted in loss of $63,000 in 2014 compared to loss of $120,000 in 2013, primarily due to changes in the NIS/dollar exchange rate. We expect that in 2015 our financial expenses will remain similar to those we incurred in 2014.

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 the rate of 26.5% in 2015. Effective January 1, 2016, the tax rate was reduced to 25%.

As of December 31, 2015, our net operating loss carry forward for Israeli tax purposes was approximately $62.3 million, including a 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 13 to our consolidated financial statements.

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,				
	2011	2012	2013	2014	2015
NIS vs. U.S. Dollar	7.7%	(2.3)%	(7.0)%	12%	0.3%
Israeli Consumer Price Index	2.2%	1.6%	1.8%	(0.2)%	(1)%

Because 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 2014-09 - Revenue from Contracts with Customers (Topic 606):
In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for the interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. We are currently evaluating the impact of the guidance on our consolidated financial statements.

ASU 2014-15 – Presentation of Financial Statements-Going Concern (Subtopic 205-40):
In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern", which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement is effective for annual reporting periods ending after December 15, 2016, with early adoption permitted.

ASU 2015-15 - Interest-Imputation of Interest (Subtopic 835-30):
In April 2015, the FASB issued guidance on debt issuance costs. The guidance requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt in the balance sheet. This guidance does not contain guidance for debt issuance costs related to line-of-credit arrangements. Consequently, in August 2015, the FASB issued additional guidance to add paragraphs indicating that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance is effective for the interim and annual periods beginning on or after December 15, 2015. We do not expect this guidance to have a material effect on our consolidated financial statements at the time of adoption of this standard.

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 are currently evaluating the potential effect of the guidance on our consolidated financial statements.

ASU 2015-17 - Income Taxes (Topic 740):
In November 2015, FASB issued guidance on balance sheet classification of deferred taxes. The new guidance requires entities to present all deferred tax assets and liabilities, along with any related valuation allowance, as non-current on the balance sheet. The guidance is effective for interim and annual periods beginning after December 15, 2016 (early adoption is permitted). We have not yet adopted ASU 2015-17 and do not expect the adoption of this guidance to have a material impact on our consolidated financial position or results of operations.

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. ASC 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 our consolidated financial statements.

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 as of December 31, 2015 of $6.522 million compared with a working capital of $0.035 million at December 31, 2014. Cash and cash equivalents amounted to $1.8 million as of December 31, 2015 compared to $1.8 million as of December 31, 2014. Short-term and long-term bank deposits and restricted bank deposits amounted to $0.68 million as of December 31, 2015 compared to $0.68 million as of December 31, 2014.

As of December 31, 2015, we owed $0.75 million under a bank annual line of credit and $1.7 million of secured borrowing with a bank against specific accounts receivable. In addition, the Banks provided $0.4 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, goodwill (intangible assets), 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 July 2008, we borrowed $1.5 million from Faith Content Development Limited, or FCD, a company controlled by Mr. Yeung, our controlling shareholder, in order to facilitate further development of our INS technology. This loan carried interest at LIBOR + 3% payable at the beginning of every quarter. On September 2, 2012, FCD agreed to postpone the repayment of $1.5 million of the principal that was due to be repaid, so that 50% of such amount would be paid on December 15, 2012 and the remaining 50% would be payable on February 15, 2013. In August 2013, FCD agreed to reissue $350,000 of the loan that had been previously repaid by our company in March 2013 and to facilitate an additional short term loan in the amount of up to $1,000,000 to be repaid by December 31, 2013, or the Credit Facility. The Credit Facility provided for interest at 3.5% per annum above the three month LIBOR rate. In September 2013, we borrowed $850,000 under the Credit Facility and the total amount of the loan increased to $1.2 million. As of December 31, 2014, we repaid the amount due under the Credit Facility but not the remaining balance of the original INS loan ($1,150,000). We continue to incur default interest payment on such loan, see also below with respect to the amended standstill agreement.

In December 2010, a $3 million convertible note originally issued to Mr. Yeung in October 2007 (subsequently assigned by him to FCD), was extended to October 2012. In addition, the expiration date of a warrant to purchase up to an aggregate of 1,578,947 ordinary shares granted to Mr. Yeung at such time was extended to October 2014. The convertible note bears interest at a rate of six-month LIBOR + 3.5% and is convertible into ordinary shares at a conversion price of $2.09 per share. The note is secured by a second degree floating charge over all of our assets. From January 2013, the loan bears default increased interest rate of LIBOR + 7.5%. See Item 7B. “Major Shareholders and Related Party Transactions - Related Party Transactions.”

In September 2011, we entered into a revolving loan agreement with FCD. The loan was in the principal amount of $1.7 million, bearing interest of three month LIBOR + 2.5% per annum. The principal and all the unpaid and accrued interest was paid on February 29, 2012 with the proceeds from a new loan from FCD and Mr. Ben Zion Gruber, a shareholder and member of our board of directors. The loan was approved by our Audit Committee and Board of Directors, and the transaction was also approved by our shareholders at an extraordinary meeting of shareholders held in January 2012. FCD provided $2.7 million and Mr. Ben Zion Gruber provided $300,000. We used $1.7 million of the loan to repay in full all of the amounts due and payable under the September 2011 loan, as described above. The remaining portion of the loan was added to our working capital. The loan bears interest at the rate of the greater of three months LIBOR + 5% per annum, or 7% per annum. Interest is payable quarterly in arrears and the principal was due on February 28, 2014. In addition, on February 28, 2012, we issued to FCD and to Mr. Ben Zion Gruber warrants to purchase 1,080,000 and 120,000 ordinary shares, respectively, at an exercise price of $2.50 per share. These warrants had a term of three years. The second degree floating charge that was granted with respect to the convertible note of 2007 secures this loan as well.

In April 2014, we borrowed $1.0 million from FCD 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 our shareholders. As a result we were required to pay the default interest on account of all such loans and all such loans may be accelerated by our lenders.

However, we entered into a standstill agreement, or the Standstill Agreement, with our lenders, effective as of February 1, 2013, according to which, except in extraordinary circumstances, no action will be taken to accelerate the loans or to exercise their rights prior to January 31, 2014. On April and June 2015, the Standstill Agreement was amended and the forbearance period pursuant to such agreement was extended until August 31, 2016. See Item 7B “*Related Party Transactions*”. Pursuant to amendments of the Standstill Agreement, as of and after February 1, 2015 the default interest on all outstanding principal amounts is Libor + 9%.

On July 30, 2015, we completed a public offering of 6,910,569 ordinary shares, offered at a price to the public of $1.23 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 15, 2016, our shareholders approved the sale to DBSI of 17,021,277 ordinary shares in consideration for approximately $4,000,000, reflecting a price per share of $0.235. In addition, we will issue to DBSI warrants to purchase: (i) an additional 8,510,638 ordinary shares at an exercise price per share of $0.235 (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 (ii) warrants to purchase an additional 7,272,727 shares at an exercise price per share of $0.275 (resulting in an aggregate exercise price of $2,000,000), exercisable for a period of 48 months following the date of the initial investment.

Furthermore, DBSI has agreed to grant us 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 which may be used solely for the purpose of the repayment of the outstanding shareholders' debt. We intend to exercise such option in the event we are unable to repay the shareholders' debt in full on or before its maturity date (on August 31, 2016).

During the term of the loan, DBSI will have 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) $1.20, 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 $0.235. These additional issuances would substantially dilute the ownership interests and voting rights of our shareholders.

In addition, on May 15, 2016, our shareholders approved an increase to our share capital by NIS 675,000. Following the increase, our authorized share capital is NIS 1,125,000 divided into 75,000,000 ordinary shares, par value NIS 0.015 each.

We made capital expenditures of $374,000 in the year ended December 31, 2015, 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,		
	2013	2014	2015
	(U.S. dollars in thousands)		
Net cash provided by (used in) operating activities	1,432	122	(2,765)
Net cash provided by (used in) investing activities	(85)	66	(378)
Net cash provided by (used in) financing activities	(435)	(528)	3,227
Effect of exchange rate changes on cash and cash equivalents	61	(11)	(116)
Increase(decrease) in cash and cash equivalents	973	(351)	(32)
Cash and cash equivalents at beginning of the year	1,164	2,137	1,786
Cash and cash equivalents at end of the year	2,137	1,786	1,754

Net cash used in operating activities was ($2,765,000) in 2015. This was primarily due to an increase in trade receivables of $583,000, decrease in other accounts payables and accrued expenses of $1,448,000 and increase in inventories of $487,000. This was offset by a decrease in costs and estimated earnings in excess of billings, net of $1,467,000, increase in trade payables of $584,000 and a decrease in other accounts receivable and prepaid expenses of $224,000. Net cash provided by operating activities was $122,000 in 2014. This was primarily due to a decrease in trade receivables of $1,435,000, depreciation and amortization of $690,000 and decrease in inventories of $111,000. This was offset by an increase in costs and estimated earnings in excess of billings, net of $599,000, decrease in trade payables of $1,594,000 and a decrease in other payables of $163,000. Net cash provided by operating activities was $1,432,000 in 2013. This was primarily due to a decrease in trade receivables of $491,000, depreciation and amortization of $752,000, amortization expense on a convertible note and loans of $489,000, a decrease in other receivables of $484,000, a decrease in inventories of $449,000, an increase in trade payables of $981,000 and an increase in other payables of $600,000. This was offset by an increase in costs and estimated earnings in excess of billings, net of $236,000.

Net cash used in investing activities was approximately $378,000 in 2015, primarily due to a change in restricted deposits of $6, which was offset by the investment of $374,000 in property, plant and equipment. Net cash provided by investing activities was approximately $66,000 in 2014, primarily due to a change in restricted deposits of $392,000 and offset by investment of $328,000 in property, plant and equipment. Net cash used in investing activities was approximately $85,000 in 2013, primarily due to a change in restricted deposits of $282,000 offset by investment of $370,000 in property, plant and equipment.

Net cash provided by financing activities was $3,227,000 in 2015, reflecting the net repayment of $5,030,000 of shareholders loans and the issuance of ordinary shares in a public offering that provided us with net proceeds of $7,430,000 and a decrease 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. Net cash used in financing activities was $435,000 in 2013, reflecting net proceeds of $850,000 from a shareholder loans transaction and a decrease in short-term bank credit of $1,285,000.

As a result of the foregoing, at December 31, 2015, we had a working capital of $6,522,000 and cash and cash equivalents of $1,754,000 as compared to working capital of $35,000 and cash and cash equivalents of $1,786,000 at December 31, 2014.

We expect to fund our short-term liquidity needs in 2016, 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 and the investment by DBSI. We believe that our current cash and cash equivalents, credit facilities and our expected cash flow from operations will be sufficient to meet our cash requirements in 2016.

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 2015, 2014 and 2013 we incurred $0.7 million, $0.8 million and $1.5 million, respectively, of research and development expenses, net. The vast majority of these expenses are attributable to the research on our radars. In 2016, we will continue to invest in the research and development of new products. As of December 31, 2015, we employed 45 engineers (including 5 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 OCS 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 OCS. During 2012, 2011 we developed a new radar sensor for APS, partly financed by the OCS. In 2013 and 2012, we received royalty bearing grants of $15,000 and $142,000, respectively, from the OCS. 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 OCS, up to 100% of the amount of such grants, adjusted by the exchange rate with the dollar. As of December 31, 2015, 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 is due until future revenues, if any.

D. Trend Information

In 2015, our revenues decreased by approximately 34% compared to our revenues in 2014 due to project delays and we expect that in 2016 our revenues will be similar to 2015. However, our revenues are subject to government budgets, and we cannot provide any assurances that the economic climate will not result in the cancellation or suspension of certain projects or programs. We do not have a significant backlog of orders for delivery subsequent 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, 2015 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	$ 3,169,000	$ 3,119,000	$ 50,000	-	-
Operating lease obligations	1,386,000	713,000	673,000	-	-
Total	$ 4,555,000	$ 3,832,000	$ 723,000	-	-

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, 2015 our severance pay liability was $660,000.

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
Herzle Bodinger	73	Executive Chairman of the Board of Directors
Zvi Alon	62	Chief Executive Officer
Dov Sella	60	Chief Business Development Officer
Shiri Lazarovich	41	Chief Financial Officer
Oleg Kiperman	62	Chief Technology Officer
Adrian Berg	68	Director
Roy Kui Chuen Chan	69	Director
Ben Zion Gruber (1)(2)	57	Director
Michael Letchinger	60	Director
Nurit Mor (1)(2)	72	External director
Elan Sigal (1)(2)	48	External director
Dr Alon Dumanis (1)(2)	66	Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Messrs. Chan, Dumanis and Gruber will serve as directors until our 2018 annual general meeting of shareholders. Messrs. Bodinger and Letchinger will serve as directors until our 2016 annual general meeting of shareholders. Mr. Berg will serve as a director until our 2017 annual general meeting of shareholders. Mrs. Mor and Mr. Elan Sigal serve as external directors pursuant to the provisions of the Israeli Companies Law. Mrs. Mor is serving a three-year term until October 21, 2018 and Mr. Elan Sigal is serving a three-year term until August 29, 2016. Notwithstanding the above, Messrs Chan, Berg and Letchinger have notified us that, as of the closing of the Initial Investment of DBSI, and subject to such closing, they will resign as directors with immediate effect. It is expected that DBSI will appoint new directors.

Herzle Bodinger has served as the executive chairman of our board of directors since July 1998. 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 IAF from January 1992 through July 1996. During the 35 years of his service in the IDF, 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.

Zvi Alon has served as our chief executive officer since July 2007. Mr. Alon joined us in January 2000 and served as our chief operating officer until March 2003 when he was appointed vice president of marketing and sales. From 1982 to 1999, Mr. Alon served in various managerial positions with the IAI, as director of business development and marketing, director of electrical and avionics engineering, avionics programs manager and group leader and operational definition officer of the "Lavi" project office. Previously, Mr. Alon served in the IAF for ten years. Mr. Alon holds a B.Sc. degree in Mathematics and Computer Science and a M.Sc. degree in Computer Science, both from Tel Aviv University.

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.

Dov Sella has served as our chief business development officer since July 2007. Prior to that and from January 2003, Mr. Sella served as our chief operations 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.

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 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.

Adrian Berg has served as a director since November 1997. Mr. Berg is a designee of Horsham Enterprises Ltd. Since 1976, Mr. Berg has been a chartered accountant and senior partner at the U.K. firm, Alexander & Co., Chartered Accountants. Mr. Berg holds a B.Sc. degree in Industrial Administration from the University of Salford and received his qualification as a fellow of the England & Wales Institute of Chartered Accountants in 1973 after he completed three years of training at Arthur Andersen & Co.

Roy Kui Chuen Chan has served as a director since November 1997. Mr. Chan is a designee of Horsham Enterprises Ltd. Mr. Chan has been legal consultant to Yeung Chi Shing Estates Limited, a Hong Kong holding company with major interests in hotels and real estate in Hong Kong, China, the United States, Canada and Australia, and its international group of companies, since 1984. Mr. Chan presently serves as legal counsel to several Hong Kong companies, including Horsham Enterprises Ltd. Mr. Chan received his qualification as a solicitor and has been a member of the U.K. bar since 1979 after he completed five years of training at Turners Solicitors.

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.

Michael Letchinger, has served as a director since 2004. Mr. Letchinger is a designee of Horsham Enterprises Ltd. Since 2000, Mr. Letchinger has been general counsel and senior vice president-managing of Potomac Golf Properties, LLC, a company engaged in real estate development and free standing golf facilities. From 1994 to 2000, Mr. Letchinger was general counsel and senior vice president-managing of Potomac Development Associates, a sister company of Potomac Golf Properties, LLC. Mr. Letchinger holds a B.A. degree in Economics from Brandeis University, Waltham, Massachusetts, and a J.D. degree from University of Chicago Law School.

Nurit Mor has served as one of our outside directors since August 2006. Ms. Mor 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 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.

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 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.

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, pursuant to the disclosure requirements of Form 20-F.

The following table includes information for the year ended December 31, 2015 concerning the five (5) most highly compensated executive officers of our company, or Highly Compensated EO, (the figures below reflect the applicable cost of employment on an annual basis):

	Herzle Bodinger	Zvi Alon	Dov Sella	Oleg Kiperman	Shiri Lazarovich
Annual salary cost and other benefits ($)[1]	304,391	284,556	271,789	227,071	191,467
Total ($)	304,391	284,556	271,789	227,071	191,467

1. Includes the Highly Compensated EO's gross salary 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) other benefits pursuant to our company's policy; including tax gross-up in respect therewith.

During the year ended December 31, 2015, the aggregate compensation paid to all of our executive officers and directors as a group was approximately $ 1,036,397. As of December 31, 2015, 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 $275,763.

During the year ended December 31, 2015, 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, as in effect until May 15, 2016, or the Existing Articles, provide for a board of directors consisting of no less than two and no more than 11 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 seven directors.

Pursuant to the Existing Articles, the board of directors is divided into three classes (other than outside directors). At each annual meeting of shareholders one class of directors (other than outside directors) is elected for a term of three years by a vote of the holders of a majority of the voting power represented and voting at such meeting. However, pursuant to the Amended and Restated Articles of Association, or the Amended Articles, adopted by our shareholders on May 15, 2016 and effective as of the closing of the Investment Transaction, the 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 Amended Articles. 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 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.

Messrs. Chan, Dumanis and Gruber are Class A directors and will hold office until the Annual General Meeting of Shareholders to be held in 2018. Messrs. Bodinger and Letchinger are Class B directors and will hold office until the Annual General Meeting of Shareholders to be held in 2016. Mr. Berg is a Class C director and will hold office until the Annual General Meeting of Shareholders to be held in 2017. Ms. Mor and Mr. Sigal serve as our external directors and each holds office for a three year term until October 21, 2018 and August 29, 2016, respectively.

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 Audit Committee has determined that Mr. Alon Dumanis qualifies as an independent director under the Israeli Companies Law.

Our board of directors has determined that Ms. Mor, Mr. Sigal and Mr. Dumanis qualify as independent directors under the SEC and NASDAQ requirements and as independent directors under the Israeli Companies Law requirements. Our board of directors has further determined that Mr. Gruber qualifies as an independent director under the SEC and NASDAQ 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."

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 the such requirements and therefore, commencing as of May 2016, it shall serve also as compensation committee.

The current members of our audit 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. Effective December 2012, under an amendment to the Companies Law, 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 will 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 that the remainder of the members of the compensation committee be directors whose terms of service and employment were determined pursuant to the applicable regulations. The amendment imposes the same restrictions on the actions and membership in the compensation committee as are discussed above under "Audit 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.

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. 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.

- 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, 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.

As of December 31, 2013, we employed 115 persons, of whom 47 persons were employed in research, development and engineering, 56 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 17 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. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of May 15, 2016 regarding the beneficial ownership by each of our directors and executive officers:

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Ownership(2)
Herzle Bodinger	--	--
Zvi Alon	--	--
Dov Sella	--	--
Shiri Lazarovich	--	--
Oleg Kiperman (3)	4,000	*
Adrian Berg (4)	1,533	*
Roy Kui Chuen Chan (5)	1,533	*
Ben Zion Gruber	-	-
Michael Letchinger	--	--
Nurit Mor	--	--
Elan Sigal	--	--
Alon Dumanis	--	--
All directors and executive officers as a group (11 persons)	7,066	*

* Less than 1%

(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 15,898,965 ordinary shares issued and outstanding as of May 15, 2016.

(3) The business address of Mr. Kiperman is c/o RADA Electronic Industries Ltd., 7 Giborei Israel Street, Netanya, Israel.

(4) The business address of Mr. Berg is Alexander & Co., 17 St. Ann's Square, Manchester M2 7 PW, U.K.

(5) The business address of Mr. Roy Chan is Gearhart Holdings (H.K.) Limited, 2202 Kodak House II, 39 Healthy Street, E. North Point, Hong Kong.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information as of May 15, 2016, 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)
Howard P.L. Yeung (3) (5)	12,741,232	50.83%
Kenneth Yeung (4) (5)	450,029	2.8%

(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 15,898,965 ordinary shares outstanding as of May 15, 2016.

(3) Based on a Schedule 13D/A filed by Howard P.L.Yeung on August 28, 2015. Includes 3,121,990 outstanding ordinary shares and 9,169,213 ordinary shares issuable upon the conversion of unpaid loan balances of $2,988,000 due to Faith Content Development Ltd., an entity owned by Mr. Howard P.L. Yeung. In addition, though not presented on the Schedule 13D/A, as an admission of beneficial ownership by Mr. Howard P.L. Yeung, we are including 450,029 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. These shares are also listed under Kenneth Yeung's holdings (see footnote 4).

(4) The shares are held by Horsham Enterprises Ltd., a British Virgin Islands corporation jointly owned by Messrs. Howard P.L. Yeung and his brother Kenneth Yeung.

(5) The address of Messrs. Howard P.L. Yeung and Kenneth Yeung is 2202 Kodak House II, 39 Healthy Street, North Point, Hong Kong.

Significant Changes in the Ownership of Major Shareholders

On April 7, 2015, Howard Yeung reported on a Schedule 13D/A that he owns directly 3,121,990 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 3,121,990 ordinary shares, representing 19.63% of our outstanding ordinary shares. This dilution was the result of our public offering conducted in July 2015. We expect that Mr. Yeung's ownership of our ordinary shares would be further diluted to 11% after the Initial Investment by DBSI.

MMCAP International Inc. SPC reported on Schedule 13G on August 14, 2015 that it acquired ownership of 1,000,000 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 sold shares and currently holds only 219,237 of our ordinary shares, or 1.38% of our outstanding share capital.

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 May 15, 2016, there were 111 holders of record of our ordinary shares, of which 98 record holders holding approximately 65% 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 July 2008, we borrowed $1.5 million from Faith Content Development Limited, or FCD, a company controlled by Mr. Yeung, our controlling shareholder, in order to facilitate further development of our INS technology. This loan carried interest at LIBOR + 3% payable at the beginning of every quarter. On September 02, 2012, FCD agreed to postpone the repayment of $1.5 million of the principal that was due to be repaid, so that 50% of such amount would be paid on December 15, 2012 and the remaining 50% would be payable on February 15, 2013. In August 2013, FCD agreed to reissue $350,000 of the loan that had been previously repaid by our company in March 2013 and to facilitate an additional short term loan in the amount of up to $1,000,000 to be repaid by December 31, 2013, or the Credit Facility. The Credit Facility provided for interest at 3.5% per annum above the three month LIBOR rate. In September 2013, we borrowed $850,000 under the Credit Facility and the total amount of the loan increased to $1.2 million. As of December 31, 2014, we repaid the amount due under the Credit Facility but not the remaining balance of the original INS loan ($1,150,000). We continue to incur default interest payment on such loan, see also below with respect to the amended standstill agreement.

In December 2010, a $3 million convertible note originally issued to Mr. Yeung in October 2007 (subsequently assigned by him to FCD), was extended to October 2012. In addition, the expiration date of a warrant to purchase up to an aggregate of 1,578,947 ordinary shares granted to Mr. Yeung at such time was extended to October 2014. The convertible note bears interest at a rate of six-month LIBOR + 3.5% and is convertible into ordinary shares at a conversion price of $2.09 per share. The note is secured by a second degree floating charge over all of our assets. From January 2013, the loan bears default increased interest rate of LIBOR + 7.5%.

In September 2011, we entered into a revolving loan agreement with FCD. The loan was in the principal amount of $1.7 million, bearing interest of three month LIBOR + 2.5% per annum. The principal and all the unpaid and accrued interest was paid on February 29, 2012 with the proceeds from a new loan from FCD and Mr. Ben Zion Gruber, a shareholder and member of our board of directors. The loan was approved by our Audit Committee and Board of Directors, and the transaction was also approved by our shareholders at an extraordinary meeting of shareholders held in January 2012. FCD provided $2.7 million and Mr. Ben Zion Gruber provided $300,000. We used $1.7 million of the loan to repay in full all of the amounts due and payable under the September 2011 loan, as described above. The remaining portion of the loan was added to our working capital. The loan bears interest at the rate of the greater of three months LIBOR + 5% per annum, or 7% per annum. Interest is payable quarterly in arrears and the principal was due on February 28, 2014. In addition, on February 28, 2012, we issued to FCD and to Mr. Ben Zion Gruber warrants to purchase 1,080,000 and 120,000 ordinary shares, respectively, at an exercise price of $2.50 per share. These warrants have a term of three years. The second degree floating charge that was granted with respect to the convertible note of 2007 secures this loan as well.

In April 2014, we borrowed $1.0 million from FCD 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 our shareholders. As a result we were required to pay the default interest on account of all such loans and all such loans may be accelerated by our lenders.

However, we entered into the Standstill Agreement with our lenders, effective as of February 1, 2013, according to which, except in extraordinary circumstances, no action will 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 amendment of the Standstill Agreement, as of and after February 1, 2015 the default interest on all outstanding principal amounts is Libor + 9%.

On July 30, 2015, we completed a public offering of 6,910,569 ordinary shares, offered at a price to the public of $1.23 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 15, 2016, our shareholders approved the sale to DBSI of 17,021,277 ordinary shares in consideration for approximately $4,000,000, reflecting a price per share of $0.235. In addition, we will issue to DBSI warrants to purchase: (i) an additional 8,510,638 ordinary shares at an exercise price per share of $0.235 (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 (ii) warrants to purchase an additional 7,272,727 shares at an exercise price per share of $0.275 (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 has agreed to grant us an option, exercisable either by us or DBSI, for us to obtain a loan in the principal amount of up to $3,175,000 which may be used solely for the purpose of the repayment of the outstanding convertible loan. We intend to exercise such option in the event we are unable to repay the shareholders' debt in full on or before its maturity date (on August 31, 2016).

During the term of the loan, DBSI will have 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) $1.20, 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 $0.235. These additional issuances would substantially dilute the ownership interests and voting rights of our shareholders.

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 2015, we had approximately $8.9 million of export sales, constituting approximately 59% 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, and specifically the pending closing of our investment transaction with DBSI, which was approved by our shareholders on May 15, 2016, no significant change has occurred since December 31, 2015.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Annual Stock Information

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
2011	$ 4.48	$ 1.55
2012	$ 2.37	$ 0.95
2013	$ 2.26	$ 0.96
2014	$ 6.29	$ 1.26
2015	$ 2.90	$ 0.35

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:

2014	**High**	**Low**
First Quarter	$ 1.80	$ 1.26
Second Quarter	$ 1.73	$ 1.30
Third Quarter	$ 6.29	$ 1.31
Fourth Quarter	$ 3.86	$ 1.80

2015	**High**	**Low**
First Quarter	$ 3.25	$ 1.55
Second Quarter	$ 2.82	$ 1.81
Third Quarter	$ 2.17	$ 0.70
Fourth Quarter	$ 0.79	$ 0.35

2016	**High**	**Low**
First Quarter	$ 0.46	$ 0.28
Second Quarter(through May 15)	$ 0.45	$ 0.36

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**
November 2015	$ 0.71	$ 0.43
December 2015	$ 0.50	$ 0.35
January 2016	$ 0.37	$ 0.28
February 2016	$ 0.37	$ 0.29
March 2016	$ 0.46	$ 0.36
April 2016	$ 0.45	$ 0.36
May 2016 (through May 15)	$ 0.42	$ 0.37

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 75,000,000 ordinary shares of a nominal value of NIS 0.015 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 by an ordinary resolution of the shareholders, which may decrease but not increase the amount proposed by 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.

An ordinary resolution, such as a resolution for the declaration of dividends, requires approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or by written ballot and voting on the matter. Under our articles of association, a special resolution, such as amending our memorandum of association or articles of association, approving any change in capitalization, winding-up, authorization of a class of shares with special rights, or other changes as specified in our articles of association, requires approval of a special majority, representing the holders of no less than 75% of the voting rights represented at the meeting in person, by proxy or by written ballot, and voting on the matter.

Pursuant to the Existing Articles, our directors are elected at our annual general meeting of shareholders for a term of three years by a vote of the holders of a majority of the voting power represented and voting at such meeting, and hold office until the third next annual general meeting of shareholders and until their successors have been elected. However, pursuant to the Amended Articles, adopted by our shareholders on May 15, 2016 and effective as of the closing of the Investment Transaction, the 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 Amended Articles. 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 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) 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 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 existing Articles, 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 and by a separate general meeting of the holders of the affected class with a majority of 75% of the voting power participating in such meeting. However, pursuant to the Amended Articles such change may be made with a simple majority of the voting power participating in such meeting.

Annual and Special 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 "special general meetings." In addition, the board of directors must convene a special 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 an ordinary 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 one third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum generally 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. At the reconvened meeting, 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 OCS, changes in ownership may require also the approval of the tax authorities or the OCS, 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 special majority of 75% 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 2012 and 25% in 2013 and 26.5% in 2014 and 2015. Effective January 1, 2016, the corporate tax rate was reduced to 25% in 2016 and thereafter. In view of this decrease in the corporate tax rate to 25% in 2016, the real capital gains tax rate and the real betterment tax rate were also decreased accordingly. Capital gains derived after January 1, 2003 (the gains derived from the sale of listed securities that are taxed at the prevailing corporate tax rates) are subject to tax at a rate of 26.5 %, and 25% in 2016 and onwards.

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 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.

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 summary of certain material U.S. federal income tax consequences that apply to U.S. Holders (as defined below) who hold 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. This summary does not address all tax considerations that may be relevant with respect to an investment in ordinary shares. This summary 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,
- tax-exempt organizations,
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar,
- persons who hold the 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,
- investors that actually or constructively own 10% or more of our shares by vote or value, and
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging or conversion transaction.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) owns 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 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 other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation.

You are advised to consult your tax advisors regarding the foreign and U.S. federal, state and local tax consequences of an investment in ordinary shares.

For purposes of this summary, a U.S. Holder is:

- 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 whose income is subject to U.S. federal income tax regardless of its source; or
- a trust that (a) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Taxation of Dividends

Subject to the discussion below, under the heading "Passive Foreign Investment Companies," the gross amount of any distributions received with respect to 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. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the 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 will 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. 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 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, any Israeli withholding tax imposed on such dividends 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). The limitations set forth in the Code include computational rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive 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 will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the Code. The rules relating to the determination of the foreign tax credit are complex. You should consult with your tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations, including the 3.8% net investment tax discussed below, "qualified dividend income" received by a non-corporate U.S. Holder will be subject to tax at a reduced maximum tax rate of 20%. Distributions taxable as dividends paid on the ordinary shares should qualify for the 20% rate, provided that either: (i) we are entitled to benefits under the Treaty) or (ii) the 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 the ordinary shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that the ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied. With respect to the ordinary shares, the U.S. Holder must have held such shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The rate reduction also does not apply to dividends received from a PFIC, see discussion below, or in respect of certain hedged positions or in certain other situations. The legislation enacting the reduced tax rate on qualified dividends 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 ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

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.

Disposition of Ordinary Shares

Subject to the discussion below under "Passive Foreign Investment Companies," upon the sale, exchange or other disposition of our ordinary shares, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. Holder's tax basis in our ordinary shares. The gain or loss recognized on the disposition of the ordinary shares will be long-term capital gain or loss if the U.S. holder held the ordinary shares for more than one year at the time of the disposition and would be eligible for a reduced rate of taxation for certain non-corporate U.S. Holders. The effective maximum long-term capital gains rate is 20% for individuals with annual taxable income over $400,000. Capital gain from the sale, exchange or other disposition of ordinary shares held for one year or less is short-term capital gain and taxed as ordinary income. Gain or loss recognized by a U.S. Holder on a sale, exchange or other disposition of our ordinary shares generally will be treated as U.S. source income or loss. The deductibility of capital losses is subject to certain limitations.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of 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 U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that 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 ordinary shares, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service, or 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 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

If we were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of U.S. federal income tax that a U.S. Holder could otherwise derive from investing in a non-U.S. company that does not distribute all of its earnings on a current basis. We will be considered 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 value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets that produce passive income. Included in the calculation of our income and assets is our proportionate share of the income and assets of each corporation in which we own, directly or indirectly, at least a 25% interest, by value. If we were determined to be a PFIC for U.S. federal income tax purposes, unfavorable and highly complex rules would apply to U.S. Holders owning ordinary shares directly or indirectly. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

Based on our current and projected income, assets and activities, we believe that we are not currently a PFIC, nor do we expect to become a PFIC in the foreseeable future. However, because the determination of whether we are a PFIC is based upon the composition of our income and assets, and our market capitalization, from time to time, there can be no assurance that we will not become a PFIC for any future taxable year.

If we are treated as a PFIC for any taxable year, dividends would not qualify for the reduced tax rate on qualified dividend income, discussed above, and, unless you elect either to treat your investment in ordinary shares as an investment in a "qualified electing fund," by making a "QEF election" or to "mark-to-market" your ordinary shares, as described below,

- you would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ordinary shares ratably over your holding period for such ordinary shares,
- the amount allocated to the current taxable year, and to any taxable years in your holding period prior to the first day in which we were treated as a PFIC will be treated as ordinary income, and
- the amount allocated to each prior taxable year during which we are considered a PFIC would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year.

If we were a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares and any of our non-U.S. subsidiaries is also a PFIC, such U.S. Holder would generally be treated as owning a proportionate amount (by value) of the underlying shares of each such non-U.S. subsidiary classified as a PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisers regarding the application of the PFIC rules to any of our subsidiaries.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares, then instead of being subject to the tax and interest charge rules discussed above, a U.S. Holder may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such ordinary shares are "regularly traded" on a "qualified exchange." In general, our ordinary shares will be treated such as "regularly traded" for a given calendar year if more than a de minimis quantity of our ordinary shares are traded on a qualified exchange on at least 15 days during each calendar quarter of such calendar year. Our ordinary shares are listed on the Tel Aviv Stock Exchange and the NASDAQ Global Select Market. However, no assurance can be given that our ordinary shares will be regularly traded on a qualified exchange for purposes of the mark-to-market election. In addition, because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

If you elect to "mark to market" your ordinary shares, you will generally include in income, in each year in which we are considered a PFIC, any excess of the fair market value of the ordinary shares at the close of each tax year over your adjusted basis in the ordinary shares. If the fair market value of the ordinary shares had depreciated below your adjusted basis at the close of the tax year, you may generally deduct the excess of the adjusted basis of the ordinary shares over its fair market value at that time. However, such deductions would generally be limited to the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years. A U.S. Holder's adjusted tax basis in the ordinary shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ordinary shares with respect to which the mark-to-market election is made in a year in which we are classified as a PFIC, is treated as ordinary income or loss (except that loss on a disposition of ordinary shares is treated as capital loss to the extent the loss exceeds the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years). Gain or loss from the disposition of ordinary shares (as to which a mark-to-market election was made) in a year in which we are no longer classified as a PFIC, will be capital gain or loss.

If a U.S. Holder owns our ordinary shares during any year in which we are a PFIC, the U.S. Holder generally must file an IRS Form 8621 with respect to the company, generally with the U.S. Holder's federal income tax return for that year. U.S. Holders should consult their tax advisers regarding whether we are a PFIC and the potential application of the PFIC rules.

Backup Withholding and Information Reporting

Payments in respect of 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.

Information Reporting by Certain U.S. Holders

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 adviser regarding its reporting obligation.

Any U.S. Holder who holds 10% or more in vote or value of our ordinary shares will be subject to certain additional U.S. information reporting requirements.

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 $29,880.

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, 2015, we had liabilities payable in NIS which are not linked to the dollar in the amount of $5.6 million and cash and receivables in the amount of $1.7 million denominated in NIS. Accordingly, 1% appreciation of the NIS against the dollar would increase our financing expenses by approximately $73,000. 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, 2015. 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, 2015, 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~~ 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. All of such fees were pre-approved by our Audit Committee.

	Year Ended December 31	
Services Rendered:	2014	2015
Audit (1)	$ 100,000	$ 81,000
Audit -related (2)	-	$ 70,000
Tax (3)	5,000	5,000
Total (2)	$ 105,000	$ 156,000

(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.

Kost and other EY affiliates did not bill the company for services other than the fees described above for fiscal year 2015 or fiscal year 2014.

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. 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 2015.

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

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 (1)
4.1	Loan Agreement dated July 1, 2008, between the Registrant and Faith Content Development Ltd. (3)
4.2	License Agreement dated July 2, 2008 between the Registrant and Faith Content Development Ltd. (4)
4.3	Loan Agreement dated as of February 27, 2012 by and among the Registrant, Faith Content Development Limited and Mr. Benzion Gruber (5)
4.4	Purchase Agreement between the Registrant and DBSI Investments Ltd., dated April 14, 2016
4.5	Registration Rights Agreement between the Registrant and DBSI Investments Ltd., dated April 14, 2016
4.6	Convertible Loan Agreement between the Registrant and DBSI Investments Ltd., dated April 14, 2016
4.7	First Amendment to Convertible Loan Agreement between the Registrant and DBSI, dated May 15, 2016
4.8	Warrant to Purchase Ordinary Shares of the Registrant granted to DBSI, dated April 14, 2016
4.9	Form of Indemnification Agreement of the Registrant with its officers and directors (6)
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
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 4.4 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.
(4) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.
(5) Filed as Exhibit 4.3 to our Annual Report on Form 20-F for the year ended December 31, 2012 and incorporated herein by reference.
(6) Filed as an Annex B to our Proxy Statement on Form 6-K furnished on April 4, 2016 and incorporated herein by reference.

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

U.S. DOLLARS IN THOUSANDS

INDEX

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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 subsidiary as of December 31, 2015 and 2014 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, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 subsidiary as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

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

Haifa, Israel
May 15, 2016

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2015	**2014**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,754	$ 1,786
Restricted deposits	609	349
Trade receivables (net of allowance for doubtful accounts of $10 and $24 at December 31, 2015 and 2014)	4,038	3,455
Costs and estimated earnings in excess of billings on uncompleted contracts	2,207	2,657
Other accounts receivable and prepaid expenses	206	428
Inventories, net	6,565	6,651
Total current assets	15,379	15,326
LONG-TERM RECEIVABLES AND OTHER DEPOSITS	119	1,394
PROPERTY, PLANT AND EQUIPMENT, NET	3,078	2,790
GOODWILL	-	587
Total assets	$ 18,576	$ 20,097

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2015	**2014**
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Bank credit	$ 2,416	$ 1,589
Trade payables	1,961	1,315
Convertible Note and Loans from shareholders, net (Note 9)	1,634	8,120
Other accounts payable and accrued expenses	2,846	4,267
Total current liabilities	8,857	15,291
LONG-TERM LIABILITIES:		
Accrued severance pay and other long term liability	660	634
Total long-term liabilities	660	634
COMMITMENTS AND CONTINGENT LIABILITIES		
EQUITY:		
Share capital -		
Ordinary shares of NIS 0.015 par value each - Authorized: 30,000,000 shares at December 31, 2015 and 16,333,333 shares at December 31, 2014; Issued and outstanding: 15,898,965 and 8,988,396 shares at December 31, 2015 and December 31, 2014 respectively	146	119
Additional paid-in capital	82,427	70,884
Accumulated other comprehensive income	387	536
Accumulated deficit	(74,453)	(67,992)
Total RADA Electronic Industries shareholders' equity	8,507	3,547
Non-controlling interest	552	625
Total equity	9,059	4,172
Total liabilities and equity	$ 18,576	$ 20,097

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2015	**2014**	**2013**
Revenues:			
Products	$ 12,375	$ 20,927	$ 20,443
Services	2,489	1,554	1,318
	14,864	22,481	21,761
Cost of revenues:			
Products	11,139	15,124	16,487
Services	1,152	820	673
	12,291	15,944	17,160
Gross profit	2,573	6,537	4,601
Operating costs and expenses:			
Research and development, net	693	789	1,459
Marketing and selling	2,358	2,392	1,959
General and administrative	1,858	1,901	1,919
Goodwill impairment	587	-	-
Total operating costs and expenses	5,496	5,082	5,337
Operating income (loss)	(2,923)	1,455	(736)
Amortization of shareholders' convertible loans discount and beneficial conversion feature	2,684	43	489
Other financial expenses, net	890	1,211	1,418
Total financial expenses, net (Note 14)	3,574	1,254	1,907
Net income (loss)	(6,497)	201	(2,643)
Less: Net income (loss) attributable to non-controlling interest	(36)	(7)	(8)
Net income (loss) attributable to RADA Electronic Industries' shareholders	$ (6,461)	$ 208	$ (2,635)
Net income (loss) per share attributable to RADA Electronic Industries' shareholders			
Basic and diluted net income (loss) per Ordinary share	$ (0.54)	$ 0.02	$ (0.30)
Weighted average number of Ordinary shares used for computing basic and diluted net income (loss) per share	11,904,088	8,944,803	8,918,647

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Year ended December 31,		
	2015	**2014**	**2013**
Net income (loss)	$ (6,497)	$ 201	$ (2,643)
Other Comprehensive Income (loss):			
Change in foreign currency translation adjustment	(186)	(14)	99
Total comprehensive income (loss)	(6,683)	187	(2,544)
Less: comprehensive income (loss) attributable to non-controlling interest	(73)	(10)	12
Comprehensive income (loss) attributable to RADA Electronic Industries' shareholders	$ (6,610)	$ 197	$ (2,556)

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 1,2013	8,918,647	$ 119	$ 70,884	$ 468	$ (65,565)	$ 623	$ 6,529
Net loss					(2,635)	(8)	(2,643)
Other comprehensive income				79		20	99
Balance at December 31, 2013	8,918,647	$ 119	$ 70,884	$ 547	$ (68,200)	$ 635	$ 3,985
Cashless exercise of Warrants	69,749	(*)	(*)				-
Net income (loss)					208	(7)	201
Other comprehensive income (loss)				(11)		(3)	(14)
Balance at December 31, 2014	8,988,396	$ 119	$ 70,884	$ 536	$ (67,992)	$ 625	$ 4,172
Issuance of Ordinary shares, net of issuance costs of $1,070	6,910,569	27	7,403	-	-	-	7,430
Beneficial conversion feature related to convertible loans from shareholders (Note 9)	-	-	4,140	-	-	-	4,140
Net income (loss)	-	-	-	-	(6,461)	(36)	(6,497)
Other comprehensive income (loss)				(149)	-	(37)	(186)
Balance at December 31, 2015	15,898,965	$ 146	$ 82,427	$ 387	$ (74,453)	$ 552	$ 9,059

(*) Represents an amount lower than $1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Net income (loss)	$ (6,497)	$ 201	$ (2,643)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	651	690	752
Impairment of goodwill	587	-	-
Amortization of discount on convertible note and loans	2,684	43	489
Severance pay, net	53	(15)	50
Decrease (increase) in trade receivables, net	(583)	1,435	491
Decrease (increase) in other accounts receivable and prepaid expenses	224	13	484
Grants received from Chief Scientist's Office (OCS)	-	-	15
Decrease (increase) in unbilled receivables	1,467	(599)	(236)
Decrease (increase) in inventories	(487)	111	449
Increase (decrease) in trade payables	584	(1,594)	981
Increase (decrease) in other accounts payable and accrued expenses	(1,448)	(163)	600
Net cash provided by (used in) operating activities	(2,765)	122	1,432
Cash flows from investing activities:			
Purchase of property, plant and equipment	(374)	(328)	(370)
Increase in deposits, net	(10)	2	3
Change in restricted deposits, net	6	392	282
Net cash provided by (used in) investing activities	(378)	66	(85)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	**2014**	**2013**
Cash flows from financing activities:			
Proceeds from loans from shareholders	-	1,000	850
Issuance of Ordinary shares, net	7,430	-	-
Proceeds from (repayment of) short-term bank credit, net	827	(298)	(1,285)
Repayment of short-term loans from shareholders	(5,030)	(1,230)	-
Net cash provided by (used in) financing activities from continuing operations	3,227	(528)	(435)
Effect of exchange rate changes on cash and cash equivalents	(116)	(11)	61
Increase (decrease) in cash and cash equivalents	(32)	(351)	973
Cash and cash equivalents at the beginning of the year	1,786	2,137	1,164
Cash and cash equivalents at the end of the year	$ 1,754	$ 1,786	$ 2,137

	Year ended December 31,		
	2015	**2014**	**2013**
(b) Supplemental disclosures of cash flow activities:			
Net cash paid during the year for:			
Income taxes	$ 15	$ 35	$ 14
Interest	$ 2,106	$ 57	$ 180
(c) Non-cash transactions			
Transfer of inventory to property, plant and equipment	$ 573	$ 37	$ 25
Purchase of property, plant and equipment in credit	$ 62	$ 144	$ 11

The accompanying notes are an integral part of the 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 services using its CATS testers and test program sets for commercial aviation electronic systems mainly through its Chinese subsidiary.

The Company is organized and operates as one operating segment.

b. The Company operates a 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.

c. Revenues from major customers accounted for 64%, 71% and 77% of total revenues for the years ended December 31, 2015, 2014 and 2013, respectively (see Note 16c).

d. *Liquidity and Capital Resources:*

Since incorporation, the Company incurred an accumulated deficit of $74,453. On April 16, 2015, the Company's shareholders approved an outline for the repayment of the Company's debts to its lenders ("Debt"), according to which, the Company would offer new Ordinary shares in a registered public offering (the "Offering"). It was agreed that if the net proceeds of the Offering were insufficient to repay the Debt in full, the lenders would be entitled to convert some or all of the remaining Debt into Ordinary shares.

The terms of the conversion were agreed as follows: (i) the minimum amount to be converted at any one time is $300 of Debt; (ii) the share issue price will be the lower of $1.00 or 15% below the preceding 7 days VWAP (volume weighted average price); and (iii) any unconverted Debt will continue to be subject to the terms of the extended standstill agreement (see also Note 9).

On April 27, 2015, the Company entered into an amendment to its standstill agreement with the lenders under which the termination of the forbearance period was been extended to the earlier of (i) August 31, 2016 or (ii) 30 days after the closing of the Offering resulting in the repayment of at least $7,500 of the Debt. Pursuant to this amendment, the default interest payable, as of and after February 1, 2015, on all outstanding principal amounts is Libor + 9% (see also Note 9).

On July 30, 2015, the Company announced the closing of its public offering of 6,910,569 Ordinary shares, offered at a price to the public of $1.23 per share. The gross proceeds to the Company were $8,500, before deducting underwriting discounts and commissions and other offering expenses payable by the Company. Issuance costs amounted to approximately $1,070.

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

NOTE 1:- GENERAL (Cont.)

d. *Liquidity and Capital Resources (Cont.)*

The Company repaid $5,030 of the principal of the outstanding Debt and approximately $2,080 of the then outstanding accrued interest.

Subsequent to the balance sheet date, on May 15, 2016, the Company's shareholders approved an investment transaction with a new investor (the "Investor") according to which the investor will become a controlling shareholder of the Company and the Company will issue 17,021,277 Ordinary shares, in consideration for the aggregate amount of approximately $4,000, or a price per each share of $0.235 (the "Initial Investment"). The Company will also issue to the Investor, without additional consideration, warrants to purchase: (i) 8,510,638 additional Ordinary shares at an exercise price per Ordinary share of $0.235 (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 7,272,727 Ordinary shares at an exercise price per Ordinary share of $0.275 (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") (see also Note 17).

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 shareholders due on August 31, 2016.

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 0.015, at a price per share equal to the lower of: (i) $1.20, 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 $0.235.

As of December 31, 2015, the Company's cash position (cash and cash equivalents) totaled approximately $1,754. The Company’s current operating plan includes various assumptions concerning the level and timing of cash receipts from existing and anticipated orders in 2016, current credit facilities available, the abovementioned Initial Investment and cash outlays for operating expenses and capital expenditures. Management believes that these funds, together with its existing operating plan, are sufficient for the Company and its subsidiary to meet its obligations as they come due at least for a period of twelve months from the date the consolidated financial statements.

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, a substantial portion of the costs of the Company is incurred in U.S dollars.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in U.S. dollars (Cont.)

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.

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 long term and 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 0.91%.

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.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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. As of December 31, 2015, 2014 and 2013, no impairment losses have been identified.

i. Goodwill

Goodwill has been recorded in the Company's financial statements as a result of acquisitions. Goodwill represents excess of the costs over the net tangible and intangible assets acquired of businesses acquired Under ASC 350, "Intangible - Goodwill and Other", according to which goodwill is not amortized.

According to ASC 350, goodwill impairment testing is a two-step process. The first step involves comparing the fair value of a company's reporting units to their carrying amount. The Company elects to perform an annual impairment test of goodwill as of December 31 of each year, or more frequently if impairment indicators are present (as of December 31, 2015 and 2014, the Company’s management was in the opinion that the Company operates as one reporting unit). If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Goodwill (Cont.)

If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill.

If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded. As of December 31, 2015, the Company identified impairment of goodwill and accordingly recorded impairment charge of its goodwill in the amount of $587 (see also Note 8). As of December 31, 2014 and 2013, no impairment losses were identified.

j. 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 Chief Scientist's Office of the Israeli Ministry of Economy ("OCS") 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).

k. 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.

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, 2015 and 2014.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. 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, 2015, 2014 and 2013 amounted to $553, $674 and $483, respectively.

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.

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.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Fair value of financial instruments (Cont.)

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, 2015 and 2014:

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Derivatives:				
Foreign currencies derivatives	$ -	$ (216)	$ -	$ (216)
Total	$ -	$ (216)	$ -	$ (216)

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

n. Concentrations of credit risk:

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

The Company's cash and cash equivalents and restricted cash 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 trade receivables are derived from sales to large and solid organizations located mainly in the United States, Asia, South 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.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 total accumulated other comprehensive income, net was as follows:

	December 31,	
	2015	2014
Accumulated foreign currency translation differences	$ 387	$ 536

The following table summarizes the changes in accumulated balances of other comprehensive income, net of taxes for the year ended December 31, 2015:

	Accumulated foreign currency translation differences	Total
Balance as of December 31, 2014	$ 536	$ 536
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 liability from these warranties is not material as of December 31, 2015 and 2014.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, 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.

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.

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, 2015 and 2014, the provision for estimated losses identified is $27 and $0, 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Revenue recognition (Cont.)

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

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, 2015 and 2014, the fair value of the outstanding forward contracts was $23 and $216, respectively, which was recorded in other accruals against financial expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Recently Issued Accounting Standards:

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606):
In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for the interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

ASU 2014-15 - Presentation of Financial Statements-Going Concern (Subtopic 205-40):
In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern", which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement is effective for annual reporting periods ending after December 15, 2016, with early adoption permitted.

ASU 2015-15 - Interest-Imputation of Interest (Subtopic 835-30):
In April 2015, the FASB issued guidance on debt issuance costs. The guidance requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt in the balance sheet. This guidance does not contain guidance for debt issuance costs related to line-of-credit arrangements. Consequently, in August 2015, the FASB issued additional guidance to add paragraphs indicating that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance is effective for the interim and annual periods beginning on or after December 15, 2015. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Recently Issued Accounting Standards (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 is currently evaluating the potential effect of the guidance on its consolidated financial statements.

ASU 2015-17 - Income Taxes (Topic 740):
In November 2015, FASB issued guidance on balance sheet classification of deferred taxes. The new guidance requires entities to present all deferred tax assets and liabilities, along with any related valuation allowance, as non-current on the balance sheet. The guidance is effective for interim and annual periods beginning after December 15, 2016 (early adoption is permitted). The Company has not yet adopted ASU 2015-17 and does not expect the adoption of this guidance to have a material impact on its consolidated financial position of results of operations.

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. ASC 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.

NOTE 3:- CONTRACTS IN PROGRESS

Amounts included in the consolidated financial statements, which relate to unbilled receivables are classified as current assets. Summarized below are the components of the amounts:

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

NOTE 3:- CONTRACTS IN PROGRESS (Cont.)

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

	December 31,	
	2015	2014
Costs incurred on uncompleted contracts	$ 19,167	$ 18,417
Estimated earnings	6,465	8,544
	25,632	26,961
Less - billings and progress payments	23,425	23,287
Costs and estimated earnings in excess of billings on uncompleted contracts	2,207	3,674
Less: Long-term portion	-	(1,017)
Costs and estimated earnings in excess of billings on uncompleted contracts - Current portion	$ 2,207	$ 2,657

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2015	2014
Prepaid expenses	$ 146	$ 279
Government institutions	12	53
Advance payment to vendors	48	96
	$ 206	$ 428

NOTE 5:- INVENTORIES

	December 31,	
	2015	2014
Raw materials	$ 3,169	$ 2,891
Work in progress, net *)	2,087	2,394
Finished goods	1,309	1,366
	$ 6,565	$ 6,651

*) Net of provision for losses on long-term contracts as of December 31, 2015 and 2014, in the amount of $27 and $0, respectively.

Write-offs of inventories for the years ended December 31, 2015, 2014 and 2013 amounted to $153, $138 and $313, respectively. The write-offs were due to slow-moving items and excess inventories and were recorded in cost of revenues.

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

NOTE 6:- LONG TERM RECEIVABLES AND DEPOSITS

	December 31,	
	2015	2014
Costs and estimated earnings in excess of billings on uncompleted contracts (see Note 3)	$ -	$ 1,017
Restricted deposits	64	330
Leasing deposits	55	47
	$ 119	$ 1,394

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT, NET

	December 31,	
	2015	2014
Cost:		
Factory building	$ 1,989	$ 1,989
Other buildings	1,291	1,366
Machinery and equipment *)	9,822	9,530
Office furniture and equipment	628	435
Leasehold improvements	300	231
	14,030	13,551
Accumulated depreciation:		
Factory building	1,958	1,898
Other buildings	777	726
Machinery and equipment *)	7,743	7,693
Office furniture and equipment	353	332
Leasehold improvements	121	112
	10,952	10,761
Depreciated cost	$ 3,078	$ 2,790

*) Includes machinery at cost of $374 and accumulated depreciation of $37, which are under operating leases to customers.

Write-offs of machinery and equipment (cost and accumulated depreciation) for the years ended December 31, 2015, 2014 and 2013 amounted to $191, $0 and $333, respectively. The write-offs are due to fully depreciated assets that are no longer in use.

Depreciation expense amounted to $651, $690 and $752 for the years ended December 31, 2015, 2014 and 2013, respectively.

As for charges, see Note 11e.

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

NOTE 8:- GOODWILL

	December 31,	
	2015	2014
Beginning balance	$ 587	$ 587
Impairment of Goodwill *)	(587)	-
	$ -	$ 587

*) During the fourth quarter of 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,	
	2015	2014
Loan in U.S. dollars from shareholders	$ -	$ 5,120
Convertible note from shareholders	3,090	3,000
Less: Beneficial Conversion Feature	(1,456)	-
	$ 1,634	$ 8,120

In December 2007, the Company issued a convertible note in the amount of $3,000 to its then controlling shareholder, and warrants to purchase up to an aggregate of 1,578,947 Ordinary shares at an exercise price of $2.38 per share, exercisable for a period of five years. The convertible note had interest at the rate of six-month LIBOR+3.5% and had a conversion price of $2.09 per share. The principal was due on December 2010. In October 2010, the maturity date of the convertible note was extended to October 2012 and the expiration date of the warrants was extended to October 2014 therefore was expired. The transaction was accounted for as a modification of debt accordance with ASC 470-50, "Debt". As a result, the Company recorded a discount on the convertible note of $451. Due to the modification, the discount was amortized over the term of the extended note using the interest method.

In July 2008, the Company entered into a $1,500 loan agreement with its then controlling shareholder. The loan bears interest of LIBOR+3% payable at the beginning of each quarter. In September 2012, an amendment to the finance agreement was signed, according to which, the then controlling shareholder agreed to lend to the Company $1,148 in addition to the then remaining unpaid loan amount of $352.

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

A. LOANS AND CONVERTIBLE NOTE FROM SHAREHOLDERS (Cont.)

The loan bears interest of LIBOR+3% which was to be payable in two equal installments of $750 each, in December 2012 and February 2013. During March 2013, $350 of the open balance due was repaid. In August 2013, the Company and the then controlling shareholder agreed on a second amendment to the loan agreement whereby an additional $350 was provided to the Company to be repaid on December 31, 2013, and the remaining $1,150 to be repaid according to a standstill agreement. The Company repaid the $350 in February 2014.

In February 2012, the Company entered into a $3,000 loan agreement with an entity affiliated with its then controlling shareholder and another shareholder. The then controlling shareholder provided $2,700 and the other shareholder provided $300. Of such amount, $1,700 was used to repay in full an outstanding amount due. The loan bears interest at the rate of the greater of three months LIBOR+5% per annum, or 7% per annum. In March 2014, $30 was repaid to the other shareholder. As of December 31, 2014, the principal of the loan is $2,970. Interest is payable quarterly in arrears. The principal of the loan should have been repaid on February 28, 2014.

The loan provided by the then controlling shareholder is secured by a floating charge over all of the Company's assets that are subordinated to the specific and floating charges over the Company's assets that were granted to certain banks and financing institutes.

According to the standstill agreement the principal amounts of the Debt bears additional default interest rate of 5%.

As part of this loan agreement, the Company issued 1,200,000 warrants at an exercise price of $2.50 per share, exercisable for a period of three years. In September 2014, 120,000 warrants were exercised (see Note 12(b)). The transaction was accounted for as a Debt Instruments with Detachable Warrants in accordance with ASC 470-20. The total amount of discount on the loan as a result of the allocated proceeds attributable to the warrants feature amounting to $708, was amortized over the term of the loan using the effective interest method pursuant to ASC 835.

In August 2013, the Company and the then controlling shareholder agreed on an additional short-term loan of up to $1,000 (the "Loan"). The Loan bears an interest rate of LIBOR+3.5%, and was to be repaid by the Company by December 31, 2013. In September 2013, the then controlling shareholder provided the Company with $850 under the Loan. In February 2014, the Company repaid the $850 provided under this Loan.

In April 2014 the Company and the then controlling shareholder agreed on an additional short-term loan in the amount of up to $1,000. The loan bears an interest rate of LIBOR+3.5%, and was to be repaid by the Company by December 31, 2014.

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

A. LOANS AND CONVERTIBLE NOTE FROM SHAREHOLDERS (Cont.)

In February 2013, the Company entered into a "standstill agreement" with its then controlling shareholder and another shareholder (the "parties"), according to which those shareholders would not take any action, or otherwise exercise their rights, with respect to the collection of the Debt until January 31, 2014. According to the standstill agreement, all remaining balances of unpaid loans bears additional default interest rate as originally agreed in the loan agreements.

In April 2014, the agreement was extended to January 31, 2015.

On April 27, 2015, a second amendment was approved by the parties as follows: the termination of the forbearance period was extended to the earlier of (i) August 31, 2016, or (ii) 30 days after the closing of the Offering resulting in the repayment of at least $7,500 of the Debt. Pursuant to such amendment, the default interest payable, as of and after February 1, 2015, on all outstanding principal amounts is Libor + 9%.

Following the closing of the Offering, the forbearance period was extended to August 31, 2016.

In April 2015, the Company's shareholders approved an outline for the repayment of the Debt, according to which, the Company would offer new Ordinary shares in the Offering. It was agreed that if the net proceeds of the Offering were insufficient to repay the Debt in full, the lenders would be entitled to convert some or all of the remaining Debt into Ordinary shares.

Under the terms of the outline the terms of the conversion were: (i) the minimum amount to be converted at any one time is $300 of Debt; (ii) the share issue price will be the lower of $1.00 or 15% below the preceding 7 days VWAP (volume weighted average price); and (iii) any unconverted Debt would continue to be subject to the terms of the extended standstill agreement. The Company accounted for the modification in accordance with ASC 470-50, noting the debt is considered "substantially different" and applied extinguishment accounting. Accordingly, the original debt was derecognized and the new debt was recorded at fair value, with the difference recognized as an extinguishment loss of approximately $84 with related parties in additional paid-in-capital under ASC 470-50-40-2. In addition, the above terms represented contingent conversion option, and therefore, the Company measured the contingent Beneficial Conversion Feature ("BCF") in accordance with the guidance of ASC 470-20-30-5 by using the most favorable conversion price that would be in effect at the conversion date, assuming there are no changes to the current circumstances except for the passage of time, hence used $1.00 to calculate the BCF. Accordingly, the outline resulted in a BCF in the amount of approximately $8,204, recorded as a discount to the debt with corresponding adjustment to additional paid-in-capital. Such BCF non-cash expenses are amortized through August 31, 2016, the contractual term of the debt in financial expenses, net.

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.)

In August 2015, following the Offering, the Company repaid $5,090 of the total Debt of $8,120 and $1,825 of accrued interest and its withholding taxes ($600) to the Lenders. The Company treated the repayment as extinguishment in accordance with the original terms of the debt with any gain or loss on the extinguishment recorded in additional paid-in-capital according with ASC 470-40-50-2. In effect, the contingent BCF is resolved and the only remaining BCF provided to the Lenders is of the remaining $3,090 principal amount.

As of December 31, 2015, the outstanding principal of the convertible loans amounted to $3,090, with remaining discount of $1,540. As of December 31, 2015, accrued interest amounted to $115 and included other accrued payables. Through December 31, 2015, the Company recorded discount amortization expenses in the amount of $2,684 in financial expenses, net.

B. BANK CREDIT

	December 31,	
	2015	2014
Bank Credit	$ 2,416	$ 1,589

The Company has an annual line of bank credit of $750 out of which $744 was fully utilized as of December 31, 2015, and a line of credit for customers guarantees of approximately $623, out of which $386 was utilized as of December 31, 2015. In addition, the Company may secure borrowing with one of its banks against specific accounts receivables of up to $2,250. As of December 31, 2015, the Company secured borrowings against specific accounts receivables in the amount of $1,672 (see also Note 11f).

The annual average interest rate on the lines of credit is 3.5% at December 31, 2015.

The guarantees are secured by a first priority floating charge on all of the Company's assets and by a fixed charge on goodwill (intangible assets), 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.

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

NOTE 10:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2015	2014
Payroll and related accruals	$ 1,815	$ 1,476
Accrued expenses - subcontractors	79	392
Accrued expenses	565	486
Accrued interest due to shareholders loan	115	1,041
Tax authorities	224	602
Derivatives Instruments	23	216
Others	25	54
	$ 2,846	$ 4,267

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. As of December 31, 2015, 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 OCS. In return for the OCS'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 OCS, 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, 2015, the Company received total grants from the OCS in the amount of $5,545 including LIBOR interest.

The total amount of royalties charged to operations for the years ended December 31, 2015, 2014 and 2013 was approximately $55, $18 and $12, respectively. As of December 31, 2015, the Company's contingent liability for royalties, net of royalties paid or accrued, totaled approximately $1,500. Research and development grants received from the OCS, amounted to $0, $0 and $15 in the years ended December 31, 2015, 2014 and 2013, respectively.

c. Research and development projects undertaken by the Company were partially financed by the Binational Industrial Research and Development Foundation ("BIRD-F"). The Company is committed to pay royalties to the BIRD-F at a rate of 5% of sales proceeds generating from projects for which the BIRD-F provided funding up to 150% of the sum financed by the BIRD-F.

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, 2015, the Company's total obligation for royalties, net of royalties paid or accrued, totaled approximately $2,066. Since the Company had stated to BIRD-F that no revenues were generated from the funded projects, BIRD-F agreed that no royalties are due until future revenues, if any, are received. No royalties were charged to operations for the years ended December 31, 2015, 2014 and 2013.

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

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

d. The Company's offices in Netanya, Israel are leased under a non-cancelable operating lease expiring on January 31, 2018. 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, 2015, are approximately as follows:

2016	$ 713
2017	577
2018	90
2019	6
	$ 1,386

Lease expense for the years ended December 31, 2015, 2014 and 2013 was $761, $754 and $747, respectively.

e. 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.

f. 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, 2015, is approximately $386.

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 April 16, 2015, the Company's shareholders approved the following:

The increase of the Company's authorized share capital by NIS 200,000 such that following the increase, the authorized share capital will equal NIS 450,000 divided into 30,000,000 Ordinary shares, par value NIS 0.015 each.

On July 30, 2015, the Company announced the closing of an underwritten public offering of 6,910,569 Ordinary shares, offered at a price to the public of $1.23 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.

See also Note 17 for subsequent events.

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

Stock option plans:

In April 2015, the Company's Board of Directors approved the adoption of Israeli Employee Stock Option Plan (the "Plan"), which authorized the grant of options to purchase up to an aggregate of 3,000,000 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.

Each award agreement will provide the schedule under which such awards may be exercised ("Vesting Schedule"). The Vesting Schedule of an award will be determined by the Administrator provided that (to the extent permitted under Applicable Law) the Administrator, in its absolute discretion, shall have the authority to accelerate the vesting of any outstanding Option at such time and under such circumstances as it, in its sole discretion, deems appropriate. Subject to the Vesting Schedule, Awards may be exercised into Award Shares during the ten (10) year period from the adoption date of the Plan unless otherwise determined by the Administrator (to the extent permitted under Applicable Law and the Plan). No grants were made in 2015 under the Plan.

b. Warrants:

During February 2012, pursuant to 2012 loan agreement (see Note 9) the Company issued warrants to purchase 1,200,000 Ordinary shares at an exercise price of $2.5 per share for a period of three years. The fair value of the warrants was based on the Black-Scholes-Merton option-pricing model, assuming a stock price of $2.04, a risk free interest of 0.41%, a volatility factor of 52.5%, dividend yield of 0% and contractual life of three years.

During September 2014, 120,000 warrants were exercised for 69,749 Ordinary shares on a cashless basis as agreed in the applicable warrant agreement. The remaining 1,080,000 warrants expired in February 2015.

NOTE 13:- TAXES ON INCOME

a. The Israeli corporate tax rate and real capital gains tax in Israel were 25% in 2013, 26.5% in 2014, and 26.5% in 2015.

In January 2016, the Israeli Parliament approved a reduction of the corporate rate to 25% effective as of January 1, 2016.

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.

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

NOTE 13:- TAXES ON INCOME (Cont.)

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, 2015, the net operating tax loss carryforward relating to the Company in Israel amounted to approximately $62,355, including a carryforward capital loss amounting to approximately $3,400. 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 amounting to approximately $16,803 will not be utilized, 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.

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,	
	2015	2014
Net operating loss carry forward	$ 16,439	$ 16,389
Allowance and reserve	364	346
Total deferred tax assets before valuation allowance	16,803	16,735
Valuation allowance	(16,803)	(16,735)
Net deferred tax assets	$ -	$ -

As of December 31, 2015 and December 31, 2014, the Company has provided valuation allowances in respect of deferred tax assets resulting from tax loss carry forward 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.

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

NOTE 13:- TAXES ON INCOME (Cont.)

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, 2015 and 2014, there were no unrecognized tax benefits that if recognized would affect the annual effective tax rate.

NOTE 14:- FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2015	2014	2013
Income:			
Foreign currency exchange differences	$ 131	$ 208	$ 15
Interest on cash equivalents and restricted deposits	4	5	12
	(135)	(213)	(27)
Expenses:			
Amortization of shareholders' convertible loans discount and BCF	2,684	43	489
Interest on shareholders' convertible note and loans	575	708	729
Withholding taxes on interest of convertible note and loans from shareholders	119	294	205
Bank commissions and others	149	144	292
Foreign currency exchange differences	161	271	135
Interest on loans from banks and other credit balances	21	7	84
	3,709	1,467	1,934
Total financial expenses, net	$ 3,574	$ 1,254	$ 1,907

NOTE 15:- RELATED PARTY BALANCE AND TRANSACTIONS

For the year ended December 31, 2015, the Company incurred $575 in respect of interest on loans received from its shareholders.

See also Notes 9 and 17 for transactions with the Company's shareholders.

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 (see also Note 1a).

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,		
	2015	2014	2013
Israel	$ 6,062	$ 5,005	$ 4,267
Asia	3,482	6,604	5,466
North America	3,558	8,072	5,091
Latin America	1,614	2,731	6,798
Europe	148	69	139
Total	$ 14,864	$ 22,481	$ 21,761

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,		
	2015	2014	2013
	%		
Customer A	23	10	12
Customer B	-	-	11
Customer C	9	16	20
Customer D	12	22	17
Customer E	7	13	17
Customer F	13	10	-

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,	
	2015	2014
Israel	$ 2,686	$ 2,820
China	392	557
	$ 3,078	$ 3,377

NOTE 17:- SUBSEQUENT EVENTS

On May 15 2016, the Company's shareholders approved Investment Transaction, according to which a new investor (the "Investor") will become the controlling shareholder of the Company.

Pursuant to the Investment Transaction the Company will issue 17,021,277 new Ordinary shares to the Investor in consideration for approximately 4,000, or a price per share of $0.235 In addition, the Company will issue to the Investor warrants to purchase: (i) an additional 8,510,638 Ordinary shares at an exercise price per Ordinary share of $0.235 (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 7,272,727 Ordinary shares at an exercise price per Ordinary share of $0.275 (resulting in an aggregate exercise price of $2,000), exercisable for a period of 48 months following the date of the Initial Investment.

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 shareholders due on August 31, 2016.

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 0.015, at a price per share equal to the lower of: (i) $1.20, 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 $0.235.

In addition, on May 15 2016, the Company's shareholders approved the increase of the Company's share capital to NIS 675,000. Following the increase, the authorized share capital shall equal NIS 1,125,000 divide into 75,000,000 Ordinary shares, par value NIS 0.015 each.

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/ Zvi Alon
Name: Zvi Alon
Title: Chief Executive Officer

Dated: May 16, 2016

Exhibit 4.4

PURCHASE AGREEMENT

BETWEEN

RADA ELECTRONIC INDUSTRIES LTD.

AND

DBSI INVESTMENTS LTD

DATED AS OF APRIL 14, 2016

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (the "**Agreement**") is made and entered into on April 14, 2016 by and between **RADA ELECTRONIC INDUSTRIES LTD.**, a company incorporated under the laws of the State of Israel, of 7 Giborei Israel St., Netanya 4250407, Israel (the "**Company**") and **DBSI INVESTMENTS LTD.**, a company incorporated under the laws of the State of Israel (the "**Investor**").

RECITALS

A. The Board of Directors of the Company has (i) determined that it is in the best interests of the Company to enter into, deliver and perform this Agreement and the transactions contemplated hereby, including raising capital by means of issuance of Company Shares; (ii) approved this Agreement and the transactions contemplated hereby; and (iii) determined to recommend that the shareholders of the Company vote to approve this Agreement and the transactions contemplated hereby.

B. The Investor desires to purchase and the Company desires to issue and sell to the Investor, Company Shares and to issue a Warrant (as defined herein) against the investment by Investor of an aggregate amount of $4,000,000, under the terms and conditions of this Agreement.

C. The Company and the Investor desire to make certain representations, warranties, covenants and other agreements in connection with the transactions contemplated hereby.

D. Concurrently with the execution and delivery of this Agreement and as a material inducement to the Investor, certain shareholders of the Company listed on **Exhibit A-1** attached hereto are executing a proxy ("**Proxy**"), in the form attached hereto as **Exhibit A-2**, in favor of the Investor, and granting irrevocable proxies to a mutually-agreed-upon proxyholder, pursuant to which such shareholders irrevocably direct the proxyholder to vote all securities of the Company beneficially owned by them in favor of the approval of this Agreement and the transactions contemplated hereby and the Shareholders Resolutions;

NOW, THEREFORE, in consideration of the mutual agreements, covenants and other promises set forth herein, the mutual benefits to be gained by the performance thereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 ***Definitions***. For all purposes of this Agreement, the following terms shall have the following respective meanings:

(a) "***2015 Unaudited Reports***" shall mean unaudited, consolidated financial statements of the Company, the nine months period ending on September 30, 2015, prepared in accordance with GAAP.

(b) "***Acquisition Proposal***" shall mean any offer or proposal (other than an offer or proposal by the Investor), oral or written, relating to any Acquisition Transaction.

(c) "***Acquisition Transaction***" shall mean any transaction or series of related transactions, other than the transactions contemplated by this Agreement, involving: (i) any merger, exchange, consolidation, business combination, plan of arrangement, issuance of securities, acquisition of securities, reorganization, recapitalization, takeover offer, tender offer, exchange offer or other similar transaction in which any member of the Company Group is a constituent corporation, and (A) in which a Person or "group" (as defined in the Exchange Act and the rules promulgated thereunder) of Persons directly or indirectly acquires beneficial or record ownership of securities representing more than 25% of the outstanding securities of any class of voting securities or debt securities of any member of the Company Group,; or (B) in which any member of the Company Group issues securities representing more than 25% of the outstanding securities of any class of voting securities of any member of the Company Group or debt securities; (ii) any sale, lease, exchange, transfer, license, acquisition or disposition of any business or businesses or assets that constitute or account for 25% or more of the consolidated net revenues, consolidated net income or consolidated assets of the Company Group; (iii) any financing transaction (whether debt, equity or a combination thereof) other than in the ordinary course of business), including by way of a purchase or the restructuring of the Company's existing debts); or (iv) any liquidation or dissolution of any member of the Company Group.

(d) "***affiliate***" (and words of similar import) shall mean as set forth in Rule 405 promulgated under the Securities Act.

(e) "***Agreement***" shall have the meaning set forth in the recitals of this Agreement.

(f) "***Antitrust Laws***" shall mean RTPL and other Legal Requirements of any jurisdiction or Governmental Entity concerning competition, anti-trust or restrictions on trade practices that the parties reasonably determine to apply.

(g) "***Business Day***" shall mean each day that is not a Saturday, Sunday or holiday on which banking institutions in Tel Aviv, Israel, are authorized or obligated by law or executive order to close.

(h) "***Charter Documents***" shall have the meaning set forth in **Section 3.1(b) hereof**.

(i) "***Closing***" shall have the meaning set forth in **Section 2.2 hereof**.

(j) "***Closing Date***" shall have the meaning set forth in **Section 2.2 hereof**.

(k) "***Company***" shall have the meaning set forth in the recitals to this Agreement.

(l) "***Company Employee Plan***" shall mean any plan, program, policy, practice, custom, Contract, agreement (other than employment agreements) or other arrangement applying to any group of employees and providing for compensation, severance, termination pay, deferred compensation, retirement benefits, manager's insurance, provident or pension funds, performance awards, shares or equity-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether written, unwritten or otherwise, funded or unfunded.

(m) "***Company General Meeting***" shall have the meaning set forth in **Section 6.1 hereof.**

(n) "***Company General Meeting Notice***" shall have the meaning set forth in **Section 6.1 hereof.**

(o) "***Company Group***" shall mean collectively, the Company and its active Subsidiaries.

(p) "***Company Intellectual Property***" shall mean any and all Intellectual Property (including Company Registered Intellectual Property) and Intellectual Property Rights that are owned by, licensed to, or otherwise controlled or used by the Company or any member of the Company Group.

(q) "***Company Material Adverse Effect***" means a change, effect, event, occurrence or circumstance, that is materially adverse to the business, condition (financial or other), of the Company Group, taken as a whole, but excluding (u) effects or changes resulting from major acts of terrorism or war, (v) any violation, circumstance, change or effect that results from any action taken pursuant to or in accordance with this Agreement or at the written request of the Investor, (w) changes or developments in laws applicable to the Company or the enforcement thereof, (x) effects or changes that are generally applicable to the industries and markets in which the Company operates, or (y) changes in the Israeli or world financial markets or general economic conditions (including prevailing interest rates) other than, in the case of subclauses (u), (w), (x), (y), effects of any such changes that disproportionately effect the Company relative to other such industry or market participants.

(r) "***Company Options***" shall mean all issued and outstanding options (including commitments to grant options) to purchase or otherwise acquire Company Shares (whether or not vested) held by any person or entity, each of whom is listed on **Section 3.2(c)** of the Disclosure Schedule.

(s) "***Company Shares***" shall mean the Ordinary Shares, par value NIS 0.015 per share, of the Company.

(t) "***Company Warrants***" means warrants to purchase Company Shares.

(u) "***Contract***" shall mean any written or oral agreement, contract, subcontract, lease, binding understanding, instrument, note, bond, mortgage, indenture, option, warranty, purchase order, license, sublicense, benefit plan, obligation, commitment or undertaking of any nature.

(v) "***Disclosure Schedule***" shall have the meaning set forth in **ARTICLE III**.

(w) "***Environmental Laws***" means all applicable federal, state, local or foreign Laws, codes, rules, orders, ordinances, permits, requirements, final governmental determinations, statutes, administrative guidelines and regulations promulgated thereunder relating to the release or threatened release of any pollutant, sewage, contaminant, or toxic or Hazardous Materials, the protection of the environment, which regulate the management, manufacturing, handling, transport, use, treatment, storage and disposal of Hazardous Substances, and any Laws relating to the recycling and disposal of waste or relating to the protection of human health and safety (including health and safety of employees, occupiers and invitees, and fire safety) as the foregoing are enacted and in effect and in the jurisdiction in which the applicable site or premises are located, including, without limitation, the following statutes and all regulations promulgated thereunder: the Israeli Licensing of Businesses Law, 1968; the Israeli Hazardous Substances Law, 1993; the Israeli Abatement of Nuisances Law, 1961; the Israeli Non-Ionizing Radiation Law, 2006; the Israeli Environmental Treatment of Electrical and Electronic Equipment and Batteries Law, 2012; the Israeli Management of Packaging Law, 2012; the Israeli Clean Air Law, 2008; and the Israeli Water Law, 1959.

(x) "***Environmental Permits***" means any permit, license, certificate, franchise, approval, permission, clearance, certificate, registration, qualification, notice, order, consent, or authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Entity, including any pending applications, consents, approvals and authorizations, used in or otherwise necessary in the conduct of the Company Group business as now being conducted.

(y) "***Exchange Act***" shall mean the United States Securities Exchange Act of 1934, as amended.

(z) ***"Existing Convertible Loan"*** shall mean a debt in the principal amount of $2,988,000 owed by the Company to FCD and a debt in the principal amount of $102,095 owed by the Company to Ben Zion Gruber, which bears interest in the rate of six months LIBOR+9% per annum (payment thereof is subject to gross-up), all as described in the Standstill Agreement, that may be converted into Company's Shares pursuant to the resolution adopted by the Extraordinary General Meeting on April 16, 2015 .

(aa) "***Extraordinary General Meeting***" shall have the meaning set forth in the Israeli Companies Law.

(bb) ***"FCD"*** shall mean **Faith Contents Development Ltd., a Hong Kong private Company controlled by Mr. Howard P. L. Yeung the previous controlling shareholder of the Company.**

(cc) "***Form 20-F***" means Company's Annual Report on Form 20-F for a certain fiscal year ended on December 31.

(dd) "***GAAP***" shall mean generally accepted accounting principles in the United States consistently applied.

(ee) "***Governmental Entity***" shall have the meaning set forth in **Section 3.5(b) hereof**.

(ff) "***Hazardous Materials***" means (a) any material, waste, compound, substance, or chemical that is defined, listed, or classified as a contaminant, pollutant, toxic, radioactive, ignitable, corrosive, reactive, or otherwise hazardous substance, hazardous waste, or similar term under Environmental Laws, (b) petroleum, petroleum based, or petroleum derived products and other hydrocarbons, (c) polychlorinated biphenyls, and (d) asbestos.

(gg) "***Indebtedness***" shall mean any principal, interest, premiums, fees, indemnifications, reimbursement, penalties, damages and other liabilities payable under the documentation governing any such indebtedness, in respect of all indebtedness of the Company Group for money borrowed from third parties, including (i) any obligation of, or any obligation guaranteed by, any member of the Company Group for the repayment of borrowed money, whether or not evidenced by bonds, debentures, notes or other instruments, (ii) all indebtedness of the Company Group due and owing with respect to letters of credit, surety bond, performance bond or other guarantee of contractual performance, (iii) any deferred payment obligation of, or any such obligation guaranteed by, any member of the Company Group for the payment of the purchase price of property or assets evidenced by a note or similar instrument, (iv) obligation of any member of the Company Group under interest rate and currency swaps, caps, floors, collars or similar agreements or arrangements intended to protect the Company Group against fluctuations in interest or currency rates.

(hh) "***Institution***" shall have the meaning set forth in **Section 3.9(a) hereof**.

(ii) "***Intellectual Property Assets***" shall mean any or all of the following (i) works of authorship including, without limitation, computer programs, source code, and executable code, whether embodied in software, firmware or otherwise, architecture, documentation, designs, files, records, databases and data, (ii) inventions (whether or not patentable), discoveries, improvements, and technology, (iii) proprietary and confidential information, trade secrets and know how, (iv) databases, data compilations and collections and technical data, (v) logos, trade names, trade dress, trademarks and service marks, (vi) domain names, web addresses and sites, (vii) tools, methods and processes, and (viii) any and all instantiations of the foregoing in any form and embodied in any media.

(jj) "***Intellectual Property Rights***" shall mean all worldwide, whether common law or statutory rights in (i)) copyrights, and copyright applications, "moral" rights and mask work rights; (ii) the protection of trade and industrial secrets and confidential information; (iv) licenses, right of use and other proprietary rights relating to Intellectual Property; (v) trademarks, trade names and service marks; (vi) analogous rights to those set forth above, and (vii) divisions, continuations, renewals, reissuances and extensions of the foregoing (as applicable).

(kk) "***Investor***" shall mean as set forth in the recitals to this Agreement and any successor or assignee thereof.

(ll) "***Israeli Companies Law***" shall mean the Israeli Companies Law, 5759-1999 together with the regulations promulgated thereunder, all as amended.

(mm) "***knowledge***" or "***known***" shall qualify the matter referred to as being (i) in the case of any Person that is not an individual, the actual knowledge of the officers, directors, legal and financial officers of such Person and the facts or circumstances that would be known after reasonable inquiry by any of the foregoing in the course of fulfilling their roles and responsibilities as officers or directors of such Person, (ii) in the case of an individual, the actual knowledge of such individual, and the facts and circumstance that would be known after reasonable inquiry by such individual.

(nn) "***Lease Agreements***" shall have the meaning set forth in **Section 3.8(a) hereof**.

(oo) "***Leased Real Property***" shall have the meaning set forth in **Section 3.8(a) hereof**.

(pp) "***Legal Requirements***" shall mean any Israeli, U.S. federal, state or municipal or foreign law, statute, constitution, principle of common law, resolution, ordinance, code, edict, decree, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Entity.

(qq) "***Liability***" means all Indebtedness, obligations and other liabilities of a Person, whether absolute or contingent (or based upon any contingency), known or unknown, fixed or otherwise, due or to become due, whether or not accrued or paid, and whether required or not required to be reflected in financial statements under GAAP.

(rr) "***Lien(s)***" shall mean any mortgage, pledge, assessment, security interest, lease, lien, easement, covenant, condition, restriction, levy, charge, option, equity, restriction or other encumbrance of any kind, any conditional sale Contract, title retention Contract, voting Contract or Contract relating to the registration, sale or transfer (including Contracts relating to rights of first refusal, co-sale rights or "drag-along" rights) of any capital stock of any member of the Company Group, or other Contract that give rise to any of the foregoing other than Permitted Liens.

(ss) "***Material Contract***" shall mean any Contract which the Company or each of its Subsidiaries is a party to or bound by that would be required to be filed by the Company as a "Material Contract" pursuant to Item 601(b)(10) of Regulation S-K promulgated by the SEC.

(tt) "***Material Customer***" shall have the meaning set forth in Section 3.15 hereof.

(uu) "***Material Supplier***" shall have the meaning set forth in Section 3.15 hereof.

(vv) "***member of the Company Group***" shall mean each of the Company and its Subsidiaries.

(ww) "***New Convertible Note***" shall have the meaning set forth in Section 2.4(g).

(xx) "***NIS***" shall mean the New Israeli Shekel.

(yy) "***Option Plans***" shall have the meaning set forth in Section 3.2(c) hereof.

(zz) ***"Permitted Liens"*** shall mean (i) the Liens securing the Existing Convertible Loan (ii) liens for taxes, assessments or similar charges and assessments not yet delinquent; (iii) Liens of mechanics, materialmen, warehousemen, carriers or other like liens securing obligations incurred in the ordinary course of business; (iv) The Liens securing the Company's Indebtedness to banks and other financial institutions and (v) Liens recorded with the Companies Registrar as of March 31, 2016, securing Indebtedness listed therein.

(aaa) "***Person***" shall mean an individual, a corporation, a partnership, an association, a trust, an enterprise or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

(bbb) ***"Proxy"*** shall have the meaning set forth in the recitals to this Agreement.

(ccc) "***Proxy Statement***" shall have the meaning set forth in Section 6.2 hereof.

(ddd) "***Price per Share***" shall have the meaning set forth in Section 2.1 hereof.

(eee) "***Purchased Securities***" means the Purchased Shares, the Warrant and the Warrant Shares.

(fff) "***Purchased Shares***" shall have the meaning set forth in Section 2.1 hereof.

(ggg) ***"Registration Rights Agreement"*** shall have the meaning set forth in Section 2.3(b) hereof.

(hhh) "***Related Agreements***" shall mean the Registration Rights Agreement, the Warrant, the New Convertible Note and any and all other agreements, instruments, certificates or other documents delivered by the Company in connection with the consummation of the transactions contemplated hereby.

(iii) "***Required Company Shareholder Vote***" shall have the meaning set forth in Section 3.4 hereof.

(jjj) "***RTPL***" means the Israeli Restrictive Trade Practices Law, 5748-1988 and the regulations promulgated thereunder.

(kkk) "***SEC***" shall mean the United States Securities and Exchange Commission.

(lll) "***SEC Reports***" shall mean Company's reports and forms filed with or furnished to SEC under the Exchange Act.

(mmm) "***Securities Act***" shall mean the United States Securities Act of 1933, as amended.

(nnn) ***"Shareholders Resolutions"*** shall have the meaning set forth in Section 6.1(a) hereof.

(ooo) "***Software***" shall mean any and all (i) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (iii) descriptions, testing scripts, schematics, flow-charts and other work product used to design, plan, organize and develop any of the foregoing, and (iv) all documentation, including user manuals, training materials and functional specifications or similar documentation included as part of any Outbound License Agreement, relating to any of the foregoing.

(ppp) ***"Standstill Agreement"*** shall mean that certain Standstill Agreement dated February 1, 2013 by and between the Company and the Lenders stated therein, as amended on April 29, 2014, April 27, 2015, and June 2, 2016.

(qqq) "***Subsidiary***" shall mean, with respect to any Person, any other Person of which more than 50% of the securities or other ownership interests having by their terms ordinary voting power to elect a majority of the board of directors, or of other Persons performing similar functions, of such other Person is directly or indirectly owned or controlled by such Person, by one or more of such Person's Subsidiaries (as defined in the preceding clause) or by such Person and any one or more of such Person's Subsidiaries.

(rrr) "***Superior Proposal***" shall mean a bona fide, irrevocable and binding written Acquisition Proposal (for purposes of this definition, replacing all references in such definition to twenty five percent (25%) with fifty percent (50%)) that the Board of Directors of the Company or any committee thereof determines, in good faith, after consultation with outside legal counsel and a financial advisor by a third party which (i) is not subject to a financing condition, (ii) is more favorable to the shareholders of the Company from a financial point of view than the transactions contemplated by this Agreement (including in respect of the aggregate consideration and the price per share offered under the Superior Proposal), after taking into account the Termination Fee hereunder and including any proposal by the Investor to amend the terms of this Agreement, and (iii) is likely of being consummated on the terms proposed within a period that is not longer than the period provided under this Agreement for consummation of the Investment.

(sss) "***Warrant"*** means a warrant to purchase up to (i) 8,510,638 Company Shares, at an exercise price of $0.235 per each share, and (ii) 7,272,727 Company Shares, at an exercise price of $0.275 per each share, in the form attached hereto as **Exhibit B**, but subject to adjustment as set forth therein.

(ttt) "***Warrant Shares***" the Company's shares issuable pursuant to the exercise of the Warrant**.**

1.2 ***Other Terms***. Other terms may be defined elsewhere in the text of this Agreement and, unless otherwise indicated, shall have such meanings throughout this Agreement.

1.3 ***Other Definitional Provisions***. The words "**herein**," "**hereof**," "**hereto**" and "**hereunder**" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa. Unless otherwise noted, all references to "$" shall be nominated in U.S. dollars.

ARTICLE II

SALE AND PURCHASE OF SECURITIES

2.1 ***Sale and Purchase of Purchased Securities***. At the Closing and subject to the terms and conditions of this Agreement (and subject further to the adjustments set out in Section 2.5), the Company will issue and sell to the Investor and the Investor will buy from the Company (i) 17,021,277 Company Shares (the "**Purchased Shares**"), in consideration for a price per each Company Share of $0.235 (the "**Price Per Share**"), and (ii) the Warrant, for no additional consideration. In the event that the Warrant is exercised in accordance with its terms, then the Warrants Shares issued thereunder shall, from the date of exercise, be deemed to be Purchased Shares hereunder and shall be treated, for all purposes under this Agreement as Purchased Shares issued under this Agreement.

2.2 ***Closing***. Unless this Agreement is earlier terminated pursuant to **Section 8.1** hereof, the consummation of the sale of the Purchased Shares and the Warrant (the "**Closing**") will take place on the second Business Day after the satisfaction or waiver of the conditions set forth in **ARTICLE VII** hereof, at the offices of Meitar, Liquornik, Geva, Leshem, Tal, Law Offices, 16 Abba Hillel Road, Ramat Gan, Israel, unless another time or place is mutually agreed upon in writing by the Investor and the Company. The date upon which the Closing actually occurs shall be referred to herein as the "**Closing Date**". All actions at the Closing and all transactions occurring at the Closing shall be deemed to take place simultaneously and no transactions shall be deemed to have been completed or any document delivered until all such transactions have been completed and all required documents delivered.

2.3 ***Investor's Deliveries at the Closing***. At the Closing, the Investor shall transfer or deliver, or cause to be transferred or delivered to the Company, the following:

(a) By wire transfer of immediately available funds to an account designated by the Company in writing prior to the Closing Date, the aggregate Price Per Share for the Purchased Shares.

(b) A counterpart of the Registration Rights Agreement between the Company and the Investor, in the form attached hereto as **Exhibit F** (the "**Registration Rights Agreement**") duly executed by the Investor.

(c) A counterpart of the Convertible Note between the Company and the Investor, in the form attached hereto as **Exhibit E**, (the "**New Convertible Note**") duly executed by the Investor, and pursuant to which the Company may demand (by a special committee composed of independent directors) that the Investor loan to the Company an amount equal to US$3,175,000 so as to ensure that the Company has sources to repay the Existing Convertible Loan, and which New Convertible Note contains terms which are more beneficial to the Company than the Existing Convertible Loan, all as set forth therein; and

2.4 ***Company's Deliveries at the Closing***. At or prior to the Closing, the Company shall deliver, or cause to be delivered to the Investor, the following:

(a) A certificate, dated as of the Closing Date, duly executed on behalf of the Company by its Chief Executive Officer, in his capacity as an officer of the Company, certifying the fulfillment of the conditions specified in Sections 7.2(a) and 7.2(d) hereof;

(b) A certificate, dated as of the Closing Date and duly executed on behalf of the Company by an officer of the Company, certifying (i) the Amended Articles of Association, in the form attached hereto as **Exhibit C** (the "**Amended Articles**"), as the Articles of the Company in effect, (ii) that the resolutions of the Board of Directors of the Company, attached hereto as **Exhibit D**, whereby this Agreement, the Related Agreements and the transactions contemplated hereby and thereby were approved and were not revoked or amended since their adoption, (iii) that the Shareholders Resolutions approved at the Company General Meeting were not revoked or amended since their adoption, and (iv) the incumbency of each of the Company's officers authorized to sign, on behalf of the Company, this Agreement, the Related Agreements and any agreements, instruments, documents and certificates executed or to be executed and delivered by the Company pursuant hereto or thereto;

(c) Duly executed minutes of the Company General Meeting whereby the Shareholders Resolutions were approved by the Required Company Shareholder Vote;

(d) Duly executed shares certificate(s) registered in the name of the Investor representing the number of Purchased Shares purchased by the Investor, in such form as mutually agreed upon (including electronic form);

(e) The Warrant in the name of the Investor;

(f) Evidence reasonably satisfactory to the Investor that, the individuals set forth on **Exhibit 2.4(f)** hereof under the caption *"Resigning Directors"* have resigned from their office as directors and that, the individuals set forth on **Exhibit 2.4(f)** hereof under the caption "*New Directors*" have been duly appointed as directors of the Company to fill vacancies in accordance with Article 41 of the Company's Amended Articles, subject to and effective as of the Closing Date;

(g) Executed D&O Indemnification Agreements, in the form attached hereto as **Exhibit 2.4(g)** with each of the individuals set forth on **Exhibit 2.4(g)**;

(h) A copy of the notice to the Registrar of Companies, duly notifying of the adoption of the Amended Articles and increase of registered share capital;

(i) Evidence reasonably satisfactory to the Investor that the agreement with GRE Investment House Ltd. ("**GRE**") dated December 22, 2015 has been amended such that GRE shall be entitled to receive the fees thereunder (in cash and warrants) only based on the actual investment made at the Closing and not the New Convertible Note or the Warrant;

(j) A counterpart of the Registration Rights Agreement, duly executed by the Company; and

(k) A counterpart of the New Convertible Note, duly executed by the Company.

2.5 ***Recapitalization Adjustments***. In the event of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into capital stock), reorganization, reclassification, combination, recapitalization or other like change with respect to the Company Shares occurring after the date hereof and prior to the Closing, all references in this Agreement to specified numbers of shares and all calculations provided for that are based upon numbers of any shares (including, without limitation, price per share and exercise price) affected thereby, shall be equitably adjusted to the extent necessary to provide the parties the same economic effect as contemplated by this Agreement prior to such stock split, reverse stock split, stock dividend, reorganization, reclassification, combination, recapitalization or other like change.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Subject to the disclosures set forth in the disclosure schedule to be delivered by the Company to the Investor at the Closing, attached hereto as **Exhibit H** (the "**Disclosure Schedule**") (each of which disclosures, shall clearly indicate the Section and, if applicable, the Subsection of this Article III to which it relates (unless and only to the extent the relevance to other representations and warranties is readily apparent from the actual text of the disclosures), and each of which disclosures shall also be deemed to be representations and warranties made by the Company to the Investor under this Article III), the Company hereby represents and warrants to the Investor, as follows:

3.1 ***Organization of the Company***

(a) Each member of the Company Group is a corporation duly organized, validly existing and, to the extent that such jurisdiction recognizes the concept of good standing, in good standing under the laws of the jurisdiction of its incorporation or formation and has the requisite power and authority to own its properties and to carry on its business as currently conducted. Each member of the Company Group is duly qualified or licensed to do business and, to the extent that such jurisdiction recognizes the concept of good standing, in good standing as a foreign corporation or business entity in each jurisdiction in which the failure to be so qualified or licensed would reasonably be expected to be material to the business of the Company Group.

(b) The Company made available to the Investor a true and correct copy of its Memorandum of Association and Articles of Association, as in effect on the date hereof (collectively, the "**Charter Documents**"), and, except as listed in Section 3.1(b) of the Disclosure Schedule, a complete and correct copy of the equivalent organizational documents of its active Subsidiaries as requested by the Investor, as in effect on the date hereof. Such Charter Documents and equivalent organizational documents of its active Subsidiaries are in full force and effect. No member of the Company Group is in material violation of any of the provisions its Charter Documents, or equivalent organizational documents, as the case may be. As of Closing, the Amended Articles shall have been duly approved and adopted by all necessary corporate action and shall be valid and in full force and effect.

3.2 ***Company Capital Structure***

(a) The registered share capital of the Company as of immediately prior to Closing is NIS 450,000 divided into 30,000,000 Company Shares, of which [15,898,965] Company Shares are issued and outstanding as of the date hereof. No Company Shares are dormant shares nor held in treasury by any member of the Company Group. The aggregate number of Company Shares issued and outstanding as of immediately prior to the Closing is as stated in the certificate delivered pursuant to Section 2.4(a). All outstanding Company Shares, when issued, were duly authorized, validly issued, fully paid and non-assessable and not subject to preemptive rights created by statute, the Charter Documents of the Company, or any agreement to which the Company is or was a party or by which it is or was bound, that were not complied with or waived. No holder of Company Shares is in default in payment of any sum referred to in Article 13 of the Charter Documents. All outstanding Company Shares have been issued (X) in compliance with all applicable securities laws and other applicable Legal Requirements, and (Y) in material compliance with all applicable requirements set forth in Contracts. The Company has not, and will not have, suffered or incurred any Liability relating to or arising out of the issuance or repurchase of any Company Shares, or out of any agreements or arrangements relating thereto (including any amendment of the terms of any such agreement or arrangement), which Liabilities have not been fully satisfied and fulfilled. There are no declared or accrued but unpaid dividends with respect to any Company Shares. Except for the Proxy and proxies given by beneficial holders of Company Shares holding such shares through brokers, authorizing their brokers to vote such Company Shares, there are no voting trusts, proxies, or other agreements or understandings with respect to the voting shares of any member of the Company Group to which the Company is a party or by which it is bound. Other than as listed in Section 3.2(a)(2) of the Disclosure Schedule, there are no agreements to which any member of the Company Group is a party relating to the registration, sale or transfer (including agreements relating to rights of first refusal, co-sale rights or "drag-along" rights) of any capital stock of any member of the Company Group (which shall have been terminated by and superseded with the Registration Rights Agreement).

(b) The Purchased Shares and the Warrant Shares have been duly authorized and, when issued, delivered and paid for in the manner set forth in this Agreement or, with respect to the Warrant Shares, in the manner set forth in the Warrant, will be validly issued, fully paid, nonassessable, free and clear of all Liens and duly registered in the name of the Investor in the Company's share register. On the Closing Date the Company shall have reserved from its duly authorized share capital the maximum number of Company Shares for issuance of the Warrant Shares. The Purchased Shares and the Warrant Shares will have the rights, preferences, privileges and restrictions set forth in the Amended Articles, as amended from time to time. The execution and delivery by the Company of this Agreement and the consummation of the transactions contemplated hereby will not obligate the Company to issue Company Shares or other securities to any other person or entity and will not result in the adjustment of, or give rise to a right to adjust, the exercise, conversion, exchange or reset price or any other term of any outstanding security. The Company does not have outstanding stockholder purchase rights or "poison pill" or any similar arrangement in effect giving any person or entity the right to receive or purchase any equity interest in the Company upon the occurrence of certain events.

(c) True, correct and complete copy of the share option plan, program or arrangement of the Company Group, as amended from time to time (the "**Option Plan**"), and the forms of all Contracts and instruments relating to or issued under the Option Plan have been made available to the Investor, and such Option Plan and Contracts have not been amended, modified or supplemented since being made available to the Investor, and there are no agreements, understandings or commitments to amend, modify or supplement such plan or Contracts in any case from those made available to the Investor. Except for the Option Plan listed on Section **3.2(c)(1)** of the Disclosure Schedule, no member of the Company Group has adopted, sponsored or maintained any stock option plan or any other plan, agreement or arrangement providing for equity compensation to any Person. The Company has reserved an aggregate amount of 3,000,000 Company Shares for issuance under the Option Plan upon the exercise of Company Options, of which 3,000,000 Company Shares remain available for issuance thereunder.

(d) There are no outstanding Company Warrants or Company Options.

(e) Other than as set forth in Sections 3.2(a), 3.2(c) and 3.2(d) of the Disclosure Schedule, the conversion rights of FCD pursuant to the existing Convertible Loan and the transactions contemplated by this Agreement, there are no (i) securities of any member of the Company Group authorized, convertible into or exchangeable for shares of capital stock or voting securities of any member of the Company Group, (ii) options, warrants, calls, rights, convertible securities or other rights to acquire from any member of the Company Group, and no obligation of any member of the Company Group to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, now or in the future, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of any member of the Company Group, and (iii) equity equivalents, phantom or notional equity interests, interests in the ownership, earnings or price per security of any member of the Company Group or other similar rights.

(f) Except for the Existing Convertible Loans no bonds, debentures, notes or other indebtedness of any member of the Company Group (i) granting the holder thereof the right to vote on any matters on which shareholders may vote (or which is in convertible into, or exchangeable for, securities having such right) or (ii) the value of which is any way based upon or derived from capital or voting share capital of the Company, are issued or outstanding as of the date hereof.

(g) Except for Section 3.2(g) of the Disclosure Schedule, no member of the Company Group has agreed, is obligated to, or is bound by any Contract under which it may become obligated to make any future investment in, or capital contribution to, any Person (other than in other member of the Company Group).

3.3 ***Subsidiaries***. **A**s of the date hereof, the Company has no active subsidiaries other than as listed in Schedule 3.3 of the of the Disclosure Schedule. To the Company's Knowledge, all outstanding shares of the capital stock of each active Subsidiary are duly authorized, validly issued, fully paid, non-assessable and were issued in compliance with all applicable securities laws and other applicable Legal Requirements, and to the Company's Knowledge, all such shares are owned by the Company, beneficially and of record, in each case, free and clear of all Liens. Neither the Company nor any of its Subsidiaries own, to the Company's Knowledge, directly or indirectly, any equity or similar interest in, or any interest convertible into or exchangeable for, any equity or similar interest in any Person (other than a member of the Company Group).

3.4 ***Authority***.

(a) The Company has all requisite corporate power and authority to enter into this Agreement and any Related Agreements to which it is a party and, subject to obtaining the Required Company Shareholder Vote with respect to this Agreement and the Related Agreements, to consummate the transactions contemplated by this Agreement and the Related Agreements. The execution and delivery of this Agreement and any Related Agreements to which the Company is a party and the consummation of the transactions contemplated by this Agreement and the Related Agreements have been duly authorized by all necessary corporate action on the part of the Company and no further action is required on the part of the Company to authorize the Agreement and any Related Agreements to which it is a party and the transactions contemplated hereby and thereby, subject to obtaining the approval by the Required Company Shareholder Vote of this Agreement, the Related Agreements and the consummation of the transactions contemplated hereby and thereby.

(b) The sufficient vote necessary to approve the Shareholders Resolutions is the affirmative vote of a majority of the voting power of the Company Shares present and voting thereon at the Company General Meeting at which a quorum is present, except that with respect to the amendment and replacement of the Company's Articles of Association with the Amended Articles including the increase of the Company's registered share capital the necessary vote is the affirmative vote of a special majority, representing the holders of no less than 75% of the voting power of the Company Shares present and voting thereon at the Company General Meeting (the "**Required Company Shareholder Vote**"). The quorum required for holding the Company General Meeting is two or more holders of Company Shares, present in person or by proxy, holding or representing one third of the total voting rights in the Company.

(c) The Board of Directors of the Company, by resolutions duly adopted at a duly held meeting (and not thereafter modified or rescinded) by the vote of the Board of Directors of the Company, has unanimously (i) determined that it is in the best interests of the Company to enter into, deliver and perform this Agreement and the transactions contemplated hereby; (ii) approved and adopted this Agreement, the Related Agreements, and the transactions contemplated hereby and thereby; (iii) recommended the amendment and replacement of the Company's Articles of Association with the Amended Articles, and (iv) directed that this Agreement, the adoption of the Amended Articles, the Related Agreements, and the transactions contemplated hereby and thereby be submitted to the shareholders of the Company vote and recommended that the Company's shareholders grant such approval.

(d) This Agreement has been, and each of the Related Agreements to which the Company is a party will be as of their dates of execution, duly executed and delivered by the Company and assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute the valid and binding obligations of the Company enforceable against it in accordance with their respective terms, except as such enforceability may be limited by principles of public policy and subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

(e) Each of the Proxies constitutes an instrument that is valid and binding on the Company for the appointment of a proxy by each of the Persons executing such Proxy so that only the Person designated in such Proxy as the proxyholder shall be counted as part of the quorum of and be entitled to vote at the Company General Meeting in respect of the Company Shares represented by such Proxy, in lieu of the holder thereof.

3.5 ***No Conflicts; Consents***.

(a) The execution, delivery and performance by the Company of this Agreement and any Related Agreement to which the Company is a party, and the consummation of the transactions contemplated hereby and thereby, will not conflict with or result in any violation of or default under (with or without notice or lapse of time, or both) or give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under (i) any provision of the Charter Documents of the Company or the equivalent organizational documents of each Subsidiary, (ii) any law, rule, regulation, order, judgment or decree applicable to any member of the Company Group or by which any of its material properties is bound or affected, subject to obtaining the Required Company Shareholder Vote, or (iii) any material Contract. The execution and delivery by the Company of this Agreement, and any Related Agreement to which the Company is a party, and the consummation of the transactions contemplated hereby and thereby, will not result in the creation of any Lien on any of the properties or assets of any member of the Company Group.

(b) Other than as listed in Section 3.5(b) of the Disclosure Schedule, the execution and delivery by the Company of this Agreement and any Related Agreement to which the Company is a party, and the consummation of the transactions contemplated hereby and thereby, will not require any consent, waiver, approval, order or authorization or permit of, declaration or filing with or notification to, any United States, Israeli, or foreign court, administrative agency, commission, federal, state, local, governmental or regulatory authority (a "**Governmental Entity**") with respect to any member of the Company Group, except for (a) notifications and approvals under Antitrust Laws, (b) the notice or application to the Nasdaq Stock Market LLC for the issuance, sale and listing of the Purchased Shares and the Warrant Shares and (c) the filing with the SEC of reports under the Exchange Act in connection with this Agreement and the transactions contemplated by this Agreement.

3.6 ***Financial Statements; Undisclosed Liabilities***.

(a) The financial statements of the Company included (or incorporated by reference) in the Company's reports, filings and forms filed with or furnished to the SEC under the Exchange Act (including the notes thereto) during the two-year period preceding this Agreement and the 2015 Unaudited Reports, comply in all material respects with applicable accounting requirements and the rules and regulations of the SEC with respect thereto as in effect at the time of filing. Such filing statements have been prepared in accordance with GAAP applied on a consistent basis during the periods involved, except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required in accordance with GAAP. Such financial statements fairly present in all material respects, in accordance with GAAP, the financial condition as of the dates indicated and the cash flows and the results of the operations for the periods specified of the Company and its active Subsidiaries on a consolidated basis.

(b) No member of the Company Group has any Indebtedness or Liabilities other than those which have been (i) recorded, accrued or reserved against on the Company's balance sheet as of December 31, 2015 included in the 2015 Unaudited Reports, (ii) listed on Section 3.6(b) of the Disclosure Schedule, or (iii) have arisen in the ordinary course of business.

3.7 ***Restrictions on Business Activities***. There is no Contract, judgment, permanent or temporary injunction, order or decree to which any member of the Company Group is a party or that is otherwise binding upon any member of the Company Group which has the effect of prohibiting, limiting, restricting or impairing, in any material respects, any business practice of the Company Group in any of its product lines, any acquisition of property (tangible or intangible) by any member of the Company Group, the conduct of business by the Company Group in any of its product lines, or otherwise limiting the freedom of the Company Group to engage in any of its product lines or to compete with any Person in each case, in any material respect. Without limiting the generality of the foregoing, no member of the Company Group has entered into any agreement under which the Company Group is restricted, in any material respect, from selling, licensing, manufacturing or otherwise distributing any of its technology or products or from providing services to customers or potential customers or any class of customers, in any geographic area, during any period of time, or in any segment of the market, which restriction is material to the Company Group in any of its product lines.

3.8 ***Title to Properties and Assets***.

(a) Each member of the Company Group has good and valid title to all of their respective material properties, and interests in material properties and assets, real and personal, or, with respect to material leased properties and assets, valid leasehold interests in such properties and assets which afford such member of the Company Group valid leasehold possession of the properties and assets that are the subject of such leases, in each case, free and clear of all Liens, except such imperfections of title and non-monetary Liens as do not and will not detract, in any material respect, from or interfere with the use of the properties subject thereto or affected thereby, or otherwise impair, in any material respect, business operations involving such properties.

(b) The plant, property and equipment of each member of the Company Group that are used in and are material for the operations of their respective businesses are (i) adequate for the conduct of the business of the Company Group as currently conducted and as currently proposed to be conducted, (ii) in good operating condition and repair, regularly and properly maintained, subject to normal wear and tear, and (iii) not obsolete, or in need of renewal or replacement, except for obsolete, renewal or replacement in the ordinary course of business, consistent with past practice.

(c) No member of the Company Group, owns any real property. Section 3.8(c)(2) of the Disclosure Schedule sets forth a list of all real property currently leased, subleased or licensed by or from any member of the Company Group or otherwise used or occupied by any member of the Company Group for the operation of its business (the "**Leased Real Property**"), the name of the lessor, licensor, sublessor, master lessor and/or lessee, the date and term of the lease, license, sublease or other occupancy right and each amendment thereto (the "**Lease Agreements**") and, with respect to any current lease, license, sublease or other occupancy right the aggregate annual rental payable thereunder. To the Knowledge of the Company, all such Lease Agreements are valid and effective in accordance with their respective terms, and there is not, under any of such leases, any existing material default or Lien, any rental that is past due, or any event of material default and after giving effect to any grace period (or event which with notice or lapse of time, or both, would constitute such default). Nor the Company, nor, to the Knowledge of the Company, any member of the Company Group has received any written notice of a material default, alleged material failure to perform, or any material offset or counterclaim with respect to any such Lease Agreement, which has not been fully remedied and withdrawn. The Leased Real Property is in good operating condition and repair, subject to normal wear and tear, and otherwise suitable for the conduct of the business of the Company Group as currently conducted in all material respects. To Company's Knowledge, and other than as listed in Section **3.8 (c)** of the Disclosure Schedule, the operation of the members of the Company Group on the Leased Real Property does not violate any applicable building code, zoning requirement or statute relating to such property or operations thereon in any material respect, and any such non-violation is not dependent on so-called non-conforming use exceptions.

3.9 ***Intellectual Property***.

(a) The Company, and to Knowledge of the Company, each of its active Subsidiaries, owns or possesses the valid right to use all Intellectual Property Rights and to all Intellectual Property Assets, necessary to conduct their respective businesses, except when the failure to own or possess such rights would not individually or in the aggregate, have a Company Material Adverse Effect.

(b) To the Knowledge of the Company, no activities of the Company's business infringes, misappropriates, or otherwise violates, valid and enforceable Intellectual Property Rights of any other person, and the Company has not received written notice of any challenge, which is to its Knowledge still pending, by any other person to the rights of the Company with respect to any Intellectual Property Rights or Intellectual Property Assets owned or used by the Company.

(c) To the Knowledge of the Company, the Company's business as now conducted does not give rise to any infringement of, any misappropriation of, or other violation of, any valid and enforceable Intellectual Property Rights of any other person.

(d) All licenses for the use of the Intellectual Property Rights described in Section 3.9 of the Disclosure Schedule are valid, binding upon, and enforceable by or against the parties thereto in accordance to its terms. The Company has complied in all material respects with, and is not, to its Knowledge, in breach nor has it received any asserted or threatened claim of breach of any Intellectual Property license, and the Company has no Knowledge of any breach or anticipated breach by any other person to any Intellectual Property license.

(e) During the last seven (7) years no claim has been made against the Company alleging the infringement by the Company of any patent, trademark, service mark, trade name, copyright, trade secret, license in or other intellectual property right or franchise right of any person.

(f) The consummation of the transactions contemplated by this Agreement will not result in the loss or impairment of or payment of any additional amounts with respect to, nor require the consent of any other person in respect of, the Company's right to own, use, or hold for use any of the Intellectual Property Rights as owned, used or held for use in the conduct of the business as currently conducted.

(g) The Company has at all times complied in all material respects with all applicable laws relating to privacy, data protection, and the collection and use of personal information collected, used, or held for use by the Company in the conduct of the Company's business. No claims have been asserted or threatened against the Company alleging a violation of any person's privacy or personal information or data rights and the consummation of the transactions contemplated hereby will not breach or otherwise cause any violation of any law related to privacy, data protection, or the collection and use of personal information collected, used, or held for use by the Company in the conduct of the Company's business. The Company takes reasonable measures to ensure that such information is protected against unauthorized access, use, modification, or other misuse.

(h) Section 3.9(a) of the Disclosure Schedule lists all items of the Company Intellectual Property as of the date hereof which were developed with (x) funding, facilities or resources provided by or are subject to restriction, constraint, control, supervision, or limitation imposed by any Governmental Entity or quasi-Governmental Entity, or (y) funding, facilities or resources provided by or are subject to restriction, constraint, control, supervision, or limitation imposed by a university, college, educational institution, research center, foundation or similar institution (collectively, an "**Institution**").

(i) All employees of the Company and all representatives, agents and independent contractors of the Company who have contributed to or participated in the creation, conception, reduction to practice, or development of the Company Intellectual Property as currently used by the Company (collectively, "**Personnel**") have executed and delivered to the Company a proprietary information, confidentiality and assignment agreement, (i) restricting such Personnel's right to disclose proprietary information of the Company, and (ii) according and assigning to the Company full, effective, exclusive and original ownership of all rights in any derived Intellectual Property Assets and Intellectual Property Rights.

3.10 ***Anti-Bribery; Export.*** Neither the Company nor any director, officer, agent, employee, or other person associated with or acting on behalf of the Company has or will, directly or indirectly, violate any provision of applicable laws rules or regulations governing corrupt or illicit business practices (such as, by way of example, if applicable, the U.S. Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder, or any other equivalent law of other jurisdiction), including, without limitation, laws dealing with improper or illegal payments, gifts or gratuities or the payment of money or anything of value directly or indirectly to any person (whether a government official or private individual) for the purpose of illegally or improperly inducing any person or government official, or political party or official thereof, or any candidate for any such position, in making any decision or improperly assisting any person in obtaining or retaining business or taking any other action favorable to such person, or dealing with business practices regarding investments outside of any applicable jurisdiction. The Company has not and will not, directly or indirectly, use any Company funds for unlawful contributions, gifts, entertainment, or other expenses relating to political activity; make any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from Company funds; establish or maintain any unlawful or unrecorded fund of Company moneys or other assets; or make or receive any unlawful bribe, rebate, payoff, influence payment, kickback, or other payment.

3.11 ***Compliance with Trade Control Laws***.

(a) Except as disclosed in Section 3.11 of the Disclosure Schedule, the Company is, and at all times has been, in compliance with all applicable laws, including all export, import and other trade compliance laws (including, without limitations, the Israeli Defense Export Control Law, 2007, the Israeli Order Governing the Control of Commodities and Services (Engagement in Encryption Items), 1974, the Israeli Order of Import and Export (Supervision of Export of Dual Use Goods, Services and Technologies), 2006, the Israeli Trading with the Enemy Ordinance, 1939, or other Applicable Laws related to or governing such matters). The Company has not received any written notice of or been charged with the violation of any law. The Company has not been and is not under investigation with respect to the violation of any laws.

(b) The Company is not in default (i) under the Company's Articles of Association or other formative document of the Company, or (ii) under any note, indenture, mortgage, lease, agreement, contract, purchase order or other instrument, document or agreement to which the Company is a party or by which the Company or any of its respective properties is bound or affected, or (iii) with respect to any law, statute, ordinance, regulation, order, writ, injunction, decree, or judgment of any court or any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign. To the Knowledge of the Company, no third party is in default under any agreement, contract or other instrument, document or agreement to which the Company is a party or by which it or any of its property is affected.

(c) The Company and each of its Subsidiaries holds all permits, export licenses, certificates, authorizations and similar licenses and approvals granted to the Company or a Subsidiary from or with any Governmental Authority ("**Permits**") as are necessary for the lawful conduct of their respective businesses as currently conducted and to own, lease or operate any properties and assets used in the business by the Company and its Subsidiaries (the "**Material Permits**"). For the avoidance of doubt, Permits issued to the Company or its Subsidiaries or to any other person pursuant to which the Company or its Subsidiaries has had access to landing rights or market access authorization and any Permit issued under the International Traffic in Arms Regulations (the "**ITAR**"), U.S. Department of Commerce's Export Administration Regulations (the "EAR") or by the Israeli Ministry of Defense or the Israeli Ministry of Economy, to the extent applicable, are included within the term Material Permits.

(d) The Company and each of its Subsidiaries is in compliance with the terms of the Material Permits and, to the Knowledge of the Company, there has occurred no violation of, default (with or without notice or lapse of time or both) under, or event giving to any person any right of termination, amendment or cancellation (with or without notice or lapse of time or both) of any Material Permit. Neither the Company nor any of its Subsidiaries has received notice of any revocation, violation or modification (or any proposed revocation or modification) of any Material Permit.

(e) Any and all products produced, manufactured, marketed or distributed by any member of the Company Group and their underlying technology, are owned exclusively by the Company and were developed exclusively in and originated exclusively from the State of Israel.

(f) All U.S. origin items, both software and hardware, contained in the Company's products are listed on Section 3.11(d) of the Disclosure Schedule with their respective export control classification numbers (ECCNs), if any.

(g) None of the Company's products contains U.S. origin content having an aggregate cost to the Company equaling or exceeding 25% of the actual sale price of such product to any customer or partner.

(h) Except as disclosed in Section 3.11(h) of the Disclosure Schedule, none of the Company's products contains any encryption developed by the Company.

(i) The Company made full disclosure to the Investor of all encryption functionality used in or called by the Company's products or technology. Section 3.11(i) of the Disclosure Schedule contains a complete list of the encryption functionality used in or called by each the Company's products or technology, together with the export control classification information received from the supplier of each encryption item. Any encryption listed on such schedule which is open source is indicated as being open source on such schedule. The Company holds and maintains all Consents and Governmental Authorization required for any Encryption Item, or is exempted from such requirement (including, without limitation, from the Israeli Ministry of Defense or an authorized body thereof pursuant to Section 2(a) of the Order Governing the Control of Commodities and Services (Engagement in Encryption Items), 1974, as amended, or other local or foreign legislation regulating the development, commercialization or export of technology).

(j) Except as disclosed in Section 3.11 of the Disclosure Schedule, the Company has not made any shipments of its products or any of its components to and has no obligations to any third party located in Iran, Syria, Lebanon, Iraq, Libya, Cuba, Sudan, Somalia, Cote d'Ivoire, Liberia, Democratic Republic of Congo (DRC), North Korea, Belarus, Ukraine, Russia, Burma, Balkans, Burundi, Central African Republic, Venezuela, Yemen or Zimbabwe or any other country which has been defined as sanctioned country by the Office of Foreign Assets Control of the US Department of the Treasury.

(k) The Company has not entered into, and the Company's business does not and has not contained any transaction that falls within the scope of, and has not, directly or indirectly, engaged in any operation in violation of, the sanctions and restrictive measures of any applicable state, jurisdiction.

(l) All exports and imports by the Company have been made in compliance with applicable law and any commitments under the applicable contracts. The Company has obtained all permits necessary for marketing, importing and exporting its products and related services, and all such permits are valid, current and in full force and effect.

(m) The Company made full disclosure to the Investor of all correspondence with any Governmental Body relating to the export control classification of its products, enforcement matters, or any other inquiries, requests or communications. There are no pending or, to the knowledge of the Company, threatened claims against the Company with respect to any marketing, import or export permits, and there are no actions, conditions or circumstances pertaining to the Company's marketing, import or export transactions under any of the agreements to which it is a party that would reasonably be expected to give rise to any future claims.

(n) The Company undertakes to comply with any reasonable requirement of the Investor to ensure compliance of the Company with any of the export control laws which apply to the Company.

3.12 ***Accounting Controls; Sarbanes-Oxley Act.***

(a) The accounting controls of the Company Group have been and are sufficient to provide reasonable assurances that (a) all transactions are executed in accordance with management's general or specific authorization, and (b) all transactions are recorded as necessary to permit the accurate preparation of its financial statements and to maintain proper accountability for such items.

(b) The Company has established and maintains disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act). Such disclosure controls and procedures are reasonably designed to ensure that information relating to the Company Group is accumulated and communicated to the Company's principal executive officer and its principal financial officer by others within those entities, particularly during the periods in which the periodic reports required under the Exchange Act are being prepared. Such disclosure controls and procedures are effective in timely alerting the Company's principal executive officer and principal financial officer so that timely decisions may be made regarding disclosure of information required to be included in the Company's periodic and current reports submitted or filed under the Exchange Act. For purposes of this Agreement, "principal executive officer" and "principal financial officer" shall have the meanings given to such terms in the Sarbanes-Oxley Act.

(c) Each member of the Company Group has established and maintained a system of internal controls over financial reporting (as defined in Rule 13a-15 under the Exchange Act) sufficient to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of Company financial statements for external purposes in accordance with GAAP. The Company has disclosed, based on its most recent evaluation of internal controls prior to the date hereof, to the Company's auditors and audit committee (i) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. The Company has made available to the Investor a summary of any such disclosure made by management to the Company's auditors and audit committee since January 1, 2013..

(d) There are no outstanding loans or other extensions of credit made by any member of the Company Group to any executive officer (as defined in Rule 3b-7 under the Exchange Act) or director of the Company. The Company has not, since the enactment of the Sarbanes-Oxley Act, taken any action prohibited by Section 402 of the Sarbanes-Oxley Act.

(e) Except as set forth in Section 3.12(e) of the Disclosure Schedule the Company is in compliance in all material respects with the applicable listing and corporate governance rules and regulations of the Nasdaq Stock Market LLC for an issuer that is listed on the NASDAQ Capital Market.

(f) Each of the principal executive officer and principal financial officer of the Company (or each former principal executive officer and principal financial officer of the Company, as applicable) have made all certifications required by Rule 13a-14 and 15d-14 under the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act and any related rules and regulations promulgated by the SEC and the Nasdaq Stock Market LLC, and the statements contained in any such certifications are complete and correct.

3.13 ***Environmental Matters***. Except as set forth in Section 3.13 of the Disclosure Schedule, (a) each of the Company Group and its affiliates is now and to the Knowledge of the Company, has been incompliance in all material respects with all Environmental Laws and each has now and always has all Environmental Permits required under Environmental Laws for the conduct and operation of its business as now being conducted, and the Company Group and its affiliates is and has been always in compliance in all material respects with all Environmental Permits required under Environmental Laws for the conduct and operation of its business as now being conducted; ; (b) there is not now and has not been any Hazardous Materials used, generated, treated, stored, transported, disposed of, released, handled or otherwise existing on, under, about, or emanating from or to, any property currently owned, leased or operated by the Company Group, or any property previously owned, leased or operated by the Company Group, except in material compliance with all applicable Environmental Laws and no Hazardous Materials have been released on, in, or under any property currently owned, leased or operated by the Company Group, or any property previously owned, leased or operated by the Company Group, in a manner that would give rise to liability to the Company or the Company Subsidiary under Environmental Laws or under any agreement; (c) the Company Group has not received any written notice of alleged, actual or potential responsibility or liability for, or any inquiry or investigation regarding, any release or threatened release of Hazardous Materials or alleged violation of, or non-compliance with, any Environmental Laws, nor to the Company Group's Knowledge is there any factual basis for any such notice or claim; (d) there is no site to which the Company Group has transported or arranged for the transport of Hazardous Materials which is the subject of any environmental action; (e) there is currently no underground or aboveground storage tank (whether active or abandoned) at any property currently owned, leased or operated by the Company Group; (f) there is currently no asbestos nor any asbestos-containing materials used in, applied to, or in any way incorporated in any building, structure, or other improvement on the property currently owned, leased or operated by the Company Group; (g) There are no facilities that manufacture or produce ionizing radiation or non-ionizing radiation or electromagnetic radiation or Laser radiation at any property currently owned, leased or operated by the Company Group and the radiation level does not exceeds The level of radiation permitted by the Environmental Laws; (h) the Company Group has not released any other Person from claims or liability under any Environmental Laws nor has it waived any rights concerning any claims under any Environmental Laws; (i) the Company Group is not an indemnitor in connection with any potential or actual claim for any liability or responsibility under any Environmental Laws, (j) the Company Group has not entered into nor agreed to any consent order or decree, or contract, nor is it subject to any judgment, settlement, order, or agreement relating to, compliance with, or liability under, any Environmental Laws, Environmental Permits, or the investigation, sampling, monitoring, treatment, remediation, removal or cleanup of Hazardous Materials, (k) the Company has provided true, complete and correct copies of all environmental insurance policies to the Investor, and (l) true, complete and correct copies of all sampling results, environmental or safety audits or inspections, or other written reports or correspondence concerning environmental, health or safety issues, pertaining to any current or former operations of the Company Group or property currently or formerly owned, leased or operated by the Company, have been provided to the Investor.

3.14 ***Material Contracts***. Each Material Contract has been duly filed with the SEC. Other than as listed in Schedule 3.14 of the Disclosure Schedule, none of the Company Group is (with or without notice, lapse of time or both) in material default or breach under any Material Contract, and to the knowledge of the Company, no other party to such Material Contract is (with or without notice or lapse of time, or both) in material breach or default thereunder. Complete and correct copies of all Material Contracts have been made available to the Investor or its Representatives by the Company.

3.15 ***Material Customers; Material Suppliers.***

(a) Since December 31, 2015, there has not been (i) any material adverse change in the relationship of any member of the Company Group with each of the customers, distributors or resellers that were the ten largest costumers, distributors or resellers of the Company Group in 2015 in terms of the amount of revenues in each of the Company Group's product lines (each a "**Material Customer**"), or (ii) except for changes in volumes or prices in the ordinary course of business consistent with past practice, any change in any material term (including credit terms) of the related agreements with any such Material Customer. During the past two years, no member of the Company Group has received any written customer complaint concerning the business, other than complaints made in the ordinary course of business that, individually or in the aggregate, have been material. Section 3.15(a) of the Disclosure Schedule is a complete and accurate list of all the Material Customers.

(b) Since December 31, 2015, there has not been (i) any material adverse change in the relationship of any member of the Company Group with any of the ten largest suppliers of the Company Group in 2015 in terms of the amount of payments in each of the Company Group's product lines (each a "**Material Supplier**"), or (ii) except for changes in volumes or prices in the ordinary course of business consistent with past practice, any change in any material term (including credit terms) of the supply agreements or related arrangements with any such Material Supplier. Section 3.15(b) of the Disclosure Schedule is a complete and accurate list of all the Material Suppliers.

(c) No other Person having a material business relationship with any member of the Company Group has informed any member of the Company Group that such Person, and the Company does not otherwise have reason to believe that any such Person, intends to change such relationship, whether or not as a result of the entering into of this Agreement or the Related Agreements or the consummation of any other transaction contemplated hereby or thereby.

3.16 ***Interested Party Transactions***.

(a) To the Company's Knowledge, and except as disclosed in Section 3.16 of the Disclosure Schedule, none of the officers or directors of the Company Group has any direct or indirect ownership, participation, royalty or other interest in, or is an officer, director, employee of or consultant or contractor for any firm, partnership, entity or corporation that competes with, or does business with, or has any contractual arrangement with, the Company Group; provided, however, that ownership of no more than five percent (5%) of the outstanding voting stock of a publicly traded corporation shall not be deemed to be an "interest in any entity" for purposes of this Section 3.16. None of the Company's current officers or directors, nor, to the Company's Knowledge, any former officer or director or any shareholders of the Company holding Company Shares in excess of 2.5% of the Company's issued and outstanding share capital or any member of their immediate families, is a party to or otherwise directly or indirectly interested in, any Contract to which the Company Group is a party or by which the Company Group or any of their respective assets or properties may be bound or affected, except for normal compensation for services as a current officer, director, employee or consultant thereof. To Company's Knowledge, none of said officers and directors has any interest in any property, real or personal, tangible or intangible (including any Intellectual Property) that is used in, or that relates to, the business of the Company Group. No employee or shareholder has any loans outstanding from any member of the Company Group (other than advances to employees in the ordinary course of business consistent with past practice).

(b) All Material Contracts currently in effect (i) with a third party other than a shareholder, officer or director of any member of the Company Group (or a Person who, to the Company Group's knowledge, is an affiliate thereof) have been negotiated and entered into on an arm's-length basis; and (ii) with a shareholder, officer or director of any member of the Company Group, or with a Person who, to the Company Group's knowledge, is an affiliate thereof, were approved in accordance with the procedures of the Israeli Companies Law relating to approval of transactions with interested parties.

(c) All Material Contracts with Affiliates, officers or directors of the Company Group which are required to be disclosed in the SEC Reports have been so disclosed.

3.17 ***Governmental Authorization; Compliance with Legal Requirements***. Other than as disclosed in Section 3.17 of the Disclosure Schedule, each material consent, license, permit, grant or other authorization pursuant to which the Company Group currently operates or holds any interest in any of its properties, or which is required for the operation of the business of the Company Group as currently conducted or the holding of any such interest has been issued or granted to the Company Group, as the case may be, and to the Company's Knowledge, is in full force and effect. To Company's Knowledge, each member of the Company Group, and the conduct and operations of its business, is in compliance in all material respects with all Legal Requirements.

3.18 ***Litigation***. There is no material action, suit, claim, injunctions, decrees, orders, judgments or legal proceeding of any nature (collectively, "**Litigation**") (other than *ex-parte*) pending, or, to the Knowledge of the Company, threatened, against any member of the Company Group, its properties (tangible or intangible) or any of its current or former employees, members of management, officers and directors, in their capacities as such, except in the case of current or former employees of the Company Group, a Litigation which is made against a member of the Company's Group, in its ordinary course of business, and also names a current of former employee as a defendant. To the Company's Knowledge, there is no investigation or other proceeding pending or threatened, against any member of the Company Group, any of its properties (tangible or intangible) or any of its current or former employees, members of management, officers and directors, in their capacity as such, by or before any Governmental Entity. Other than as listed in Section 3.18 of the Disclosure Schedule, the Company is not aware of any circumstances in which any Governmental Entity has in the last 12 months initiated proceedings against the Company questioning the legal right of any member of the Company Group to conduct its operations as currently or previously conducted during such 12 month period. To the Company Knowledge, it has made available to the Investor correct copies of all material documents under its possession or as per Investor's request relating to the actions, suits, claims, litigations, investigations or other proceedings listed in Section 3.18 of the Disclosure Schedule and has made available to the Investor all material information known to it.

3.19 ***Insurance***. Complete and correct copies of all insurance policies and fidelity bonds covering the assets, business, equipment, properties, operations, employees, officers and directors of each member of the Company Group, have been made available to the Investor or its Representatives by the Company, including the type of coverage, the carrier, the amount of coverage, the term, the annual premiums and self insured retention of such policies. There is no claim by any member of the Company Group pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed (in part or in whole) by the underwriters of such policies or bonds, other than as listed in Section 3.19(a) of the Disclosure Schedule. In addition, there is no pending claim of which its total value (inclusive of defense expenses) will exceed the policy limits. All premiums due and payable under all such policies and bonds have been paid, (or if installment payments are due, will be paid if incurred prior to the Closing Date) and each member of the Company Group is otherwise in material compliance with the terms of such policies and bonds (or other policies and bonds providing substantially similar insurance coverage). Such policies and bonds (or other policies and bonds providing substantially similar coverage) are in full force and effect.

3.20 ***Brokers' and Finders' Fees***. Other than as described in Section 3.20 of the Disclosure Schedule, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the origin, negotiation or execution of this Agreement or in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of any member of the Company Group.

3.21 ***SEC Filings***. During the last three years, the Company has timely filed with or furnished to the SEC all reports, schedules, forms, statements and other documents required to be filed or furnished by the Company under the Securities Act, the Exchange Act and the rules and regulations of the Nasdaq Stock Market LLC. None of the SEC Reports, as of the date of its filing or furnishing, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not false or misleading.

3.22 ***Material Adverse Change***. Since December 31, 2015, the Company Group have conducted their business in all material respects in the ordinary course consistent with past practice, and there has been no event, occurrence or development that has had or would reasonably be expected to have a Company Material Adverse Effect.

3.23 ***Taxes***.

(a) The Company Group has duly and timely withheld and paid all material Tax amounts required to be so withheld and paid pursuant to applicable laws and regulations.

(b) The Company Group has timely filed all material applicable returns, estimates, claims for refund, information statements and reports or other similar documents with respect to Taxes ("***Tax Returns***") required to be filed with the applicable taxing authority in all applicable jurisdictions, and all such Tax Returns were, upon the filing thereof, true, complete and correct in all material respects and have been prepared in compliance with all applicable laws in all material respects.

(c) The Company Group is not in default under any obligations to pay any Tax, except where the failure to pay such Taxes would not reasonably be expected to have a Material Adverse.

3.24 ***Representations Complete***. None of the representations or warranties made by the Company herein or in any exhibit or schedule hereto, including the Disclosure Schedule, or in any certificate furnished by the Company pursuant to this Agreement contains or will contain at the Closing any untrue statement of a material fact, or omits or will omit at the Closing to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not false or misleading.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE INVESTOR

The Investor hereby represents and warrants to the Company that on the date hereof and as of the Closing Date, as though made at the Closing Date, as follows:

4.1 ***Organization and Power***. The Investor is duly organized and validly existing under the laws of its jurisdiction of incorporation or formation and, to the extent that such jurisdiction recognizes the concept of good standing, in good standing under the laws of the jurisdiction of its incorporation or formation and has the requisite power and authority to own its properties and to carry on its business as currently conducted.

4.2 ***Authority***. The Investor has all requisite corporate power and authority to enter into this Agreement and any Related Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and any Related Agreements to which it is a party and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Investor. This Agreement and any Related Agreements to which the Investor is a party have been duly executed and delivered by it and, assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute its valid and binding obligations, enforceable against it in accordance with their terms, except as such enforceability may be limited by principles of public policy and subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

4.3 ***Consents***. The execution and delivery by the Investor of this Agreement and any Related Agreements to which it is a party and the consummation of the transactions contemplated hereby and thereby, will not require any consent, waiver, approval, order or authorization or permit of, or registration, declaration or filing with, or notification to any Governmental Entity, except for notifications and approvals under Antitrust Laws.

4.4 ***No Conflicts***. The execution and delivery of this Agreement and any Related Agreement to which the Investor is a party do not, and the consummation of the transactions contemplated hereby and thereby will not conflict with, or result in any violation of or default under (with or without notice or lapse of time, or both) or give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under (i) any provision of the Investor's incorporation or formation documents; (ii) any law, rule, regulation, order, judgment or decree applicable to it or by which any of its properties are bound or affected; (iii) any material Contract to which it is a party to; and (iii) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to it or any of its properties or assets.

4.5 ***Absence of Litigation***. As of the date hereof, the Investor is not engaged in, or a party to, or, to its knowledge, threatened with, any civil, criminal or administrative, actions, suits, claims, proceedings or investigations before any Governmental Entity, that seeks to restrain, materially modify or invalidate this Agreement and the transactions contemplated hereby.

4.6 ***Experience; Accredited Investor***. (i) the Investor is knowledgeable, sophisticated and experienced in making, and is qualified to make, decisions with respect to investments in shares representing an investment decision like that involved in the purchase of the Purchased Shares, including investments in securities issued by the Company, without limitation of the representations and warranties included in ARTICLE III, has requested, received, reviewed and considered all information it deems relevant in making an informed decision to purchase the Purchased Shares and has had the opportunity to ask questions of and receive answers from the Company concerning such information; (ii) the Investor is acquiring the Purchased Securities in the ordinary course of its business and for its own account for investment only and with no present intention of distributing any of such Purchased Securities and does not have any current arrangement or understanding with any other persons regarding the distribution of such securities (this representation and warranty not limiting the Investor's right to sell or distribute in compliance with the Securities Act and the rules and regulations thereunder); nothing contained herein shall be deemed a representation or warranty by the Investor to hold the Purchased Securities for any period of time; (iii) the Investor will not, directly or indirectly, offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) any of the Purchased Securities, nor will the Investor engage in any short sale that results in a disposition of any of the Purchased Securities by the Investor, except in compliance with the Securities Act and the rules and regulations thereunder and any applicable state securities laws; and (iv) the Investor is either an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act or is not a "U.S. Person" within the meaning of Rule 902(k) under the Securities Act. Neither such inquiries nor any other due diligence investigation conducted by the Investor shall modify, limit or otherwise affect the Investor's right to rely on the Company's representations and warranties contained in this Agreement.

4.7 ***Exemption from Registration***. The Investor understands that the Purchased Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of the Securities Act, the rules and regulations thereunder and state securities laws and that the Company is relying upon the truth and accuracy of, and the Investor's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Investor set forth herein in order to determine the availability of such exemptions and the eligibility of the Investor to acquire the Purchased Securities.

4.8 ***Financial Ability***. The Investor has the financial sources enabling it to acquire the Purchased Shares against payment of the aggregate Price Per Share in consideration thereof on the Closing Date.

4.9 ***Risk of Loss***. The Investor understands that its investment in the Purchased Securities involves a significant degree of risk, including a risk of total loss of Investor's investment. The Investor understands that no representation is being made as to the future value or market price of the Company Shares. The Investor has the knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Purchased Securities and has the ability to bear the economic risks of an investment in the Purchased Securities.

4.10 ***Transfer or Resale***. The Investor understands that, until all of the applicable provisions of Section 5.2 hereof are satisfied, any certificates representing the Purchased Securities will bear a restrictive legend in substantially the following form:

"NEITHER THE OFFER, ISSUANCE AND SALE OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE NOR THE SECURITIES ISSUABLE UPON EXERCISE OF THESE SECURITIES HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") NOR HAVE THEY BEEN REGISTERED WITH THE SECURITIES AUTHORITIES OF ANY STATE OR OTHER JURISDICTION, AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD PLEDGED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE OR OTHER JURISDICTION SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY (WHICH OPINION SHALL NOT BE REQUIRED FOR A SALE PURSUANT TO RULE 144(b)(1) UNDER THE SECURITIES ACT, PROVIDED THAT THE COMPANY HAS RECEIVED CUSTOMARY REPRESENTATIONS CERTIFYING AS TO THE AVAILABILITY OF SUCH RULE 144 (b)(1))."

4.11 ***No Holding of Company Shares***. The Investor does not hold, alone or together with any Person, any Company Shares, any options or warrants or depositary receipts evidencing Company Shares or any other rights to acquire Company Shares or any securities exchangeable or exercisable for or convertible into Company Shares, or to acquire other securities or rights ultimately exchangeable or exercisable for, or convertible into, Company Shares, or has any agreements or understanding with any third party to such effect. The Investor has not entered into any transaction or any Contract that transfers or purports to transfer, in whole or in part, any of the economic consequences of ownership of Company Shares to it.

4.12 ***Exclusive Representations and Warranties***. Except for the representation and warranties contained in this Agreement, neither the Investor nor any other Person on its or behalf makes any express or implied representation or warranty with respect to itself or the transactions contemplated by this Agreement or the Related Agreements, and the Investor disclaims any other representations or warranties, express or implied, whether made by the Investor or any other Person.

ARTICLE V

CONDUCT BETWEEN SIGNING AND CLOSING

5.1 ***Conduct of Business of the Company***. Except as expressly contemplated by this Agreement or to the extent that the Investor shall otherwise consent in writing, during the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, each member of the Company Group shall, (i) conduct its business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted, (ii) observe in all material respects all provisions of, and perform in all material respects all its obligations under, any Material Contract, (iii) preserve intact its present business organizations, (iv) use reasonable efforts to keep available the services of its present officers and key employees, and (v) use best efforts to preserve the relationships with its customers, suppliers, distributors, licensors, licensees, and others having business dealings with them. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, the Company shall, and shall cause each member of the Company Group to pay its debts, Liabilities and Taxes, and pay or perform other material obligations when due (including accounts payable) in the usual, regular and ordinary course of business. In addition to the foregoing, from and after the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, except as expressly contemplated by this Agreement, or pursuant to a Legal Requirement (in each case after consultation with counsel and, to the extent reasonably feasible, prior written notification of at least five (5) days to the Investor), the Company shall not and shall not permit any member of the Company Group, to do any of the following, without the prior written consent of the Investor, which shall not be unreasonably withheld and which shall be given within (3) three Business Days of receipt of a reasonably detailed request accompanied by all reasonable necessary documentation and information:

(a) cause or permit any amendments to its organizational documents;

(b) declare, set aside, or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any Company Shares, or split, combine or reclassify any Company Shares, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for Company Shares, or repurchase, redeem or otherwise acquire, directly or indirectly, any Company Shares (or options, warrants or other rights exercisable therefor);

(c) issue, sell, pledge, dispose of, encumber, deliver or authorize, agree or commit to issue, sell, pledge, dispose of or deliver any additional shares of, or rights of any kind to acquire any shares of, its capital stock of any class or any other ownership interest (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) of any member of the Company Group, other than (i) Company Shares issued upon exercise of Company Options or Company Warrants outstanding on the date hereof and listed on Section 3.2 of the Disclosure Schedule; and (ii) grants of Company Options made in the ordinary course of business in amounts and other terms consistent with past practice;

(d) make any expenditures or enter into any new commitment or transaction exceeding $200,000 in the aggregate, except in the ordinary course of business consistent with past practice;

(e) pay, discharge, release, waive or satisfy, or enter into any commitment to do the same, any Liability, other than the payment, discharge or satisfaction in the ordinary course of business, of Liabilities when they become due;

(f) adopt or change accounting methods or practices (including any change in depreciation or amortization policies) or revalue any of its assets (including writing down the value of inventory or writing off notes or accounts receivable otherwise than in the ordinary course of business), other than in order to conform with GAAP or as required by the Company's auditors;

(g) make or change any material election in respect of Taxes, enter into any closing agreement, settle any claim or assessment in respect of Taxes (other than settlement for payments below $200,000), consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes, or enter into intercompany transactions which are not in the ordinary course of business consistent with past practice or as otherwise presented to the Investor prior to the date hereof;

(h) incur any Indebtedness, or make any loan to any Person or guarantee any indebtedness of any Person, or purchase debt securities of any Person, or amend the terms of any outstanding loan agreement; *provided that* grant of credit to customer on customary terms in the ordinary course of business consistent with past practice shall not be deemed to constitute a loan under this clause;

(i) commence, discharge, compromise or settle any lawsuit, threat of any lawsuit or proceeding or other investigation against, any member of the Company Group, except for discharging, compromising or settling of claims or lawsuits arising from the Company Group's ordinary course of business and which do not exceed $200,000 individually or are otherwise within the coverage of the product liability insurance maintained by the Company Group;

(j) (a) sell, lease, license or transfer to any Person any material rights to any Company Intellectual Property or enter into any new Contract that would reasonably be likely to fall within the definition of a "Material Contract" or materially modify any existing Material Contract, or (b) materially change pricing or royalties practices related to the customers or licensees of any member of the Company Group;

(k) enter into any Contract to purchase or sell any interest in real property, grant any security interest in any real property, enter into any material lease, sublease, license or other occupancy agreement with respect to any real property or alter, amend, modify or terminate in any material respect any of the terms of any Lease Agreements;

(l) enter into or alter, or commit to enter or alter any strategic alliance, joint venture, partnership, or other business affiliation;

(m) adopt or amend any Company Employee Plan, enter into, amend or renew any employment agreement or consulting agreement, pay, declare or agree to pay any bonus, severance, termination or special remuneration to any employee or consultant, or increase or modify the salaries, wage rates, or other compensation (including, without limitation, any equity-based compensation) of any employee or consultant, except for (i) recruitment or engagement of employees or consultants (other than officers and senior executives) in the ordinary course of business upon terms and conditions that are consistent with the Company Group past practice, (ii) update of salary and other compensation terms of employees or consultant (other than officers) in the ordinary course of business consistent with past practice; and (iii) payments made pursuant to written Contracts outstanding on the date hereof or to employees or consultant in the ordinary course of business consistent with past practice;

(n) enter into any Contract in which any officer, director, employee, consultant, agent or shareholder of the Company (or any member of their immediate families) has an interest under;

(o) appoint directors to the Company;

(p) (i) cancel, amend or renew any material insurance policy (except for renewals of insurance policies on the same terms with the payment of premium not to exceed 110% of the premium paid in respect of the policy that is being renewed);

(q) enter into or amend any agreement pursuant to which any other party is granted exclusive rights or "most favored party" rights of any type or scope with respect to any of its products, technology, Intellectual Property or business, or containing any non-competition covenants or other restrictions relating to its business activities, other than standard distribution or reseller agreements in the ordinary course of business consistent with past practice;

(r) execute any Contract, or commit to execute any Contract, that has or may reasonably be expected to have the effect of prohibiting, limiting, restricting or impairing in any material respect any business practice of any member of the Company Group, any acquisition of property (tangible or intangible) by any member of the Company Group, the conduct of business by any member of the Company Group, or otherwise limiting the freedom of any member of the Company Group to engage in any product line or to compete with any Person, expect for executing distribution agreements in the ordinary course of business consistent with past practice, substantially on terms as disclosed to the Investor's in writing;

(s) acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to its and its Subsidiaries business;

(t) take, or agree in writing or otherwise to take, any of the actions described in **Sections 5.1(a)** through 5.1(s) hereof, or any other action that would (i) prevent the Company from performing, or cause the Company not to perform in all material respects any covenant under this Agreement and the Related Agreements, (ii) cause or result in any of its representations and warranties contained herein being untrue or incorrect, or (iii) cause or result in a challenge to the validity or enforceability of the this Agreement, the Related Agreements, or any of the transactions contemplated hereby or by the Related Agreements.

5.2 *Removal of Legends.* Promptly following the earlier of (i) effectiveness of a registration statement under the Securities Act with respect to the sale of Purchased Securities or (ii) the eligibility of the Investor to rely upon the safe harbor provided by Rule 144(b)(1) under the Securities Act in effecting resales of Purchased Shares or Warrant Shares, the Company shall deliver to the transfer agent for the Company Shares (the "**Transfer Agent**") irrevocable instructions to reissue a certificate or create a book-entry position representing Purchased Shares or Warrant Shares without legends upon receipt by such Transfer Agent of: (a) the legended certificates for such Purchased Shares or Warrant Shares; and (b) either (1) a customary written representation by the Investor that Rule 144(b)(1) under the Securities Act applies to the Purchased Shares or Warrant Shares represented thereby, accompanied by an opinion of counsel to the Company that the legend may be removed from certificates representing the Purchased Shares or Warrant Shares pursuant to Rule 144(b)(1) under the Securities Act or (2) an opinion of counsel to the Company that the legend may be removed from the certificates representing the Purchased Shares or Warrant Shares sold in accordance with the Plan of Distribution contained in a registration statement that was declared effective under the Securities Act. The Company shall cooperate via commercially reasonable best efforts to ensure that its counsel provides the foregoing opinion(s) and that its Transfer Agent delivers certificates or creates book-entry positions representing such Purchased Shares or Warrant Shares that have been sold in accordance with the Plan of Distribution without restrictive legends as promptly as reasonably practicable (provided that the foregoing documentation is provided by the Investor).

ARTICLE VI

ADDITIONAL AGREEMENTS

6.1 ***Company General Meeting.***

(a) The Company shall take any and all action necessary under all applicable Legal Requirements and the Charter Documents to, (i) as promptly as practicable but in no event later than 7 days after the date hereof, call and give notice of an Extraordinary General Meeting of the holders of Company Shares (the "**Company General Meeting**", and the notice thereof, in the form attached hereto as **Exhibit I-1**, the "**Company General Meeting Notice**") in which the shareholders of the Company will be requested to approve the resolutions set forth in **Exhibit I-2** (the "**Shareholders Resolutions**"), and (ii) cause the Proxy Statement to be mailed to the Company's shareholders together with the Company General Meeting Notice. Subject to the notice requirements of the Israeli Companies Law and the regulations thereunder and the Charter Documents, the Company General Meeting shall be held as promptly as practicable after the date hereof (on a date selected by the Company and consented to by the Investor (such consent not to be unreasonably withheld or delayed)) which shall be no later than 35 days after delivery of the Company General Meeting Notice. The Company shall use its reasonable best efforts to solicit from its shareholders proxies in favor of the adoption and approval of the Shareholders Resolutions, in order to solicit the votes of shareholders of the Company in favor of the Shareholders Resolution. The Investor shall make best efforts to participate in discussions with shareholders of the Company, at the Company's request, upon reasonable prior notice and in such discussions the Investor is permitted to disclose to such shareholders information concerning the Company which is otherwise subject to Section 6.5, which in the Investor' view is reasonably necessary or appropriate. The Company shall call, convene, hold and conduct the Company General Meeting and solicit proxies with respect thereto in compliance as to form and substance with all applicable Legal Requirements, including the Israeli Companies Law and the Company Charter Documents.

(b) Without the prior written consent of the Investor, the Company may adjourn or postpone the Company General Meeting only: (i) if and to the extent necessary to provide any supplement or amendment to the Proxy Statement to Company's shareholders in advance of a vote on the Shareholders Resolutions; (ii) if, as of the time for which such meeting is originally scheduled (as set forth in the Proxy Statement), there are insufficient Company Shares represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of such meeting; (iii) as may otherwise be required specifically by applicable Legal Requirements or (iv) as provided in Section 6.8(a) and Section 6.9,. Except as specifically provided in the preceding sentence, the Company's obligation to call, give notice of, convene and hold the Company General Meeting in accordance with this Section 6.1 shall not be limited to or otherwise affected by the commencement, disclosure, announcement or submission to the Company of any Acquisition Proposal.

6.2 ***Proxy Statement; Board Recommendation***.

(a) As promptly as practicable after the date of this Agreement but in no event later than 7 days after the date hereof, the Company shall prepare a proxy statement with respect to the Company General Meeting and the Shareholders Resolutions (the "**Proxy Statement**"), which shall be in form and substance reasonably satisfactory to the Investor. The Company shall (i) cause the Proxy Statement to comply as to form and substance with applicable Legal Requirements; (ii) provide the Investor with a reasonable opportunity to review and comment on drafts of the Proxy Statement, and include in the Proxy Statement all changes reasonably proposed by the Investor; and (iii) cause the Proxy Statement to be mailed to the Company's shareholders concurrently with the delivery of the Company General Meeting Notice. The Proxy Statement shall not, as of its date, contain any untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which made, not false or misleading. The Investor and the Company shall cooperate (and shall cause their respective counsel, auditors, agents and representatives to cooperate) in the preparation of the Proxy Statement.

(b) The Proxy Statement shall include a statement to the effect that the Board of Directors of the Company has recommended that the Company's shareholders vote in favor of and approve the Shareholders Resolutions at the Company General Meeting. Except as provided in Section 6.8(a) and Section 6.9 hereof, neither the Board of Directors of Company nor any committee thereof shall withhold, withdraw, amend, modify, change or propose or resolve to withhold, withdraw, amend, modify or change, in each case in a manner adverse to the Investor, the recommendation of the Board of Directors of the Company that the Company's shareholders vote in favor of and approve the Shareholders Resolutions.

(c) In the event that the Company becomes aware of any information that should be disclosed in an amendment or supplement to the Proxy Statement, then the Company shall promptly inform the Investor of such event or information and shall, in accordance with the procedures set forth in Section 6.2(a) hereof prepare and cause such amendment or supplement to be included in a Report under Form 6-K or mailed to the shareholders of the Company as soon thereafter as is reasonably practicable.

6.3 ***Approvals and Filings***.

(a) ***Governmental Entity Filings and Approvals***. The Company and the Investor shall use all reasonable best efforts to deliver and file, as promptly as practicable after the date of this Agreement, each notice, report or other document required to be delivered by such party to, or filed by such party with, any Governmental Entity with respect to this Agreement and the transactions contemplated hereby and thereby. The Company and the Investor shall use all reasonable best efforts to obtain, as promptly as practicable after the date of this Agreement, all consents and approvals that may be required pursuant to Legal Requirements in connection with this Agreement, the Related Agreements and the transactions contemplated hereby and thereby. The Company and the Investor shall cause all documents that they are responsible for filing with any Governmental Entity under this Section 6.3(a) to comply as to form and substance in all material respects with the applicable Legal Requirements and shall keep each other apprised of the status of any communications with, and any inquiries or requests for additional information from, any Governmental Entity and shall comply promptly with any such inquiry or request. Whenever any event occurs which is required to be set forth in an amendment or supplement to any such document or filing, the Company or the Investor, as the case may be, shall promptly inform the other of such occurrence and cooperate in filing with the applicable Governmental Entity, such amendment or supplement.

(b) ***Anti-Trust Filings***.

(i) Without limiting the generality of Section6.3(a), if required, as soon as may be reasonably practicable, the Company and the Investor each shall file with the Israeli Restrictive Trade Practices Authority . The Company and the Investor each shall promptly: (i) supply the other and its counsels with any information which may be required in order to effectuate such filings; and (ii) supply any additional information which reasonably may be required by The Israeli Restrictive Trade Practices Authority or the competition or merger control authorities of any other jurisdiction whose Antitrust Laws require such a filing; *provided*, *however*, that none of the Investor or the Company shall be required to agree to any divestiture by itself or any of its Subsidiaries or affiliates of shares of capital stock or of any business, assets or property, or the imposition of any limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and stock. The Company and the Investor shall instruct their counsels to cooperate with each other and use reasonable best efforts to facilitate and expedite the identification and resolution of any such anti-trust issues and shall use reasonable best efforts to assure that the waiting period required by the RTPL has expired or been terminated at the earliest practicable dates.

(ii) Notwithstanding anything in this Agreement to the contrary, if any administrative or judicial action or proceeding is instituted (or threatened to be instituted) or a judgment, order or decree is granted challenging any transaction contemplated by this Agreement as violative of any Antitrust Laws, it is expressly understood and agreed that: (i) the Investor shall not have any obligation to litigate or contest any administrative or judicial action or proceeding or any decree, judgment, injunction or other order, whether temporary, preliminary or permanent; and (ii) the Investor shall not be under obligation to make proposals, execute or carry out agreements or submit to orders providing for (A) the sale, license or other disposition or holding separate (through the establishment of a trust or otherwise) of any assets or categories of assets of the Investor or any of its affiliates or the Company or its Subsidiaries, (B) the imposition of any limitation or regulation on the ability of the Investor or any of its affiliates to freely conduct their business or own such assets, or (C) the holding separate of the Company Shares or any limitation or regulation on the ability of the Investor or any of its affiliates to exercise full rights of ownership of the Company Shares (any of the foregoing, an "**Antitrust Restraint**"). Nothing in this Section 6.2(b) shall limit a party's right to terminate this Agreement pursuant to Section 8.1(b)(i) if such party has, until such date, complied in all material respects with its obligations under this Section 6.2(b).

6.4 ***Access to Information***. Subject to the confidentiality undertakings set forth in Section 6.5, the Company shall afford the Investor and its accountants, counsel, representatives in connection with this Agreement and the transactions contemplated hereby, reasonable access during the period from the date hereof and prior to the Closing to (i) all of the properties, books, contracts, commitments and records of the Company Group, (ii) all other information concerning the business, properties and personnel (subject to restrictions imposed by applicable law) of the Company Group as the Investor may reasonably request, and (iii) all employees and consultants of the Company Group as identified by the Investor on a non interference basis. No information or knowledge obtained in any investigation pursuant to this Section 6.4 or otherwise shall affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate this Agreement and the transactions contemplated hereby in accordance with the terms and provisions hereof.

6.5 ***Confidentiality***. The Investor and any successor or assignee thereof, who receives from the Company or its agents, directly or indirectly, any information concerning the Company Group which any member of the Company Group has not made generally available to the public, acknowledges and agrees that such information is confidential, and further agrees that, for so long as such information is not public, it will not disseminate such information to any person other than the employees, officers, consultants, representatives and advisors of the Investor or its affiliates, provided that such Persons to whom the Investor have given access to the Company Group confidential information have undertaken similar confidentiality obligations to those set forth herein. If this Agreement is terminated by any of the parties hereto, for any reason whatsoever, at the Company's request, the Investor shall immediately return to the Company any and all information received from the Company or their respective advisors in connection with the transactions contemplated hereby and shall confirm so to the Company by a written certificate executed by an officer of the Investor.

6.6 ***Public Disclosure***. Except for the joint announcement of the execution and delivery of this Agreement, the timing and content of which have been mutually agreed by the Company and the Investor, no party shall issue any statement or communication to any third party (other than their respective agents that are bound by confidentiality restrictions) regarding this Agreement, its existence and content, or the transactions contemplated hereby, including, if applicable, the termination of this Agreement and the reasons therefor, without the consent of the Company and the Investor, except as required to comply with applicable securities laws and the rules of any stock exchange, *provided, however*, the Company and, to the extent applicable, the Investor making the disclosure shall use commercially reasonable efforts to notify and consult with the other party prior to any such required public disclosure and use commercially reasonable efforts to accommodate the views of the other party and shall promptly provide the other party with copies of any written public disclosure made by such party in connection therewith.

6.7 ***Notification of Certain Matters***. The Company shall give prompt notice to the Investor of: (i) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of the Company contained in this Agreement to be untrue or inaccurate at or prior to the Closing in any material respect, (ii) any failure of the Company to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, (iii) any matter hereafter arising or discovered that, if existing or known by the Company on the date hereof, would have been required to be set forth or described in the Disclosure Schedule, (iv) any event or occurrence or emergency not in the ordinary course of business of the Company Group, and (v) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the execution, delivery or performance of this Agreement or any Related Agreement or the consummation of the transactions contemplated hereby and thereby; *provided, however*, that the delivery of any notice pursuant to this Section 6.7 shall not (a) limit or otherwise affect any remedies available to the party receiving such notice, or (b) constitute an acknowledgment or admission of a breach of this Agreement. No disclosure by the Company pursuant to this Section 6.7 shall be deemed to amend or supplement the Disclosure Schedule or prevent or cure any misrepresentations, breach of warranty or breach of covenant.

6.8 ***No Solicitation***.

(a) From and after the date of this Agreement until the earlier of the Closing or termination of this Agreement, without limitation of the provisions of ARTICLE V, the Company shall not, nor shall it authorize or permit its Subsidiaries or any of its or their respective employees, officers or directors and any agent, investment banker, attorney or other advisor or representative retained by any member of the Company Group to, directly or indirectly (i) solicit, initiate, encourage or induce the making, submission or announcement of any Acquisition Proposal, (ii) participate in any discussions or negotiations regarding, or furnish to any person any non-public information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes or may reasonably be expected to lead to, any Acquisition Proposal, (iii) respond to or engage in discussions with any person with respect to any Acquisition Proposal, except as to the existence of these provisions, (iv) approve, endorse or recommend any Acquisition Proposal, or (v) enter into any letter of intent or similar document or any contract, agreement or commitment contemplating or otherwise relating to any Acquisition Transaction. The Company shall, and shall cause its Subsidiaries and any of its or their respective employees, officers or directors and any agent, investment banker, attorney or other advisor or representative retained by any member of the Company Group, to immediately cease all existing activities, discussions and negotiations with any Person conducted heretofore with respect to any Acquisition Proposal and request the return of all confidential information regarding the Company Group provided to any such Person prior to the date hereof pursuant to the terms of any confidentiality agreement or otherwise. Without limiting the foregoing, it is understood that any violation of the restrictions set forth in this Section 6.8 by any employee, officers or directors of the Company or any agent, investment banker, attorney or other advisor or representative of the any member of the Company Group shall be deemed to be a breach of this Section 6.8 by the Company. *provided, however*, that this Section shall not prohibit the Company, during the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, from furnishing information regarding the Company or entering into or participating in discussions or negotiations with any person in response to a bona fide Acquisition Proposal that the Company's Board of Directors concludes, after consultation with outside legal counsel and a financial advisor, constitutes, or would reasonably be expected to result in, a Superior Proposal, if: (1) the Company's Board of Directors concludes that the failure to take such action with respect to such Acquisition Proposal may constitute a breach of its fiduciary duties, (2) such Acquisition Proposal did not result from a breach of this Section, (3) prior thereto the Company has given the Investor the notice required by Section 6.8(b), and (4) the Company furnishes any nonpublic information provided to the maker of the Acquisition Proposal only pursuant to a confidentiality agreement between the Company and such Person containing customary terms and conditions.

(b) In addition to the obligations of the Company set forth in **Section I.1.1(a)**, the Company as promptly as practicable shall advise the Investor orally and in writing of any request received by the Company for non-public information which the Company reasonably concludes would lead to an Acquisition Proposal or the receipt of any Acquisition Proposal, or any inquiry received by the Company with respect to or which the Company reasonably concludes would lead to any Acquisition Proposal, the material terms and conditions of such request, Acquisition Proposal or inquiry, and the identity of the person or group making any such request, Acquisition Proposal or inquiry. The Company will keep the Investor informed in all material respects of the status and details (including material amendments or proposed amendments) of any such request, Acquisition Proposal or inquiry.

(c) Upon the execution of this Agreement, the Company shall, and shall cause its Subsidiaries and its and their respective officers, directors and employees, and shall use its reasonable best efforts to cause its and their respective representatives to, immediately cease and terminate any existing activities, discussions or negotiations between the Company and any Person that relate to any Acquisition Proposal.

6.9 ***Change in Recommendation***.

(a) Notwithstanding Section 6.8 and subject to Sections 6.9(b) and 6.9 (c) below, at any time during the period between the date hereof and the date on which the Extraordinary Shareholders Meeting is scheduled to take (the "**Alternative Transaction Period**"), the Board of Directors of the Company shall be entitled to make an adverse recommendation and terminate this Agreement (by delivering written notice to Investor) and enter into a binding Alternative Acquisition Agreement, if (and only if): (A) aa Acquisition Proposal is made to the Company by a third party, and such offer is not withdrawn; (B) the Board of Directors of the Company or such committee thereof determines in good faith after consultation with outside legal counsel and a financial advisor that such offer constitutes a Superior Offer; (C) following consultation with outside legal counsel, the Board of Directors of the Company or such committee thereof determines that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties under applicable Law; (D) the Company provides the Investor the notice specified in Section 6.9(b) below; and (E) at the end of the Notice Period described in Section 6.9(b), the Board of Directors of the Company or such committee thereof again makes the determination in good faith after consultation with outside legal counsel and a financial advisor (after negotiating in good faith with the Investors if requested by the Investor during the Notice Period regarding any adjustments or modifications to the terms of this Agreement proposed by the Investor and taking into account any such adjustments or modifications) that the Acquisition Proposal continues to be a Superior Offer and, after consultation with outside legal counsel, that the failure to take such action would be reasonably likely to result in a breach of its fiduciary duties under applicable Law.

(b) Prior to making an adverse recommendation and entering into an alternative acquisition agreement, the Company will provide prior written notice to the Investor, at least seven (7) Business Days in advance (the "**Notice Period**") of its intention to take such action, which notice shall, in the case of a Superior Proposal, specify all material terms and conditions of such Superior Proposal and attach the most current version of any documents evidencing such Superior Proposal, and any material modifications to any of the foregoing, and, in any other case, specify in reasonable detail the reasons for such action.

(c) During the Notice Period, the Company shall negotiate with the Investor in good faith should Investor propose to make such adjustments to the terms and conditions of this Agreement so that the Acquisition Proposal no longer constitutes a Superior Proposal, taking into account, among others, the pro-forma effect of the payment of the Termination Fee. The Company shall not make an adverse recommendation, enter into an alternative acquisition agreement, or terminate this Agreement in connection with an Acquisition Proposal if, prior to the expiration of the Notice Period, Investor delivers to the Company a written proposal to adjust the terms and conditions of this Agreement that the Company's Board of Directors determines in good faith that the Acquisition Proposal no longer constitutes a Superior Proposal, taking into account, among other things, the pro-forma effect of the payment of the Termination Fee.

6.10 ***Fees and Expenses***. Each party hereto shall bear the costs and expenses incurred by it in connection with the due diligence review, preparation, negotiation and execution of this Agreement and the Related Agreements.

6.11 ***Run-Off Policy.*** Prior to the Closing, the Company shall purchase a run-off insurance policy with respect to any claim raised by any third party against any officers or directors of the Company in their capacity as such with coverage as existing in the Company today, which shall include, among others, an entity coverage insurance and which shall remain in effect for a period of seven years from the Closing Date (the "**Run-Off Policy**"), and shall further obtain and shall continue to maintain after the Closing a directors and officers liability insurance policy with coverage as existing in the Company today.

6.12 ***Additional Documents and Further Assurances***. Each party hereto, at the request of another party hereto, shall execute and deliver such other instruments and do and perform such other acts and things as may be necessary or desirable for effecting completely the consummation of the this Agreement and the transactions contemplated hereby.

ARTICLE VII

CLOSING CONDITIONS

7.1 ***Conditions to the Obligations of Each Party***. The respective obligations of the Company and the Investor to effect the Closing shall be subject to the satisfaction, at or prior to the Closing Date, of the following conditions, any of which may be waived, in writing, by mutual written instrument of the Investor and the Company:

(a) ***No Order, Antitrust Approvals***. No Governmental Entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making this Agreement, the Related Agreements and the transactions contemplated hereby and thereby illegal or otherwise prohibiting the consummation of the transactions contemplated hereby and thereby. Any notification, waiting period, or approval requirements of Antitrust Laws of applicable jurisdictions that apply to the transactions contemplated hereby shall have been obtained, expired, satisfied or waived.

(b) ***Governmental Entity Approvals***. All Governmental Entity approvals required pursuant to Legal Requirements for the consummation of the transactions contemplated hereby shall have been obtained.

(c) ***Shareholders' Approval***. Shareholders of the Company constituting the Required Company Shareholder Vote shall have approved the Shareholders Resolutions.

(d) ***Run-Off Policy.*** The Run-Off Policy shall have been purchased by the Company.

(e) ***Purchase Price.*** The entire amount of Price Per Share referred to in Section 2.1 shall have been paid to the Company.

7.2 ***Additional Conditions to the Obligations of the Investor***. The obligations of the Investor to effect the Closing shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, as determined by the Investor, any of which may be waived, in writing, exclusively by the Investor:

(a) ***Representations, Warranties and Covenants***. The representations and warranties of the Company in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality, which representations and warranties as so qualified shall be true and correct in all respects) on and as of the Closing Date as though such representations and warranties were made on and as of such date (except for representations and warranties that address matters only as to a specified date, which representations and warranties shall be true and correct with respect to such specified date). The Company shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by the Company at or prior to the Closing.

(b) ***Receipt of Closing Deliveries***. Each of the agreements, instruments and other documents to be delivered by the Company pursuant to Section 2.4 hereof shall be in a form and substance reasonably satisfactory to the Investor, and shall have been received by the Investor.

(c) ***No Injunctions or Restraints on Conduct of Business***. No permanent restraining orders, temporary restraining order (that was not removed prior to Closing) or permanent injunction or other order issued by any Governmental Entity which has or could have the effect of limiting or restricting the Investor's ownership of the Purchased Securities, or conduct or operation of any product line of the Company Group following the Closing shall be in effect, nor shall there be pending or threatened any suit, action or proceeding seeking the foregoing or any Antitrust Restraint.

(d) ***No Material Adverse Effect***. There shall not have occurred or be continuing a Company Material Adverse Effect.

(e) ***Consents***. All consents, waivers or approvals set forth in Section 3.5(b) herein, in form and substance reasonably satisfactory to the Investor, shall have been received and shall be in full force and effect.

(f) ***No Litigation***. There shall not be pending by or before any Governmental Entity any action or proceeding, that seeks to frustrate, prevent or restrict the consummation of the transactions contemplated hereby on their terms, and the conferring upon the Investor and the Company all of their respective rights and benefits, contemplated by this Agreement.

(g) ***Existing Convertible Loan Waiver***. FCD shall have waived their rights to convert the Existing Convertible Loan, in form and substance reasonably acceptable to the Investor.

(h) ***2015 Audited Financials***. The Board of Directors shall have approved the Company's audited financial statements for the year ending December 31, 2015 (the "2015 Financials").

7.3 ***Additional Conditions to Obligations of the Company***. The obligations of the Company to effect the Closing shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by the Company:

(a) ***Representations, Warranties and Covenants***. (i) The representations and warranties of the Investor in this Agreement shall have been true and correct in all material respects on and as of the Closing Date with the same effect as if made at and as of the Closing Date (except to the extent such representations specifically relate to an earlier date, in which case such representations shall be true and correct as of such earlier date), and (ii) the Investor shall have performed and complied in all material respects with all covenants and obligations under this Agreement required to be performed and complied with by the Investor at or prior to the Closing Date.

ARTICLE VIII

TERMINATION

8.1 ***Termination***. Subject to Sections 8.2 and 8.3 hereof, this Agreement may be terminated at any time prior to the Closing:

(a) by written agreement of the Company and the Investor;

(b) by written notice of either the Investor or the Company referring to the relevant clause of this subsection if:

(i) the Closing Date shall not have occurred by July 1, 2016; *provided, however*, that the right to terminate this Agreement under this **Section** 8.1(b)(i) shall not be available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the consummation of the Closing to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

(ii) the approval of the Shareholders Resolutions by the Required Company Shareholder Vote shall not have been obtained at the Company General Meeting (including any adjournment or postponement thereof), *provided, however*, that the right to terminate this Agreement under this **Section 8.1(b)(ii)** shall not be available to the Company where the failure to obtain the Required Company Shareholder Vote shall have been caused by or related to the Company's breach of this Agreement;

(iii) there shall be a final non-appealable order of any Governmental Entity in effect preventing consummation of the transactions contemplated hereby; *provided, however*, that the right to terminate this Agreement under this Section 8.1(b)(iii) shall not be available to any party whose action or failure to act has been a principal cause of or resulted in such order preventing the consummation of the transactions contemplated hereby and such action or failure to act constitutes a breach of this Agreement; or

(iv) there shall be any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Closing by any Governmental Entity that would make consummation of the Closing illegal;

(c) by written notice of the Investor referring to the relevant clause of this subsection if:

(i) there shall be statute, rule, regulation or order enacted, promulgated or issued or applicable to the transactions contemplated hereby by any Governmental Entity, which would: (X) prohibit the Investor ownership of the Purchased Securities or operation of any material portion of the business of the Company Group, (Y) compel the Company to dispose of or hold separate all or any material portion of the business or assets of the Company Group as a result of the transactions contemplated hereby or (Z) apply any other Antitrust Restraint on the Company or the Investor which is material to any of the Company Group's product lines;

(ii) the Board of Directors of the Company withholds, withdraws, modifies or changes its recommendation in a manner adverse to the Investor, or shall have resolved to do so or fails to recommend rejection of any Acquisition Transaction to the Company's shareholders;

(d) by written notice of the Investor referring to this subsection if the Investor is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement of the Company contained in this Agreement such that the conditions set forth in Section7.2(a) hereof would not be satisfied and such breach has not been cured within ten calendar days after written notice thereof to the Company; *provided, however*, that no cure period shall be required for a breach which by its nature cannot be cured; or

(e) by written notice of the Company referring to this subsection if (ii) the Company is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement of the Investor c contained in this Agreement such that the conditions set forth in Section 7.3(a) hereof would not be satisfied and such breach has not been cured within ten calendar days after written notice thereof to the Investor; *provided, however*, that no cure period shall be required for a breach which by its nature cannot be cured and (ii) the Board of Directors has adopted a Superior Proposal and issued an adverse recommendation provided that the Company has complied with the requirements of Sections 6.8(b) and 6.9.

8.2 ***Effect of Termination***. In the event of termination of this Agreement as provided in Section 8.1 hereof, this Agreement shall forthwith become void and, except as set forth in Section 8.3 below, there shall be no liability or obligation on the part of the Investor or the Company, or their respective employees, agents or shareholders, if applicable, except that the provisions of Sections 6.5, 6.6, ARTICLE X and this ARTICLE VIII shall remain in full force and effect and survive any termination of this Agreement pursuant to the terms of this ARTICLE VIII, and except to the extent that such termination results from a material breach by the other party of any representation, warranty or covenant set forth in this Agreement.

8.3 ***Fees and Expenses***.

(a) Except as set forth in this Section 8.3 and in Section 6.10, whether or not the Closing occurs, all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses.

(b) Without limitation of Section 8.2, the Company shall pay the Investor a cash fee in the amount of US$500,000 if after the date of this Agreement a Superior Proposal has been accepted and an adverse recommendation of the Board of Directors has been publicly announced by the Company or its shareholders or an agreement relating to such Acquisition Proposal is consummated within twelve months after such announcement. All fees payable pursuant to this Section shall be paid on the date an agreement for an Acquisition Transaction is entered into. It is acknowledged that, without limitation of the Company's obligation to make payments under this Section 8.3(b), processing of any such payment shall be made in accordance with the Israeli Tax Ordinance [New Version], and the Company undertakes to act as promptly as possible with respect to such payments.

(c) The Company acknowledges that the agreements contained in this **Section** are an integral part of the transactions contemplated by this Agreement, and that the fee payable pursuant to Section 8.3 is a reasonable forecast of the actual damages which may be incurred by the Investor under such circumstances (and includes reimbursement of all the Investor's costs and expenses), that fee payable pursuant Section 8.3 hereof constitutes liquidated damages and not a penalty, and further that, without these agreements, the Investor would not enter into this Agreement.

ARTICLE IX

POST CLOSING COVENANTS AND AGREEMENTS

9.1 ***Registration***.

The Company will, within 45 (forty five) days from the Closing Date, file a Shelf Registration Statement on Form F-3 (or on such other form as may be available or applicable to the Company) with the SEC for the public sale by the Investor of the Purchased Shares (or such lesser number of Purchased Shares that may be included in a registration statement under the Securities Act due to limitations on registration imposed by the Securities Act or the SEC) and will use its best efforts to cause the aforementioned registration statement to become effective as promptly as possible thereafter. The Company shall keep such registration statement continuously effective under the Securities Act until the expiration of twelve (12) months from the date the registration statement is declared effective by the SEC.

SURVIVAL

9.2 ***Survival of Representations and Warranties***. The representations or warranties made by the Company, including the Disclosure Schedule or any certificate furnished by the Company and the Investor pursuant to this Agreement, shall survive the Closing for a period of 30 days after the filing of the Annual Report on Form 20-F of the Company for the fiscal year ending December 31, 2016 or upon the earlier termination of this Agreement pursuant to Article VIII, provided however that the representations and warranties of the Company contained in Sections 3.1 (***Organization of the Company***), 3.2 (***Company Capital Structure***), 3.4 (***Authority.***), 3.5 (***No Conflicts; Consents.***) **hereof** will survive the Closing and will remain operative and in full force and effect such that the applicable remedies with respect thereto shall be available until the expiration of the applicable statute of limitations, and shall then expire with respect to any theretofore unasserted claims arising out of or otherwise in respect of any failure of such representations and warranties to be true and correct. The parties agree that so long as a valid written notice or claim is given on or prior to the applicable expiration date set forth above, the representations and warranties that are the subject of such claim shall continue to survive until such matter is finally resolved in accordance with this Agreement.

9.3 ***General Provisions***

(a) No right or remedy pursuant to ARTICLE IX in respect of any claim that is made prior to the expiration of the applicable survival period shall be affected by the expiration of any representations and warranties.

(b) The expiration of any representations and warranties and the provisions of this ARTICLE IX shall not affect, limit or impair any right or remedy available under ARTICLE IX or under any applicable law or otherwise to seek recovery of damages arising out of, resulting from or in connection with fraud, willful breach or intentional misrepresentation by any member of the Company Group until the expiration of the applicable statute of limitations.

ARTICLE X

GENERAL PROVISIONS

10.1 ***Entire Agreement***. This Agreement, the exhibits and schedules hereto, the Related Agreements, the Disclosure Schedule and the documents and instruments and other agreements among the parties hereto referenced herein constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings both written and oral, among the parties with respect to the subject matter hereof.

10.2 ***Assignment***. Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, in whole or in part, by operation of law or otherwise by any party hereto without the prior written consent of the other party hereto, and any such assignment without such prior written consent shall be null and void, except that this Agreement or any of the rights, interests or obligations under this Agreement may be assigned by the Investor to any of its Affiliates. Subject to the foregoing, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and assigns.

10.3 ***Amendment***. Except as otherwise stated, this Agreement may not be amended other than by a written instrument signed by the Investor and the Company.

10.4 ***Extension; Waiver***. At any time prior to the Closing, the Investor or the Company, as the case may be, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations of the other party hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the covenants, agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

10.5 ***Governing Law; Jurisdiction***. This Agreement shall be governed by and construed solely in accordance with the laws of the State of Israel, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. Each of the parties hereto irrevocably consents to the exclusive jurisdiction and venue of any competent court of the district of Tel-Aviv-Jaffa, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of Israel for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and such process.

10.6 ***Notices***. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial messenger or courier service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with electronic confirmation of complete transmission) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to the Investor, to:

85 Medinat Hayehudim St., Herzliya, Israel
Attention: CFO, Nir Cohen
Telephone No.: 09-9514151
Email: ncohen@dbsi.co.il

with a mandatory copy to:

Meitar Liquornik Geva Leshem Tal, Law Offices
16 Abba Hillel Road Ramat Gan 52506 Israel
Attention: Asaf Harel, Advocate
Telephone No.: (972)-(3)-610-3100
Facsimile No.: (972)-(3)-6103-111
Email: aharel@meitar.com

(b) if to the Company, to:

Rada Electronic Industries Ltd.
7 Giborei Israel St.. Netanya 4250407, Israel
Attention: Chief Executive Officer
Telephone No.: (972)-(9)-892111
Facsimile No.: (972)-(9)- 8855885
Email: Zvika.alon@rada.com

with a mandatory copy to:

S. Friedman & Co., Advocates
2 Weizman St., Tel-Aviv 64239, Israel
Attention: Sarit Molcho, Advocate
Telephone No.: (972)-(3)-6931931
Facsimile No.: (972)-(3)-6931930
Email: saritm@friedman.co.il

10.7 ***Interpretation***. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation". The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The phrases "provided to," "furnished to," "made available" and phrases of similar import when used herein, unless the context otherwise requires, shall mean that a true, correct and complete paper or electronic copy of the information or material referred to was provided to the Investor or its legal counsels, provided it was indicated in the written response prepared by the Company to the Investor' due diligence request list.

10.8 ***Severability***. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

10.9 ***Other Remedies***. Any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

10.10 ***Rules of Construction***. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefor, waive the application of any law, regulation, holding or rule of construction providing that provisions of or ambiguities in an agreement or other document will be construed against the party drafting such provision, agreement or document.

10.11 ***Counterparts***. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart and that signatures may be provided by facsimile or other means of electronic transmission.

- Signature page follows -

IN WITNESS WHEREOF, the parties have caused this Purchase Agreement to be executed by their duly authorized officers, as of the date first written above.

RADA ELECTRONIC INDUSTRIES LTD.

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties have caused this Purchase Agreement to be executed by their duly authorized officers, as of the date first written above.

DBSI INVESTMENTS LTD.

By: _____
Name:
Title:

INDEX OF EXHIBITS

Exhibit A-1	Shareholders Executing Proxy
Exhibit A-2	Form of Proxy
Exhibit B-1	Form of Warrant
Exhibit C	Amended Articles of Association
Exhibit D	Resolution of the Company's Board of Directors
Exhibit E	New Convertible Note
Exhibit F	Registration Rights Agreement
Exhibit H	Disclosure Schedule
Exhibit I-1	Company General Meeting Notice
Exhibit I-2	Shareholders Resolutions
Exhibit 2.4(f)	Changes in Board Structure
Exhibit 2.4(g)	D&O Indemnification Agreement

Exhibit 4.5

Execution Copy

REGISTRATION RIGHTS' AGREEMENT

THIS REGISTRATION RIGHTS' AGREEMENT (this "**Agreement**") is entered into as of the 14 day of April, 2016, by and among **RADA ELECTRONIC INDUSTRIES LTD.**, a company incorporated under the laws of the State of Israel, with offices at 7Giborei Israel Blvd., P.O. Box 8606 Netanya 4250407 Israel (the "**Company**") and **DBSI INVESTMENTS LTD.**, a company incorporated under the laws of the State of Israel, with offices at 85 Medinat Hayehudim St., Herzliya, Israel (the "**Holder**").

WHEREAS the Holder is a holder of the Ordinary Shares, par value NIS 0.015 each, of the Company ("**Ordinary Shares**") and/or of options and/or warrants convertible or exercisable into Ordinary Shares;

WHEREAS the parties wish to set provisions governing the registration of the Company's Ordinary Shares held by the Holder or issuable upon conversion or exercise of options or warrants to purchase Ordinary Shares, in accordance with the terms set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, covenants and other promises set forth herein, the mutual benefits to be gained by the performance thereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, the parties hereby agree as follows:

1. **DEFINITIONS**. Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement (as defined below) will have the meanings given such terms in the Purchase Agreement. As used in this Agreement, the following capitalized terms shall have the following respective meanings:

   1.1. "**Board**" means the Board of Directors of the Company.

   1.2. "**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

   1.3. "**Form F-1**" means such form (or Form S-1, as the case may be) under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC.

   1.4. "**Form F-3**" means such form (or Form S-3, as the case may be) under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC, which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

   1.5. "**Holder**" means as set forth in the preamble to this Agreement and any of their respective successors, transferees and assigns (in accordance with Section 10 of this Agreement), so long as they own of record Registrable Securities, provided, however, that the definition of Holder shall not include persons who have acquired Ordinary Shares sold pursuant to the Purchase Agreement in the open market or pursuant to a registration statement.

   1.6. **"Original Registrable Securities"** means the Registrable Securities, excluding any Registrable Securities that cease to be Registrable Securities due to their subsequent resale pursuant to an effective registration under the Securities Act or in the open market pursuant to Rule 144.

1.7. "**Prospectus**" means the prospectus included in a Shelf Registration Statement, as amended or supplemented by any prospectus supplement and by all other amendments thereto and all material incorporated by reference in such prospectus.

1.8. **"Purchase Agreement"** means that certain Purchase Agreement, dated April __, 2016, by and among the Company and the Holder signatory thereto.

1.9. "**Register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

1.10. "**Registrable Securities**" means any Ordinary Shares purchased by or issued to the Holder pursuant to the Purchase Agreement (including Ordinary Shares issued or issuable upon exercise or conversion of securities, including the Warrant Agreement, any additional warrants, convertible into or exercisable for Ordinary Shares as well as any Ordinary Shares issued or issuable as indemnity and/or pursuant to adjustment provisions under the Purchase Agreement) together with any and all securities issued or issuable with respect to the securities described above upon any stock split, stock dividend or the like, or into which such Ordinary Shares have been or may be converted to or exchanged into in connection with any merger, consolidation, reclassification, recapitalization or similar event; in each case, until their effective registration under the Securities Act and their resale in accordance with the registration statement in which such Registrable Securities are included or until their sale in the open market pursuant to Rule 144. However, it is understood by the parties to this Agreement that the number of Registrable Securities that may be included any registration statement filed with the SEC may be limited by the requirements of the Securities Act and the SEC.

1.11. "**Eligible Registrable Securities**" means such lesser number of Registrable Securities that may be included in a registration statement under the Securities Act due to limitations on registration imposed by the Securities Act or the SEC.

1.12. "**SEC**" means the United States Securities and Exchange Commission.

1.13. "**Securities Act**" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

1.14. "**Warrant Agreement**" shall mean the Warrant Agreement by and between the Company and the Holder, dated dated April 14, 2016, as we amended from time to time.

2. **Demand Registration**.

2.1. Request for Registration. Subject to the conditions of this Section 2, at any time after six (6) months following the Closing of the Purchase Agreement, if the Company shall receive a written request from the Holder that the Company file a registration statement on Form F-3, or if the use of such form is not available on Form F-1, then the Company shall, subject to the limitations of this Section 2, use its best efforts to effect, as promptly as reasonably possible, the registration under the Securities Act of the Eligible Registrable Securities that the Holder requests.

2.2. Underwritten Offering

2.2.1. If the Holder intends to distribute the Eligible Registrable Securities covered by its request by means of an underwriting, it shall so advise the Company as a part of its request made pursuant to this Section 2 or any request pursuant to Section 4. The Holder shall enter into an underwriting agreement in customary form with the underwriter(s).

2.2.2. Notwithstanding any other provision of this Section 2 or Section 4, if the underwriter advises the Company that marketing factors require a limitation of the number of Eligible Registrable Securities to be underwritten then the Company shall so advise the Holder of Eligible Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated to the Holder of such Eligible Registrable Securities; provided, however, that the number of Eligible Registrable Securities to be included in such underwriting and registration shall not be reduced unless all other securities of the Company are first entirely excluded from the underwriting and registration. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

2.3. Exclusions. The Company shall not be required to effect a registration pursuant to this Section 2 (without limiting any other provisions of this Section 2 to that effect):

2.3.1. After the Company has effected two (2) registration pursuant to this Section 2, and such registrations have been declared or ordered effective by the SEC, but in no event shall the Company be required to file a Form F-1 registration statement registering less than $1 million of Registrable Securities or a Form F-3 registration statement registering less than us$500,000 of Registrable Securities;

2.3.2. During the period starting with the date of filing of, and ending on the date one hundred eighty (180) days following the effective date of a registration statement pertaining to the Company's securities (but other than registration relating solely to employee benefit plans on Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a SEC Rule 145 transaction on Form F-4 or similar forms that may be promulgated in the future); provided that the Company makes reasonable good faith efforts to cause such registration statement to become effective;

2.3.3. If within ten (10) days of receipt of a written request from the Holder pursuant to Section 2.1 the Company gives notice to the Holder of the Company's good faith intention to file a registration statement for a public offering for a sale of the Company's shares or securities convertible into the Company's shares for its own account within forty five (45) days, provided that the Company actually files such registration statement within such forty five (45) days and makes reasonable good faith efforts to cause such registration statement to become effective;

2.3.4. If a registration statement filed pursuant to either of Sections 3 or 4 herein is then effective and is available to the Holder for the resale of Registrable Securities and effective for the disposition of Registrable Securities proposed to be effected by them pursuant to this Section 2; provided, however, that such exclusion shall not apply to the Holder if the Holder is not permitted or is otherwise not able to utilize the registration statement filed pursuant to Sections 3 or 4 herein for the intended manner of distribution; or

2.3.5. If the Company shall furnish to the Holder an officer's a certificate signed by order of the Board stating that in the good faith judgment of the Board, it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than sixty (60) days after receipt of the request of the Holder; provided that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period.

3. **Piggyback Registrations**.

3.1. Notice of Registration. The Company shall notify the Holder in writing at least twenty (20) days prior to the filing of any registration statement under the Securities Act for purposes of an offering of securities of the Company (including, but not limited to, registration statements relating to follow-on offering or secondary offerings of securities of the Company, but other than registration relating solely to employee benefit plans on Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a SEC Rule 145 transaction on Form F-4 or similar forms that may be promulgated in the future) and will afford the Holder, if requested by the Holder to be included in such registration, in accordance with this Section 3.1, an opportunity to include in such registration statement all or part of such Eligible Registrable Securities held by the Holder. If the Holder desires to include in any such registration statement all or any part of the Eligible Registrable Securities held by it shall, within fourteen (14) days after delivery of the above-described notice by the Company, so notify the Company in writing specifying the number of Registrable Shares requested to be included. If the Holder decides not to include all of its Eligible Registrable Securities in any registration statement thereafter filed by the Company, the Holder shall nevertheless continue to have the right to include any Eligible Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein. The number of occurrences of the registration pursuant to this Section 3 shall be unlimited.

3.2. Underwritten Offering**.**

3.2.1. If the registration statement under which the Company gives notice under this Section 3 is for an underwritten offering, the Company shall so advise the Holder as part of its notice made pursuant to Section 3.1. In such event, the right of the Holder to be included in a registration pursuant to this Section 3 shall be conditioned upon the Holder's participation in such underwriting and the inclusion of the Holder's Eligible Registrable Securities in the underwriting to the extent provided herein. The Holder shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. If the Holder disapproves of the terms of any such underwriting, the Holder may elect to withdraw therefrom by written notice to the Company and the underwriter, delivered no later than five (5) business days after the date on which the material terms of such underwriting are agreed upon and made known to the Holder in writing.

3.2.2. Notwithstanding any other provision of this Agreement, if the underwriter determines in good faith that marketing factors require a limitation of the number of shares (including Registrable Securities) to be underwritten, the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the Holder; and third, to any shareholder of the Company (other than a Holder) pro-rata, based on the total number of shares then held by such shareholder requesting to be included in such registration; provided however, that the number of Registrable Securities to be included in such underwriting and registration shall not be below twenty five percent (25%) of the total amount of shares included in such registration. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

3.3. Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 3 prior to the effectiveness of such registration, whether or not the Holder has elected to include securities in such registration. The registration expenses of such withdrawn registration shall be borne by the Company in accordance with Section 6 hereof.

4. **Shelf Registration Statement**.

4.1. Subject to the conditions of this Section 4, at any time after six (6) months following the Closing of the Purchase Agreement, the Holder may send a written request to the Company, requesting that the Company file a registration statement for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act registering the resale from time to time by the Holder thereof of all of the relevant Eligible Registrable Securities (the "**Shelf Registration Statement**"). The Shelf Registration Statement shall be on Form F-3 or another appropriate registration statement permitting registration of such Registrable Securities for resale by the Holder in accordance with the methods of distribution elected by it and set forth in such Shelf Registration Statement. The Company shall use its reasonable efforts to cause the Shelf Registration Statement to be declared effective under the Securities Act within three (3) months after the Holders' initial request in accordance with this Section and to keep such Shelf Registration Statement continuously effective under the Securities Act until the earlier of (i) two years following the date such registration was declared effective and (ii) the disposition of all Registrable Securities included in such Shelf Registration Statement.

4.2. Exclusions. The Company shall not be required to effect a registration pursuant to this Section 4 (without limiting any other provisions of this Section 4 to that effect):

4.2.1. For a period of 12 months after the Company has effected a registration statement pursuant to this Section 4, and such registration statements has been declared or ordered effective;

4.2.2. If Form F-3 is not available for such offering by the Holders, or

4.2.3. If within ten (10) days of receipt of a written request from the Holder pursuant to this Section 4, the Company gives notice to the Holder of the Company's good faith intention to file a registration statement for a public offering within thirty (30) days, provided that the Company actually files such registration statement within such thirty (30) days and makes reasonable good faith efforts to cause such registration statement to become effective;

4.2.4. If the Company shall furnish to the Holder an officer's certificate signed by order of the Board stating that in the good faith judgment of the Board, it would be seriously detrimental to the Company and its shareholders for such Shelf Registration Statement to be effected at such time, in which event the Company shall have the right to defer the filing of the Shelf Registration Statement for a period of not more than sixty (60) days after receipt of the request of the Holder under this Section 4; provided, that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period, or

4.2.5. In any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

4.3. Suspension. In addition to any suspension rights under this subsection 4.3 below, upon the happening of any pending corporate development, public filing with the SEC or similar event, that, in the judgment of the Company's Board, renders it advisable to suspend the use of the Prospectus or upon the request by an underwriter in connection with an underwritten public offering of the Company's securities, the Company may, on not more than two (2) occasions within a twelve-month period, for not more than thirty (30) days on each such occasion, suspend use of the Prospectus, on written notice to the Holder (which notice will not disclose the content of any material non-public information and will indicate the date of the beginning and end of the intended period of suspension, if known), in which case the Holder shall discontinue disposition of Registrable Securities covered by the registration statement or Prospectus until copies of a supplemented or amended Prospectus are distributed to the Holder or until the Holder is advised in writing by the Company that sales of Registrable Securities under the applicable Prospectus may be resumed and have received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in any such Prospectus. The suspension and notice thereof described in this Section 4.3 shall be held by the Holder in strictest confidence and shall not be disclosed by the Holder.

4.4. In the event of: (i) any request by the SEC or any other federal or state governmental authority for amendments or supplements to a registration statement or related prospectus or for additional information, (ii) the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of a registration statement or the initiation of any proceedings for that purpose, (iii) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose, or (iv) any event or circumstance which necessitates the making of any changes in the registration statement or Prospectus, or any document incorporated or deemed to be incorporated therein by reference, so that, in the case of the registration statement, it will not contain any untrue statement of a material fact or any omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the Prospectus, it will not contain any untrue statement of a material fact or any omission to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, then the Company shall deliver a certificate in writing to the Holders (the "**Suspension Notice**") to the effect of the foregoing (which notice will not disclose the content of any material non-public information and will indicate the date of the beginning and end of the intended period of suspension, if known), and, upon receipt of such Suspension Notice, the Holder will discontinue disposition of Registrable Securities covered by the registration statement or Prospectus (a "**Suspension**") until the Holder's receipt of copies of a supplemented or amended Prospectus prepared and filed by the Company, or until the Holder is advised in writing by the Company that the current Prospectus may be used, and have received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in any such prospectus. In the event of any Suspension, the Company will use its commercially reasonable efforts to cause the use of the Prospectus so suspended to be resumed as soon as possible after delivery of a Suspension Notice to the Holder. The Suspension and Suspension Notice described in this Section 4.3 shall be held by the Holder in strictest confidence and shall not be disclosed by the Holder..

4.5. Registrations effected pursuant to this Section 4 shall not be counted as demands for registration or registrations effected pursuant to Section 2.

5. **OBLIGATIONS OF THE COMPANY.** Whenever required to effect the registration of any Eligible Registrable Securities, the Company shall, without limitation of any other provision herein, as expeditiously as reasonably possible:

5.1. Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable best efforts to cause such registration statement to become effective, and keep such registration statement effective until the earlier of (i) two years following the date such registration was declared effective and (ii) such Eligible Registrable Securities may be sold without limitation under Rule 144, and (iii) the disposition of all Eligible Registrable Securities included in such registration statement. In case of a registration statement pursuant to Section 4, such registration statement shall include a plan of distribution in customary form.

5.2. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

5.3. Furnish to the Holder such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the public sale or other disposition of the Registrable Securities covered by such registration statement.

5.4. Use its reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holder; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

5.5. Use commercially reasonable efforts to list the Registrable Securities covered by such registration statement with any securities exchange on which the Ordinary Shares of the Company is then listed or on the automated quotation system of the National Association of Securities Dealers, Inc., or if the Company does not have a class of equity securities listed on a national securities exchange or the automated quotation system of the Pink Sheets LLC, apply for qualification and use commercially reasonable efforts to qualify the Registrable Securities being registered for inclusion on such exchange or automated quotation system as is determined by the Company.

5.6. In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering.

5.7. Immediately notify the Holder and each underwriter under such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing. The Company shall prepare and furnish to each such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Eligible Registrable Securities, such prospectus shall not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

5.8. Use its reasonable efforts to furnish, on the date that such Eligible Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company addressed to the underwriters for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, (including that (A) such registration statement has become effective under the Securities Act and, to the best knowledge of such counsel, no stop order suspending the effectiveness thereof has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Securities Act, and (B) the registration statement, the related prospectus and each amendment or supplement thereof comply as to form in all material respects with the requirements of the Securities Act (except that such counsel need not express any opinion as to any financial data or financial statements contained therein)), and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, addressed to the underwriters and to such seller, in form and substance as is customarily given by independent certified public accountants in an underwritten public offering (including, that they are independent public accountants within the meaning of the Securities Act and that, in the opinion of such accountants, the financial statements of the Company included in the registration statement or the prospectus, or any amendment or supplement thereof, comply as to form in all material respects with the applicable accounting requirements of the Securities Act, and such letter shall additionally cover such other financial matters (including information as to the period ending no more than five business days prior to the date of such letter) with respect to such registration as such underwriters or sellers reasonably may request);

5.9. Use commercially reasonable efforts to cooperate with the sellers in the disposition of the Eligible Registrable Securities covered by such registration statement, including without limitation in the case of an underwritten offering using commercially reasonable efforts to cause key executives of the Company and its subsidiaries to participate under the direction of the managing underwriter in a “road show” scheduled by such managing underwriter in such locations and of such duration as in the judgment of such managing underwriter are appropriate for such underwritten offering.

5.10. In connection with the preparation and filing of each registration statement registering Eligible Registrable Securities under the Securities Act, and before filing any such registration statement or any other document in connection therewith, give the Holder and their underwriters, if any, and their respective counsel and accountants, the opportunity to (i) review any such registration statement, and (ii) provide comments to such documents if necessary to cause the description the Holder to be accurate.

5.11. Otherwise use commercially reasonable efforts to comply with the Securities Act, the Exchange Act and any other applicable rules and regulations of the SEC, and make available to the Holder, as soon as reasonably practicable, an earnings statement covering the period of at least 12 months after the effective date of such registration statement, which earnings statement shall satisfy Section 11(a) of the Securities Act and any applicable regulations thereunder, including Rule 158.

6. **EXPENSES OF REGISTRATION**. All registration expenses incurred in connection with any registration, qualification or compliance pursuant to Sections 2 through 5 herein shall be borne by the Company. Registration expenses shall include all expenses incurred by the Company or incident to the Company's performance of or compliance with this Agreement with respect to any registration in complying with Sections 2, 3 and 4 hereof, including, without limitation, expenses incurred in connection with the preparation of a prospectus, printing, registration and filing fees, printing fees and expenses, fees and disbursements of counsel, accounts and other advisors for the Company, reasonable fees and disbursements of a single special counsel for the Holder, taxes, fees and expenses (including reasonable counsel fees) incurred in connection with complying with state securities or "blue sky" laws, fees of the National Association for Securities Dealers, Inc., fees of transfer agents or registrars and the expense of any special audits incident to or required by any such registration. Notwithstanding the foregoing, however, all underwriter's discounts and commissions and expenses in respect of the sale of Registrable Securities shall be paid by the Holder.

7. **Agreement to Furnish Information; Preconditions to Participation in Underwritten Registrations.**

7.1. The Holder shall furnish to the Company such relevant information regarding the Holder and the distribution proposed by the Holder as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement.

7.2. The Holder may not participate in any underwritten registration hereunder unless the Holder (i) agrees to enter into a written underwriting agreement with the managing underwriter selected in the manner herein provided in such form and containing such provisions as are customary in the securities business for such an arrangement between such underwriter and companies of the Company's size and investment stature, and (ii) provides any relevant information and completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements, and other documents required under the terms of such underwriting arrangements, provided, however, that (x) the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of the underwriters shall also be made to and for the benefit of the Holder and (y) the Holder shall not be required to make, and the Company shall use reasonable efforts to ensure that no underwriter requires the Holder to make, any representations and warranties to, or agreements with, any underwriter in a registration effected pursuant to Sections 2, 3 or 4 other than customary representations, warranties and agreements relating to the Holder's title to Registrable Securities and authority to enter into the underwriting agreement.

8. **INDEMNIFICATION.** In the event any Registrable Securities are included in a registration statement under Sections 2, 3 or 4:

8.1. To the extent permitted by law, the Company will indemnify and hold harmless the Holder, its affiliates, the partners, officers, directors and shareholders of the Holder, legal counsel and accountants for the Holder, underwriter (as defined in the Securities Act) in an underwritten offering for the Holder and each person, if any, who controls the Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "**Violation**") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement; and the Company will pay as incurred to the Holder, its affiliates, partners, officers, or directors, any underwriter (as defined in the Securities Act) in an underwritten offering for the Holder and each person, if any, who controls the Holder or underwriter within the meaning of the Securities Act or the Exchange Act, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided however, that the indemnity agreement contained in this Section 8.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arised out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for used in connection with such registration by such Holder, partner, officer, director, underwriter or controlling person of the Holder.

8.2. To the extent permitted by law, the Holder will, if Registrable Securities held by the Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers, directors and each person, if any, who controls the Company within the meaning of the Securities Act and any underwriter, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, or underwriter may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by the Holder under an instrument duly executed by the Holder and stated to be specifically for use in connection with such registration; and the Holder will pay as incurred any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, or underwriter in connection with investigating or defending any such loss, claim, damage, liability or action if it is judicially determined that there was such a Violation; provided, however, that the indemnity agreement contained in this Section 8.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided further, that in no event shall any indemnity under this Section 8.2 exceed the net proceeds from the offering received by the Holder.

8.3. Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, shall, to the extent materially prejudicial to its ability to defend such action, relieve such indemnifying party of its liability to the indemnified party under this Section 8, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 8.

8.4. If the indemnification provided for in this Section 8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, that in no event shall any contribution by the Holder hereunder exceed the net proceeds from the offering received by the Holder; and provided further that no party will be liable for contribution with respect to the settlement of any claim or action effected without its written consent.

8.5. The obligations of the Company and the Holder under this Section 8 shall survive completion of any offering of Eligible Registrable Securities in a registration statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

8.6. The indemnification provisions of this Section 8 shall not be in limitation of any other indemnification provisions included in any other agreement. Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in any underwriting agreement entered into in connection with an underwritten public offering are in conflict with the foregoing provisions, the provisions in such underwriting agreement shall prevail.

9. **Lock-Up Agreement**.

9.1. The Holder and the Company hereby agrees that, if so requested by the representative of the underwriters (the "**Managing Underwriter**"), the Holder and Company shall not, without the prior consent of the Managing Underwriter (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Registrable Securities or any securities of the Company (whether such shares or any such securities are then owned by the Holder, or are thereafter acquired), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Registrable Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Registrable Securities or such other securities, in cash or otherwise, during the period specified by the Managing Underwriter (the "**Market Standoff Period**"), with such period not to exceed 120 days following the effective date of such registration statement. Any discretionary waiver or termination of the restrictions contained in any such agreement by the Company or the underwriter shall first apply to the Holder, which shall have preference over all other holders of the Company's securities to register and sell the shares to be registered within such waiver or termination of restrictions.

9.2. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

9.3. The foregoing provisions of this Section 9 shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement, and shall only be applicable to the Holder if all officers, directors and shareholders of the Company holding a percentage of the Company's share capital as determined by the Managing Underwriter, enter into similar agreements.

9.4. The underwriters in connection with a registration statement so filed are intended to be third party beneficiaries of this Section 9 and shall have the right power and authority to enforce the provisions hereof as though they were a party hereto.

10. **Assignment of Registration Rights; Transfer of Registrable Securities**.

10.1. The rights to cause the Company to register Eligible Registrable Securities pursuant to this Agreement may be assigned by the Holder to any transferee or assignee of all or part of the Registrable Securities held by the Holder, that acquires Registrable Securities (as adjusted for stock splits, combinations and other recapitalization events); provided, however, (i) the transferor shall furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned, and (ii) such transferee shall agree to be subject to all provisions and restrictions set forth in this Agreement.

11. **RULE 144 REPORTING.** With a view to making available to the Holder the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company (at any time after it has become subject to such reporting requirements) agrees to:

11.1. Make and keep available adequate current public information with respect to the Company, within the meaning Rule 144(c) under the Securities Act or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public.

11.2. Furnish to the Holder forthwith upon request: (i) a written statement by the Company as to its compliance with the informational requirements of Rule 144(c) under the Securities Act (or similar rule then in effect), and of the Exchange Act (at any time after it has become subject to such reporting requirements); (ii) a copy of the most recent annual or earnings report filed under Form 6-K of the Company; and (iii) such other reports and documents as the Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration; and

11.3. Comply with all other necessary filings and other requirements so as to enable the holders of Registrable Securities to sell Registrable Securities under Rule 144 under the Securities Act (or similar rule then in effect).

12. **FOREIGN OFFERINGS**. The provisions of this Agreement will apply to the listing and registration of Registrable Securities in foreign jurisdiction or on foreign exchange, subject to the local laws and regulations of such foreign jurisdiction and foreign exchange.

13. **SUBSEQUENT REGISTRATION RIGHTS**. Without the consent of the Holder, the Company may not grant, or enter into any other agreement with any holder or prospective holder of any securities of the Company that would grant such holder, registration rights, except for rights inferior to, or on a pari passu basis with, those granted hereunder; provided, however that the Company shall not allow such holder of securities of the Company: (i) to include such securities in any registration filed under Section 3 hereof, unless under the terms of such agreement, such holder may include such securities in any such registration only to the extent that the inclusion of such securities will not reduce the amount of the Eligible Registrable Securities of the Holder that are included; or (ii) to demand registration of their securities. Notwithstanding the foregoing, commencing 12 months after the date hereof, the Company may file a registration statement for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act registering the resale from time to time by the holders thereof of securities of the Company, provided that such registration statement shall be treated as giving rise to the rights under Section 3 hereof and shall include all Registrable Securities requested to be included therein by the Holder thereof.

14. **Miscellaneous**.

14.1. Entire Agreement**.** This Agreement constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and supersede all prior negotiations, agreements and understandings of the parties of any nature, whether oral or written, relating thereto.

14.2. Amendment of Registration Rights. Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the Holders. By acceptance of any benefits under this Agreement, Holders of Eligible Registrable Securities hereby agree to be bound by the provisions hereunder.

14.3. Governing Law; Venue. This Agreement shall be governed by and construed under the laws of the State of Israel, without regard to the conflicts of law principles of such State, except with respect to matters that are subject to securities laws and regulations, which shall be governed by the respective laws and regulations. The parties hereto irrevocably submit to the exclusive jurisdiction of the Courts of the district of Tel Aviv-Jaffa in respect of any dispute or matter arising out of or connected with this Agreement.

14.4. Successors and Assigns. The provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time.

14.5. Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

14.6. Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on the Holder's part of any breach, default or noncompliance under the Agreement or any waiver on the Holder's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to the Holder, shall be cumulative and not alternative.

14.7. Aggregation of Shares. All shares of the Company held or acquired by the Holder and any entity affiliated with the Holder, shall be aggregated together for the purpose of determining the availability of any rights under this Agreement, the applicability of any limitation under this Agreement. The term "affiliate" shall have the meaning assigned to it in Rule 405 under the Securities Act.

14.8. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) three (3) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) two (2) days after deposit with an internationally recognized courier, specifying two day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth below or at such other address as such party may designate by ten (10) days advance written notice to the other parties hereto.

14.9. If to the Company: to the address set forth in the preamble to this Agreement.

14.10. If to the Holder: to the address set forth in Schedule 1 attached hereto.

14.11. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart and that signatures may be provided by facsimile transmission.

14.12. Questionnaire. The Holder agrees to furnish to the Company a completed Questionnaire in a customary form (a **"Selling Holder Questionnaire"**). The Company shall not be required to include the Eligible Registrable Securities of the Holder in a Registration Statement who fails to furnish to the Company a fully completed Selling Holder Questionnaire at least five business days prior to the date the Company notifies the Holder that a registration statement is being filed.

- Signature page follows -

***In Witness Whereof**, the parties have duly signed this Registration Rights' Agreement as of the Effective Date.*

The Company:

Rada Electronic Industries Ltd.

Name: _____

Title: _____

IN WITNESS WHEREOF, the parties have duly signed this Registration Rights' Agreement as of the Effective Date.

THE HOLDER:

DBSI INVESTMENTS LTD.

Name: _____

Title: _____

Exhibit 4.6

CONVERTIBLE LOAN AGREEMENT

THIS CONVERTIBLE LOAN AGREEMENT (this "**Agreement**"), is made as of the 14 day of April, 2016, by and among (i) RADA ELECTRONIC INDUSTRIES Ltd., a company organized under the laws of the State of Israel (the "**Company**"), and (ii) DBSI INVESTMENTS LTD. a company organized under the laws of the State of Israel (the "**Investor**").

W I T N E S E T H:

WHEREAS, the Company has entered into that certain Standstill Agreement by and between the Company and certain Lenders (as defined therein) dated as of February 1, 2013 as amended from time to time (the "**Standstill Agreement**");

WHEREAS, the Company needs to repay the Lenders of the Standstill Agreement on or before August 31, 2016; and

WHEREAS, the Company and the Investor have entered into that certain Purchase Agreement dated as of the date hereof (the "**Purchase Agreement**")

WHEREAS, in order to enable the Company to repay the Lenders under the Standstill Agreement, the Investors are willing to make a convertible loan available to the Company on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereby agree as follows:

Any capitalized term used in this Agreement, but not otherwise defined, shall have the meaning ascribed to such term in this Purchase Agreement.

1. **Loan**.

1.1. Loan Amount. The Investor hereby agrees and undertakes, upon a Call Event (as defined below) and in any event not later than three (3) business days following such Call Event, to wire to the Company an aggregate amount of up to US$ 3,175,000 (the "**Principal Loan Amount**"). At the Call Event, the Investor will transfer to the Company the Principal Loan Amount, by wire transfer of immediately available United States Dollars. The Company may instruct the Investor to wire the said amount directly to the Lenders.

1.2. Term. Except if an Event of Default has occurred, the Loan Amount will be convertible during a period commencing as of the Call Event Date and ending on the Final Date ("**Term**"), in accordance with the provisions set forth herein.

1.3. Interest. The Principal Loan Amount shall bear interest at an annual interest rate of the 1-year USD LIBOR in effect from time to time plus 6% from the actual disbursement of the Principal Loan Amount and until the date of repayment or conversion thereof (the "**Interest**", and together with the outstanding Principal Loan Amount the, "**Loan Amount**"). Interest shall be paid on a quarterly basis, and shall include VAT, as required by law, which will be paid to the Investor against duly VAT invoice issued by the Investor and delivered to the Company prior to each payment on account of Interest.

2. **Special Committee and Call Event**.

The Call Event. Subject to the Closing of the Purchase Agreement, the Investor shall cause the transfer of the Principal Loan Amount by wire transfer to the Company's account)as designated by the Company) upon the earlier of (i) the resolution in writing of a special committee of the Board of Directors of the Company, composed of independent directors who shall initially be Ilan Sigal, and Nurit Mor, and Alon Dumanis (unless any of the above is no longer an independent director of the Company), appointed for that purpose by the Board to call on the Principal Loan Amount from the Investor, or (ii) the date on which the Investor has elected to transfer the Principal Loan Amount to the Company (each a "**Call Event**" and the date of such Call Event shall be hereinafter referred to as the "**Call Event Date**"). In no event shall the Call Event Date be on or after August 31, 2016 ("**Last Call Event Date**"), unless an Event of Default has occurred and has been cured within 45 days following the Last Call Event Date, in which case the Last call Event Date shall be extended to 7 days following the date of such cure.

3. **Repayment.**

3.1. During the Term, the Company shall have the right, but not the obligation, to repay the Loan Amount in full or any part thereof. In the event that the Company wishes to repay the Loan Amount or any part thereof (the "**Repayment Amount**") before the Final Date (as defined hereinafter), the Company shall give a written notice to the Investor of its intentions to repay the Repayment Amount (the "**Repayment Notice**"). The Investor will have 10 business days following the Repayment Notice to elect to convert the Repayment Amount (the "**Conversion Amount**"), in accordance with Section 4.1 below, by giving notice to the Company of its intention to do so (the "**Conversion Notice**"). In the event that the Investor does not send the Conversion Notice, the Company may repay the portion of the Repayment Amount which was not converted by the Investor.

3.2. Upon occurrence of an Event of Default prior to Final Date, the then remaining Loan Amount will be immediately due and payable in cash to the Investor (to the extent not converted theretofore) in priority over payment of any dividends or any debts due by the Company to its shareholders solely by virtue of their shareholdings in the Company.

4. **Conversion.**

4.1. Voluntary Conversion. During the Term, the Investor shall have the right, but not the obligation, at its sole discretion, to convert the then remaining Loan Amount into ordinary shares, par value NIS 0.015 (the "**Ordinary Shares**"), at a price per share equal to the lower of: (i) $1.2, or (ii) a five percent (5%) discount to the FMV (as defined below) (the "**Conversion Price**"). In each case, the Conversion Price shall be adjusted from time to time to reflect any bonus shares, combinations or splits with respect to the Ordinary Shares or other similar recapitalization affecting such share. "**FMV**" shall mean the average of the closing prices of the Company's Ordinary Shares over the 5 consecutive trading days ending on the last trading day (inclusive) prior to the date of conversion.

4.2. Conversion upon Final Date. If the Loan Amount has not been converted or repaid in full by the Final Date, the then remaining Loan Amount will be due in full to the Investor on the Final Date, unless the Investor elects, prior to the Final Date, to convert the Loan Amount into Ordinary Shares at a price per share equal to the Conversion Price.

4.3. No Fractional Shares. No fractional shares shall be issued to the Investor, and the number of shares issuable upon conversion of the Loan Amount shall be rounded to the nearest whole number.

4.4. Effect of Repayment or Conversion. Upon repayment or conversion in full of the Loan Amount pursuant to and in accordance the terms of this Agreement, the Loan Amount shall be deemed to have been satisfied and repaid in full.

4.5. VAT. The VAT applicable to the conversion of the Interest shall be paid in cash by the Company to the Investor within 5 days following the Conversion and against VAT invoice duly issued by the Investor and delivered to the Company.

4.6. Notwithstanding anything to the contrary, in no event shall the conversion of the Loan Amount result in the Investor holding more than 90% of the share capital of the Company.

5. **Covenants**.

5.1. Use of Proceeds. The Company will use the proceeds of the Loan Amount solely in order to repay the Lenders under the Standstill Agreement.

5.2. Fees and Expenses. Each party hereto shall bear and be responsible for its own expenses and the taxes attributable to it, if any, in connection with the transactions contemplated under this Agreement.

6. **Miscellaneous**.

6.1. Definitions. For purposes of this Agreement:

"**Event of Default**" means the occurrence of any of the following, that has not been cured within any applicable cure period set forth below or otherwise waived by the Investor: (i) the Company shall commence any liquidation proceeding with respect to itself, an involuntary liquidation proceeding shall be filed against the Company, or a custodian, receiver, trustee, assignee for the benefit of creditors, or other similar official, shall be appointed to take possession, custody or control of all or substantially all of the properties of the Company, and such involuntary insolvency proceeding, petition or appointment is acquiesced to in writing by the Company or is not dismissed within forty five (45) days; (ii) the dissolution, winding up or liquidation of the Company or cessation of all or substantially all of the business operations of the Company for a period of more than forty-five (45 days); or (iii) the Company shall adopt any corporate resolution for the purpose of effecting, approving, or consenting to any of the foregoing;

"**Final Date**" means the date which is thirty six (36) months from the Call Event Date, subject to amendment as set forth in Section 1.6.4;

6.2. Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected thereby.

6.3. Governing Law; Jurisdiction. This Agreement shall be governed by and construed solely in accordance with the laws of the State of Israel, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. Each of the parties hereto irrevocably consents to the exclusive jurisdiction and venue of any competent court of the district of Tel-Aviv-Jaffa, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of Israel for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and such process.

6.4. Successors and Assigns; Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, in whole or in part, by operation of law or otherwise by any party hereto without the prior written consent of the other party hereto, and any such assignment without such prior written consent shall be null and void, except that this Agreement or any of the rights, interests or obligations under this Agreement may be assigned by the Investor to any of its Affiliates. Subject to the foregoing, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and assigns.

6.5. Entire Agreement; Amendment and Waiver. This Agreement constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings both written and oral, among the parties with respect to the subject matter hereof. Except as otherwise stated, this Agreement may not be amended other than by a written instrument signed by the Investor and the Company. At any time prior to the Closing of the Purchase Agreement, the Investor or the Company, as the case may be, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations of the other party hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the covenants, agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

6.6. Notices, etc. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial messenger or courier service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with electronic confirmation of complete transmission) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to the Investor, to:

85 Medinat Hayehudim St., Herzliya, Israel
Attention: Nir Cohen
Telephone No.: 09-9514151
Email: ncohen@dbsi.co.il

with a mandatory copy to:

Meitar Liquornik Geva Leshem Tal, Law Offices
16 Abba Hillel Road Ramat Gan 52506 Israel
Attention: Asaf Harel, Advocate
Telephone No.: (972)-(3)-610-3100
Facsimile No.: (972)-(3)-6103-111
Email: aharel@meitar.com

if to the Company, to:

Rada Electronic Industries Ltd.
7 Giborei Israel St.. Netanya 4250407, Israel
Attention: Chief Executive Officer
Telephone No.: (972)-(9)-892111
Facsimile No.: (972)-(9)- 8855885
Email: zvika.alon@rada.com

with a mandatory copy to:

S. Friedman & Co., Advocates
2 Weizman St., Tel-Aviv 64239, Israel
Attention: Sarit Molcho, Advocate
Telephone No.: (972)-(3)-6931931
Facsimile No.: (972)-(3)-6931930
Email: saritm@friedman.co.il

6.7. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. Except as otherwise limited herein, all remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

6.8. Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

6.9. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart and that signatures may be provided by facsimile or other means of electronic transmission.

6.10. Third Party Beneficiary. It is hereby agreed that Faith Central Development Limited (which is one of the Lenders) ("**FCD**") shall be a third party beneficiary of this Agreement and the Company's rights hereunder. In the event that the Company has not repaid FCD the balance of the Loan Amounts (as defined in the Standstill Agreement) by August 20, 2016 then FCD shall have the right to exercise the rights granted to the Company hereunder and declare a Call Event, by giving written notice to the Company and the Investor to this effect (the **'FCD Notice")**. Except as expressly set forth herein, this Agreement shall not confer any rights or remedies upon any Person other than the parties hereto and their respective successors, assigns personal representatives, heirs and estates, as the case may be.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF the parties have signed this Convertible Loan Agreement as of the date first hereinabove set forth.

RADA ELECTRONIC INDUSTRIES LTD.

By: _____
Name:
Title:

IN WITNESS WHEREOF the parties have signed this Convertible Loan Agreement as of the date first hereinabove set forth.

DBSI INVESTMENTS LTD.

By: _____
Name:
Title:

Faith Central Development Limited on behalf of the Lenders under the Standstill Agreement hereby receives and acknowledges its rights under this Convertible Loan Agreement as of the date first hereinabove set forth. Faith Central Development Limited hereby confirms that simultaneously with the execution of this acknowledgement it has executed and deposited in escrow with Adv. Rona Bergman a letter addressed to the Israeli Registrar of Companies regarding the release of the Second Degree Floating Charge securing the repayment of the Loan Amount and that it instructed Adv. Bergman to deliver such document to the Company immediately after it confirms to Adv. Bergman the full repayment of the Loan Amount.

Faith Central Development Limited

By: _____
Name:
Title:

Exhibit 4.7

FIRST AMENDMENT TO CONVERTIBLE LOAN AGREEMENT

THIS FIRST AMENDMENT TO CONVERTIBLE LOAN AGREEMENT (this "**Amendment**"), is made as of the 15 day of May, 2016, by and among (i) RADA ELECTRONIC INDUSTRIES Ltd., a company organized under the laws of the State of Israel (the "**Company**"), and (ii) DBSI INVESTMENTS LTD. a company organized under the laws of the State of Israel (the "**Investor**").

W I T N E S E T H:

WHEREAS, the Company and the Investor has entered into that certain Convertible Loan Agreement dated April 10, 2016 (the "**Loan Agreement**"); and

WHEREAS the parties wish to amend the Loan Agreement as further detailed below;

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereby agree as follows:

Any capitalized term used in this Amendment, but not otherwise defined, shall have the meaning ascribed to such term in this Loan Agreement.

1. **Amendment of Section 4.1**

Section 4.1 shall be replaced in its entirety by the following Section:

> *" Voluntary Conversion. During the Term, the Investor shall have the right, but not the obligation, at its sole discretion, to convert the then remaining Loan Amount into ordinary shares, par value NIS 0.015 (the "**Ordinary Shares**"), at a price per share equal to the lower of: (i) $1.20, or (ii) a five percent (5%) discount to the FMV (as defined below) (the "**Conversion Price**", provided however, that in no event shall the Conversion Price be lower than US$ 0.235. In each case, the Conversion Price shall be adjusted from time to time to reflect any bonus shares, combinations or splits with respect to the Ordinary Shares or other similar recapitalization affecting such share. "**FMV**" shall mean the average of the closing prices of the Company's Ordinary Shares over the 5 consecutive trading days ending on the last trading day (inclusive) prior to the date of conversion."*

2. **Effect of Amendment**

Subject to the terms of this Amendment, the Loan Agreement will remain in full force and effect and the Loan Agreement and this Agreement will be read and construed as one document, provided however that in the event of any contradiction between any of the provisions of the Loan Agreement and the provisions of this Amendment, the provisions of this Amendment shall prevail.

3. **Counterparts**

This Amendment may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart and that signatures may be provided by facsimile or other means of electronic transmission.

INTENTIONALLY LEFT BLANK-

SIGNATURE PAGE TO FOLLOW

IN WITNESS WHEREOF the parties have signed this First Amendment to Convertible Loan Agreement as of the date first hereinabove set forth.

RADA ELECTRONIC INDUSTRIES LTD.

By: _____
Name:
Title:

IN WITNESS WHEREOF the parties have signed this First Amendment to Convertible Loan Agreement as of the date first hereinabove set forth.

DBSI INVESTMENTS LTD.

By: _____
Name:
Title:

Exhibit 4.8

Confidential

THE OFFER, ISSUANCE AND SALE OF THIS WARRANT AND ANY SECURITIES THAT MAY BE ISSUED UPON EXERCISE THEREOF) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS, AND IN THE CASE OF A TRANSACTION EXEMPT FROM REGISTRATION (OTHER THAN PURSUANT TO RULE 144(b)(1), PROVIDED THAT THE COMPANY HAS RECEIVED CUSTOMARY REPRESENTATIONS CERTIFYING AS TO THE AVAILABILITY OF SUCH RULE 144(b)(1)), UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS.

April 14, 2016

WARRANT TO PURCHASE ORDINARY SHARES
OF
RADA ELECTRONICS INDUSTRIES LTD.

For VALUE RECEIVED DBSI Investments Ltd. (together with its successors, transferees and assigns, the "**Holder**") is entitled to purchase subject to the provisions of this Warrant (this "**Warrant**") from RADA Electronics Industries Ltd., an Israeli company ("**Company**"), during the term of this Warrant, at a purchase price per share equal to $0.1990 (as adjusted from time to time pursuant to the terms of this Warrant), up to 20,105,282 Ordinary Shares, par value NIS 0.015 per share, of the Company (the "**Company Shares**") (as adjusted from time to time pursuant to the terms of this Warrant). The shares purchasable upon exercise of this Warrant and the purchase price per share, as adjusted from time to time pursuant to the terms of this Warrant, shall be referred to herein as the "**Warrant Shares**" and the "**Exercise Price**", respectively.

1. **Exercise**.

1.1. Manner of Exercise. This Warrant may be exercised, at the Holder sole discretion, during the 36 months following the Closing Date as defined in the Purchase Agreement, in whole or in part, on one or more trenches during its term, provided that the amount of each trench shall not be in an amount less than US$ 1,000,000. The Warrant may be exercised by the surrender of this Warrant, together with the Notice of Exercise in the form attached hereto, duly completed and executed by the Holder, at the principal office of the Company or at such other office or agency as the Company may designate, accompanied by payment in full of the aggregate Exercise Price payable in respect of the Warrant Shares purchasable upon such exercise. The Exercise Price may be paid by cash, check, wire transfer or by the cancellation of debt owed by the Company to the Holder.

1.2. Effective Time of Exercise. Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided in Section 1.1 above. At such time, the person(s) in whose name(s) any certificates representing the Warrant Shares shall be issuable upon exercise as provided in Section 1.4 below shall be deemed to have become the holder of record of such Warrant Shares represented by such certificates.

1.3. Delivery to Holder. As soon as practicable after the exercise of this Warrant in whole or in part, and in any event within ten (10) days thereafter, the Company at its expense will cause to be issued in the name of, and delivered to, the Holder, or as such Holder may direct:

1.3.1. a certificate(s) for the number of Warrant Shares to which such Holder shall be entitled, and

1.3.2. in case such exercise is in part only, a new warrant(s) (dated the date hereof) of like tenor, calling in the aggregate on the face(s) thereof for the number of Warrant Shares equal to the number of such shares called for on the face of this Warrant *minus* the number of such shares purchased by the Holder upon such exercise as provided in Sections 1.1.

1.4. Conditional Exercise. In case of an exercise made in connection with a public offering of the Company Shares pursuant to an effective registration statement under the Securities Act or the equivalent actions under the laws of another jurisdiction, or a Liquidity Event (as defined below), such exercise may be made conditional upon the closing of such offering or event.

For purposes of this Warrant, the term "**Liquidity Event**" shall mean: (i) a sale of all or substantially all of the Company's assets; (ii) a sale of all or substantially all of the Company's issued and outstanding shares, such that following the transaction more than fifty percent (50%) of the Company's issued shares are held by persons who, prior to the said transaction, held less than fifty percent (50%) of the Company's issued shares; or (iii) a merger or consolidation of the Company with or into another corporation, such that following the transaction more than fifty percent (50%) of the surviving entity's issued shares are held by persons who, prior to the said transaction, held less than fifty percent (50%) of the Company's issued shares.

2. **Adjustments**

The number and kind of securities purchasable upon the exercise of this Warrant and the Exercise Price shall be subject to adjustment from time to time as follows:

2.1. Stock Splits, Dividends and Combinations. If the outstanding Company Shares shall be subdivided into a greater number of shares or a dividend or other distribution payable in additional shares shall be paid in respect of Common Shares, the Exercise Price in effect immediately prior to such subdivision or at the record date of such dividend shall simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend be proportionately reduced. If outstanding Company Shares shall be combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination be proportionately increased. When any adjustment is required to be made in the Exercise Price, the number of Warrant Shares purchasable upon the exercise of this Warrant shall be changed to the number determined by *dividing* (i) an amount equal to the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment, *multiplied* by the Exercise Price in effect immediately prior to such adjustment, by (ii) the Exercise Price in effect immediately after such adjustment.

2.2. Reclassification, Etc. In case of any reclassification or change of the outstanding securities of the Company or of any reorganization of the Company (or any other corporation the stock or securities of which are at the time receivable upon the exercise of this Warrant) or any similar corporate reorganization on or after the date hereof, then and in each such case the holder of this Warrant, upon the exercise hereof at any time after the consummation of such reclassification, change, reorganization, merger or conveyance, shall be entitled to receive, in lieu of the stock or other securities and property receivable upon the exercise hereof prior to such consummation, the stock or other securities or property to which such holder would have been entitled upon such consummation if such holder had exercised this Warrant immediately prior thereto, all subject to further adjustment as provided in Section 2; and in each such case, the terms of this Section 2 shall be applicable to the shares of stock or other securities properly receivable upon the exercise of this Warrant after such consummation.

2.3. Other Transactions. In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Warrant Shares or by procuring that the Holder shall be entitled, on economically proportionate terms, to acquire additional shares of the spun-off or split-off entities. Upon each adjustment in the number or kind of Warrant Shares purchasable hereunder, the Exercise Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Warrant Shares purchasable hereunder shall be adjusted.

2.4. Notice of Adjustments. Whenever the Exercise Price or the number of Warrant Shares purchasable hereunder shall be adjusted pursuant to this Section 2, the Company shall prepare a certificate signed by an executive officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, the Exercise Price and the number of Warrant Shares purchasable hereunder after giving effect to such adjustment, and shall cause copies of such certificate to be delivered to the Holder.

3. **Investment Representations**.

3.1. The Holder is knowledgeable, sophisticated and experienced in making, and is qualified to make, decisions with respect to investments in securities representing an investment decision like that involved in the purchase of this Warrant and the Warrant Shares (the "**Purchased Securities**"), without limitation of the representations and warranties included herein and in the Purchase Agreement.

3.2. The Holder is acquiring the Purchased Securities in the ordinary course of its business and for its own account for investment only and with no present intention of distributing any of such Purchased Securities and does not have any current arrangement or understanding with any other persons regarding the distribution of such securities (this representation and warranty not limiting the Holder's right to sell or distribute in compliance with the Securities Act and the rules and regulations thereunder); nothing contained herein shall be deemed a representation or warranty by the Holder to hold the Purchased Securities for any period of time;

3.3. The Holder will not, directly or indirectly, offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) any of the Purchased Securities, nor will the Holder engage in any short sale that results in a disposition of any of the Purchased Securities by the Holder, except in compliance with the Securities Act and the rules and regulations thereunder and any applicable state securities laws; and

3.4. The Holder is either an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act or is not a "US Person" within the meaning of Rule 902 (k) under the Securities Act. Neither such inquiries nor any other due diligence investigation conducted by the Holder shall modify, limit or otherwise affect the Holder's right to rely on the Company's representations and warranties contained herein or in the Purchase Agreement.

3.5. The Holder understands that its investment in the Purchased Securities involves a significant degree of risk, including a risk of total loss of Holder's investment. The Holder understands that no representation is being made as to the future value or market price of the Company Shares. The Holder has the knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Purchased Securities and has the ability to bear the economic risks of an investment in the Purchased Securities.

3.6. The Holder understands that, until all of the applicable provisions of Section 3.7 hereof are satisfied, any certificates representing the Purchased Securities will bear a restrictive legend in substantially the following form:

"THE OFFER, ISSUANCE AND SALE OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE (AND ANY SECURITIES THAT MAY BE ISSUED UPON EXERCISE OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS, AND IN THE CASE OF A TRANSACTION EXEMPT FROM REGISTRATION (OTHER THAN PURSUANT TO RULE 144(b)(1), PROVIDED THAT THE COMPANY HAS RECEIVED CUSTOMARY REPRESENTATIONS CERTIFYING AS TO THE AVAILABILITY OF SUCH RULE 144(kb(1)), UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS."

3.7. Promptly following the earlier of (i) effectiveness of a registration statement under the Securities Act with respect to the sale of Purchased Securities or (ii) Rule 144(b)(1) becoming available, the Company shall (A) deliver to the transfer agent for the Company Shares (the **"Transfer Agent"**) irrevocable instructions that the Transfer Agent shall reissue a certificate representing the Warrant Shares without legends upon receipt by such Transfer Agent of: (a) the legended certificates for such Warrant Shares; and (b) either (1) a customary written representation by the Holder that Rule 144(b)(1) applies to the Warrant Shares represented thereby or (2) a written statement by the Company that the Holder may sell the Warrant Shares represented thereby in accordance with the Plan of Distribution contained in a registration statement that was declared effective under the Securities Act (the date on which the Transfer Agent receives all of the items listed in clauses (a), and (b) above, the **"Legend Removal Date"**), and (B) if required by the Transfer Agent, cause its counsel to deliver to the Transfer Agent one or more opinions to the effect that the removal of such legends in such circumstances may be effected under the Securities Act. From and after the Legend Removal Date, upon the Holder's written request, the Company shall promptly cause certificates evidencing the Holder's Warrant Shares referred to in such written request to be replaced with certificates which do not bear such restrictive legends, and Warrant Shares subsequently issued upon due exercise of the Warrants shall not bear such restrictive legends, provided the provisions of clauses (a) and (b) above, as applicable, are satisfied with respect to such Warrant Shares.

4. **Exemption from Registration**. The Holder understands that the Purchased Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of the Securities Act, the rules and regulations thereunder and state securities laws and that the Company is relying upon the truth and accuracy of, and the Holder's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Holder set forth herein in order to determine the availability of such exemptions and the eligibility of the Holder to acquire the Purchased Securities.

5. **Transfer**

5.1. Subject to the restrictions on transfer provided herein and subject to Sections 3.6 and 3.7, this Warrant shall be transferable, in whole or in part, at the discretion of the Holder and the Company shall transfer this Warrant, in whole or in part, from time to time upon the books to be maintained by the Company for that purpose, upon surrender thereof for transfer accompanied by appropriate instructions for transfer and such other documents as may be reasonably required by the Company, including, if required by the Company, an opinion of its counsel to the effect that such transfer is exempt from the registration requirements of the Securities Act, to establish that such transfer is being made in accordance with the terms hereof, and a new Warrant(s) shall be issued to the transferee(s) and the surrendered Warrant shall be canceled by the Company.

5.2. The Company will maintain a register containing the names and addresses of the Holder(s) of this Warrant. Until any transfer of this Warrant is made in the warrant register, the Company may treat the Holder of this Warrant as the absolute owner hereof for all purposes. Any Holder may change such Holder's address as shown on the warrant register by written notice to the Company requesting such change.

6. **No Impairment**. The Company will not, by amendment of its charter documents or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, sale of assets, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7. **Termination**. This Warrant and the right to purchase securities upon exercise hereof shall terminate on 5:00 P.M. Eastern Time on the third anniversary of the Closing Date.

8. **Notices of Certain Transactions**. In case:

8.1. the Company shall take a record of the holders of its Company Shares (or other shares or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of any class or any other securities, or to receive any other right, to subscribe for or purchase any shares of any class or any other securities, or to receive any other right, or

8.2. of any capital reorganization of the Company, any reclassification of the share capital of the Company, any Liquidity Event, or

8.3. of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, or

8.4. of a public offering of the Company Shares pursuant to an effective registration statement under the Securities Act or the equivalent actions under the laws of another jurisdiction,

then, and in each such case, the Company will deliver to the Holder a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the estimated effective date on which such reorganization, reclassification, Liquidity Event, dissolution, liquidation or winding up is to take place, and the time, if any is to be fixed, as of which the holders of record of Company Shares (or such other shares or securities at the time deliverable upon such reorganization, reclassification, Liquidity Event, dissolution, liquidation or winding up) are to be determined. Such notice shall be delivered ten (10) days prior to the record date or estimated effective date for the event specified in such notice.

9. **Reservation of Shares**. The Company will at all times reserve and keep available, solely for the issuance and delivery upon the exercise of this Warrant, such Warrant Shares and other shares, securities and property, as from time to time shall be issuable upon the exercise of this Warrant.

10. **Registration Rights**.

10.1. The Company covenants and agrees that the Holder shall be entitled to registration rights pursuant to the Registration Rights Agreement of even date hereof, in respect of the Warrant Shares purchasable hereunder (and any shares issued as (or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, such Warrant Shares), and the Warrant Shares shall be deemed to be Registrable Securities and Original Registrable Securities thereunder.

10.2. The Holder undertakes to be bound by the provisions of Section 9 of the Registration Rights Agreement of even date hereof, with respect to prohibitions to offer or sale any Warrant Shares (or any other shares exchanged therefor), if and to the extent that this Warrant has been exercised. For the purpose of this sub-section 10.2 the Holder shall be considered a "Holder"" and the Warrant Shares shall be considered "Registrable Securities", all as defined in the Registration Rights Agreement.

11. **Replacement of Warrants**. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor, dated as of the date hereof. This Warrant is exchangeable, without expense, at the option of the Holder, upon presentation and surrender hereof to the Company or at the office of its stock transfer agent, if any, for other warrants of different denominations entitling the holders thereof to purchase in the aggregate the same number of Warrant Shares purchasable hereunder.

12. **Notices.** Any notice required or permitted by this Warrant shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, or forty-eight (48) hours after being deposited in the regular mail as certified or registered mail (airmail if sent internationally) with postage prepaid, addressed (a) if to the Holder, to the address of the Holder most recently furnished in writing to the Company and (b) if to the Company, to the address set forth below or subsequently modified by written notice to the Holder.

12.1. If to Holder: to the address set forth on the signature page

12.2. If to Company: **RADA Electronics Industries** Ltd.
7 Giborei Israel St.. Netanya 4250407, Israel
Attention: Chief Executive Officer
Telephone No.: (972)-(9)- 892111
Facsimile No.: (972)-(9)- 8855885
Email: Zvika.alon@rada.com

Each of the above addressees may change its address for purposes of this Section by giving to the other addressees notice of such new address in conformance with this paragraph.

13. **No Rights as Shareholder**. The Holder shall not have any rights as a shareholder of the Company with regard to the Warrant Shares prior to the exercise of this Warrant, and then with respect to such Warrant Shares purchasable upon such exercise.

14. **No Fractional Interest**. No fractional shares will be issued in connection with any exercise hereunder, but in lieu of such fractional shares which would otherwise be issuable the number of shares shall rounded to the nearest whole number.

15. **Entire Agreement**. This Warrant constitutes the entire agreement between the parties hereto with regard to the subject matters hereof, and supercedes any prior communications, agreements and/or understandings between the parties hereto with regard to the subject matters hereof.

16. **Amendment or Waiver**. This Warrant may be amended only by a written instrument signed by the Company and the Holder. Any term of this Warrant may be waived only by an instrument in writing signed by the party against which enforcement of the waiver is sought.

17. **Successors**. All the covenants and provisions hereof by or for the benefit of the Holder shall bind and inure to the benefit of its respective successors and assigns hereunder.

18. **Governing Law; Jurisdiction**. This Warrant shall be governed by and construed in accordance with the laws of the State of Israel, without giving effect to principles of conflicts of law. The parties hereby submit any dispute arising under or in relation to this Warrant to the exclusive jurisdiction of the competent court for the District of Tel Aviv-Jaffa.

19. **Headings**. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

20. **Counterparts**. This Warrant may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart and that signatures may be provided by facsimile transmission.

- Signature page follows -

This **WARRANT TO PURCHASE ORDINARY SHARES OF RADA ELECTRONICS INDUSTRIES LTD.** is executed as of the date first set forth above.

RADA ELECTRONICS INDUSTRIES LTD.

By: _____
Name:
Title:

Acknowledged and Agreed to:

DBSI INVESTMENTS LTD.

By: _____
Name:
Title:

Address:

Telephone No:
Facsimile No.:

With a mandatory copy to:
Meitar Liquornik Geva Leshem Tal
16 Abba Hillel Road Ramat Gan 52506 Israel
Attention: Asaf Harel, Advocate
Telephone No.: (972)-(3)-610-3100
Facsimile No.: (972)-(3)-6103-111

Confidential

NOTICE OF EXERCISE

To: RADA Electronics Industries Ltd. **Date: [_____ __, 201_]**

The undersigned, pursuant to the provisions set forth in the attached **WARRANT TO PURCHASE ORDINARY SHARES OF RADA ELECTRONICS INDUSTRIES LTD.** hereby irrevocably elects to:

❑ purchase _____ Company Shares covered by such Warrant and herewith makes payment of $ _____, representing the full purchase price for such shares at the price per share provided for in such Warrant (as adjusted from time to time pursuant to the terms of this Warrant), or

Please issue a certificate representing the Warrant Shares in the name of the undersigned or as otherwise indicated below, and if the number of Warrant Shares shall not be all the Warrant Shares purchasable upon exercise of the Warrant, that a new Warrant for the balance of the Warrant Shares purchasable upon exercise of this Warrant be registered in the name of the undersigned or as otherwise indicated below and delivered to the address stated below:

Name:
Address:
ID or Social Security No.:

_____ _____
(Date) (Print Name)

_____
(Signature)

Exhibit 8.1

LIST OF SIGNIFICANT SUBSIDIARIES

Beijing Huarui Aircraft Components Maintenance and Services Co., an 80%-owned subsidiary organized in China.

Exhibit 12.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Zvi Alon, certify that:

1. I have reviewed this annual report on Form 20-F of RADA Electronic Industries Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: May 16, 2016

/s/Zvi Alon *
Zvi Alon
Chief Executive Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

Exhibit 12.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Shiri Lazarovich, certify that:

1. I have reviewed this annual report on Form 20-F of RADA Electronic Industries Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: May 16, 2016

/s/Shiri Lazarovich *
Shiri Lazarovich
Chief Financial Officer

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

Exhibit 13.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of RADA Electronic Industries Ltd. (the "Company") on Form 20-F for the period ending December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Zvi Alon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/Zvi Alon *
Zvi Alon
Chief Executive Officer

Dated: May 16, 2016

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

Exhibit 13.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of RADA Electronic Industries Ltd. (the "Company") on Form 20-F for the period ending December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shiri Lazarovich, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/Shiri Lazarovich*
Shiri Lazarovich
Chief Financial Officer

Dated: May 16, 2015

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.