RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

U.S. DOLLARS IN THOUSANDS

INDEX

Kost Forer Gabbay & Kasierer
2 Pal-Yam Blvd. Brosh Bldg.
Haifa 3309502, Israel
Tel: 972 (4)8654000
Fax: 972 (3)5633439
www.ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

RADA ELECTRONIC INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheets of RADA Electronic Industries Ltd. ("the Company") and its subsidiary as of December 31, 2014 and 2013 and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014. 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, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiary as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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
April 29, 2015

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2014	**2013**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,786	$ 2,137
Restricted deposits	349	1,033
Trade receivables (net of allowance for doubtful accounts of $24 and $36 at December 31, 2014 and 2013)	3,455	4,890
Costs and estimated earnings in excess of billings on uncompleted contracts	2,657	2,031
Other accounts receivable and prepaid expenses	428	412
Inventories	6,651	6,798
Total current assets	15,326	17,301
LONG-TERM RECEIVABLES AND OTHER DEPOSITS	1,394	1,133
PROPERTY, PLANT AND EQUIPMENT, NET	2,790	2,986
GOODWILL	587	587
Total assets	$ 20,097	$ 22,007

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

	December 31, 2014	December 31, 2013
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank credit	$ 1,589	$ 1,887
Trade payables	1,315	2,909
Convertible Note and Loans from shareholders, net	8,120	8,307
Other accounts payable and accrued expenses	4,267	4,350
Total current liabilities	15,291	17,453
LONG-TERM LIABILITIES:		
Accrued severance pay and other long term liability	634	569
Total long-term liabilities	634	569
COMMITMENTS AND CONTINGENT LIABILITIES		
EQUITY:		
Share capital -		
Ordinary shares of NIS 0.015 par value each - Authorized: 16,333,333 shares at December 31, 2014 and 2013; Issued and outstanding: 8,988,396 and 8,918,647 shares at December 31, 2014 and December 31, 2013 respectively	119	119
Additional paid-in capital	70,884	70,884
Accumulated other comprehensive income	536	547
Accumulated deficit	(67,992)	(68,200)
Total RADA Electronic Industries shareholders' equity	3,547	3,350
Non-controlling interest	625	635
Total equity	4,172	3,985
Total liabilities and equity	$ 20,097	$ 22,007

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,		
	2014	2013	2012
Revenues:			
Products	$ 20,927	$ 20,443	$ 20,073
Services	1,554	1,318	1,478
	22,481	21,761	21,551
Cost of revenues:			
Products	15,124	16,487	15,453
Services	820	673	780
	15,944	17,160	16,233
Gross profit	6,537	4,601	5,318
Operating costs and expenses:			
Research and development, net	789	1,459	2,423
Marketing and selling	2,392	1,959	1,664
General and administrative	1,901	1,919	2,137
Total operating costs and expenses	5,082	5,337	6,224
Operating income (loss)	1,455	(736)	(906)
Financial expenses, net	1,254	1,907	1,149
Net income (loss)	201	(2,643)	(2,055)
Less: Net loss attributable to non-controlling interest	7	8	4
Net income (loss) per share attributable to RADA Electronic Industries' shareholders:	208	(2,635)	(2,051)
Net income (loss) attributable to RADA Electronic Industries' shareholders			
Basic and diluted net income (loss) per Ordinary share	$ 0.02	$ (0.30)	$ (0.23)
Weighted average number of Ordinary shares used for computing basic and diluted net income (loss) per share	8,944,803	8,918,647	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,		
	2014	**2013**	**2012**
Net income (loss)	$ 201	$ (2,643)	$ (2,055)
Less: Net loss attributable to non-controlling interest	7	8	4
Net income (loss) attributable to RADA Electronic Industries' shareholders	$ 208	$ (2,635)	$ (2,051)
Other Comprehensive Income:			
Change in foreign currency translation adjustment	$ (14)	$ 99	$ 32
Less: other comprehensive income (loss) attributable to non-controlling interest	(3)	20	7
Other comprehensive income (loss) attributable to RADA Electronic Industries' shareholders	$ (11)	$ 79	$ 25
Comprehensive income (loss)	$ 197	$ (2,544)	$ (2,023)
Less: comprehensive Income (loss) attributable to non-controlling interest	(10)	12	3
Comprehensive income (loss) attributable to RADA Electronic Industries' shareholders	$ 207	$ (2,556)	$ (2,026)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' 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 1,2012	8,918,647	119	70,176	443	(63,514)	620	7,844
Issuance of warrants to shareholders			708				708
Other comprehensive income				25		7	32
Net loss					(2,051)	(4)	(2,055)
Balance at December 31, 2012	8,918,647	119	70,884	468	(65,565)	623	6,529
Other comprehensive income				79		20	99
Net loss					(2,635)	(8)	(2,643)
Balance at December 31, 2013	8,918,647	119	70,884	547	(68,200)	635	3,985
Other comprehensive income				(11)		(3)	(14)
Cashless Warrants exercise	69,749	(*)	-(*)				-
Net income (loss)					208	(7)	201
Balance at December 31, 2014	8,988,396	119	70,884	536	(67,992)	625	4,172

(*) 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,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ 201	$ (2,643)	$ (2,055)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	690	752	897
Amortization of discount on convertible note and loans	43	489	516
Severance pay, net	(15)	50	19
Decrease in trade receivables, net	1,435	491	1,539
Decrease (increase) in other accounts receivable and prepaid expenses	13	484	(337)
Grants received from Chief Scientist's Office (OCS)	-	15	142
Increase in unbilled receivables	(599)	(236)	(943)
Decrease in inventories	111	449	325
Increase (decrease) in trade payables	(1,594)	981	(463)
Increase (decrease) in other accounts payable and accrued expenses	(163)	600	(392)
Net cash provided by (used in) operating activities	122	1,432	(752)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(328)	(370)	(688)
Increase (decrease) in deposits	2	3	(3)
Change in restricted deposits	392	282	472
Net cash provided by (used in) investing activities	66	(85)	(219)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2014	**2013**	**2012**
Cash flows from financing activities:			
Proceeds from- loans from shareholders, net of issuance expenses	1,000	850	3,998
Repayment of long term loan from shareholders	-	-	(2,229)
Short-term bank credit, net	(298)	(1,285)	(761)
Repayment of short term loan from shareholders	(1,230)	-	-
Net cash provided by (used in) financing activities from continuing operations	(528)	(435)	1,008
Effect of exchange rate changes on cash and cash equivalents	(11)	61	20
Increase (decrease) in cash and cash equivalents	(351)	973	57
Cash and cash equivalents at the beginning of the year	2,137	1,164	1,107
Cash and cash equivalents at the end of the year	$ 1,786	$ 2,137	$ 1,164

	Year ended December 31,		
	2014	**2013**	**2012**
(b) Supplemental disclosures of cash flow activities:			
Net cash paid during the year for:			
Income taxes	$ 35	$ 14	$ 84
Interest	$ 57	$ 180	$ 304
(c) Non-cash transactions			
Transfer of inventory to property, plant and equipment	$ 37	$ 25	$ 58
Purchase of property, plant and equipment in credit	$ 144	$ 11	$ 31

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

a. RADA Electronic Industries Ltd. ("the Company") is an Israel - 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, or 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. As reflected in the consolidated financial statements as of December 31, 2014, the Company has an accumulated deficit of $67,992. Based on existing and anticipated orders in 2015 and the Company's current credit facilities, management believes that the anticipated cash flows from operations and liquidity resources will enable the Company to finance its operations at least through December 31, 2015.

On April 16, 2015 the Company's shareholders have approved an outline for the repayment of the Company's debts to its lenders. Pursuant to the outline, The Company intends to offer new Ordinary Shares in a registered public offering in order to raise up to approximately US$ 13 million (the "Offering"). In the event that by September 30, 2015 the Offering or the Private Placement is not completed, or if the net proceeds of the Offering or the Private Placement are insufficient to repay the debts in full, the lenders shall be entitled to convert some or all of the remaining debts.

The terms of the conversion were also agreed and are as follows: (i) the minimum amount to be converted at any one time is US$300,000 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 16.

On April 27, 2015, the standstill agreement was further amended and the termination of the forbearance period has 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 $7.5M on account of the Debt. Pursuant to such recent amendment, the default interest payable, as of and after February 1, 2015 on all outstanding principal amounts is Libor + 9% (see also Note 8).

c. 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 "subsidiary"). CACS was established with a Chinese third party, which owns the remaining 20% equity interest.

d. Revenues from major customers accounted for 78%, 81% and 68% of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 15c).

U.S. dollars in thousands

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:

Most 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. 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 component of accumulated other comprehensive income (loss) in shareholders' 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Reclassification:

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation Withholding tax expenses were reclassified from general and administrative to net financial expenses .This reclassification did not impact total assets, total liabilities, shareholders' equity, and results of operations and cash flows.

e. 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.

f. 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. The deposits are in U.S. dollars and bear a variable interest of up to 1.5%.

g. 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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. 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.

i. 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, 2014, 2013 and 2012, no impairment losses have been identified.

j. Goodwill

Goodwill represents excess of the costs over the net assets of businesses acquired. Under ASC 350, "Intangibles - Goodwill and other", goodwill acquired in a business combination should not be amortized. ASC 350 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written down when impaired.

ASC 350 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment while the second phase (if necessary) measures impairment. In the first phase of impairment testing, goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. The Company determines its fair value according to the Company's market capitalization and the goodwill was tested for impairment by comparing the fair market value with its carrying amount. As of December 31, 2014, no impairment indicators have been identified. As a result, step two was not required.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Research and development costs:

Research and development costs, net of participation grants, include costs incurred for research and development and are expensed as incurred.

The Company received royalty-bearing grants, from the Chief Scientist's Office of the Israeli Ministry of Industry, Trade and Labor ("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 10b).

l. 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, 2014 and 2013.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. 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, 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, 2014, 2013 and 2012 amounted to $674, $483 and $562, respectively.

n. 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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. 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, 2014 and 2013:

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivatives:				
Foreign currencies derivatives	$ -	$ 46	$ -	$ 46
Total	$ -	$ 46	$ -	$ 46

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. 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. 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.

The Company has no off-balance sheet credit risks.

p. 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.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income”, which is effective for annual reporting periods beginning after December 15, 2011. Accordingly, the Company adopted ASU 2011-05 on January 1, 2012. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders’ equity. Upon adoption of the new guidance, the Company elected to present a separate statement of consolidated comprehensive income.

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Comprehensive income (loss) (Cont.):

The total accumulated other comprehensive income, net was as follows:

	December 31, 2014	December 31, 2013
Accumulated foreign currency translation differences	$ 536	$ 547

The following table summarizes the changes in accumulated balances of other comprehensive income, net of taxes for the year ended December 31, 2014:

	Accumulated foreign currency translation differences	Total
Balance as of December 31, 2013	$ 547	$ 547
Current period other comprehensive income (loss)	(11)	(11)
Balance as of December 31, 2014	$ 536	$ 536

q. 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, 2014 and 2013.

r. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Revenue recognition (Cont.):

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, 2014 and 2013, the provision for estimated losses identified is $0 and $41, respectively.

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

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

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

Service revenues:

Revenues from services are recognized as the services are performed.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. 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, 2013 and 2012, all the outstanding options, convertible notes and warrants have been excluded from the computation of diluted net income (loss) per share, since their effect is anti-dilutive.

t. 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 cash flow hedge transactions) or recognized in other comprehensive income until the hedged item is recognized in earnings (for fair value 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, 2014 and December 31, 2013, the fair value of the outstanding forward contracts is $216 which was recorded in other accruals against financial expenses and $46 which was recorded in other receivables against financial income, respectively.

u. Recently Issued Accounting Standards

In May 2014, FASB issued comprehensive new revenue recognition guidance, (ASU 2014-09 - Revenue from Contracts with Customers (Topic 606) effectively replacing all current guidance on the topic. Given the significance of this pronouncement, the Company is currently in the process of reviewing the new standard and its potential impact on the Company. The new guidance is effective for the Company's consolidated financial statements beginning on January 1, 2017. The effects of the new guidance on the Company's statements of the financial position, results of operations and cash flows are still being assessed.

U.S. dollars in thousands

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:

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

	December 31,	
	2014	2013
Costs incurred on uncompleted contracts, net (*)	$ 18,417	$ 35,032
Estimated earnings	8,544	5,221
	26,961	40,253
Less - billings and progress payments	23,287	37,205
Costs and estimated earnings in excess of billings on uncompleted contracts	3,674	3,048
Less: Long-term portion	(1,017)	(1,017)
Costs and estimated earnings in excess of billings on uncompleted contracts - Current portion	$ 2,657	$ 2,031

(*) Net of OCS grants in the amount of $0 and $15 as of December 31, 2014 and 2013, respectively (see Note 10b).

NOTE 4:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2014	2013
Prepaid expenses	$ 279	$ 250
Government institutions	53	79
Derivative instruments	-	46
Advance payment to vendors	96	37
	$ 428	$ 412

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 5:- INVENTORIES

	December 31, 2014	December 31, 2013
Raw materials	$ 2,891	$ 3,833
Work in progress	2,394	2,157
Finished goods	1,366	808
	$ 6,651	$ 6,798

Write-offs of inventories for the years ended December 31, 2014, 2013 and 2012 amounted to $138, $313 and $72, respectively. The write-offs were due to slow-moving items and excess inventories and were recorded in cost of revenues.

NOTE 6:- LONG TERM RECEIVABLES AND DEPOSITS

	December 31, 2014	December 31, 2013
Costs and estimated earnings in excess of billings on uncompleted contracts (see Note 3)	$ 1,017	$ 1,017
Restricted deposits	330	38
Leasing deposits	47	78
	$ 1,394	$ 1,133

U.S. dollars in thousands

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT, NET

	December 31,	
	2014	2013
Cost:		
Factory building	$ 1,989	$ 1,989
Other buildings	1,366	1,371
Machinery and equipment (*)	9,530	9,095
Office furniture and equipment	435	411
Leasehold improvements	231	209
	13,551	13,075
Accumulated depreciation:		
Factory building	1,898	1,821
Other buildings	726	674
Machinery and equipment (*)	7,693	7,173
Office furniture and equipment	332	311
Leasehold improvements	112	110
	10,761	10,089
Depreciated cost	$ 2,790	$ 2,986

(*) Write-offs of machinery and equipment (cost and accumulated depreciation) for the years ended December 31, 2014, 2013 and 2012 amounted to $0, $333 and $3,502, respectively. The write-offs are due to fully depreciated assets that are no longer in use.

Depreciation expense amounted to $690, $752 and $742 for the years ended December 31, 2014, 2013 and 2012, respectively.

As for charges, see Note 10e.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 8:- BANK CREDIT AND LOANS

Current maturities

	December 31, 2014	December 31, 2013
Loan in U.S. dollars from shareholders (2,3,4,5)	$ 5,120	$ 5,307
Convertible note from controlling shareholder, net (1)	3,000	3,000
Bank credit (8)	1,589	1,887
	$ 9,709	$ 10,194

1. In December 2007, the Company issued a convertible note in the amount of $3,000 to its 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 for a term of five years. The principal was due on December 2010. During 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. The convertible note bears interest at a rate of six-month LIBOR + 3.5% which was 3.96% at December 31, 2010 and it is convertible into Ordinary shares at a conversion price of $2.09 per share. 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.

   As of December 31, 2014, the company did not repay the convertible note principal of $3,000. From January 2013 the loan bears default increased interest rate of LIBOR+7.5% (see also section 7 below).

2. In July 2008, the Company entered into a $1,500 loan agreement with its controlling shareholder. The loan bears interest of LIBOR+3% payable at the beginning of every quarter. During September 2012 an amendment to the finance agreement was signed, according to which, the controlling shareholder agreed to lend to the company $1,148 in addition to the then remaining unpaid loan amount of $352, to support the development efforts. 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 out of the open balance due was repaid. In August 2013 the Company and the controlling shareholder amended the loan agreement whereby an additional amount of $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 (see also section 7 below). The Company repaid the $350 in February 2014.

NOTE 8:- BANK CREDIT AND LOANS (Cont.)

3. In February 2012, in order to finance future operations, the Company entered into a $3,000 loan agreement with an entity affiliated with its controlling shareholder and another shareholder. The 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. During 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 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 principle amounts bears additional default interest rate of 5% (see also section 7 below).

   As part of this loan agreement, the Company issued 1,200,000 warrants at an exercise price of $2.5 per share exercisable for a term of three years. In September 2014, 120,000 warrants were exercised (see Note 11(c)). 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, is amortized over the term of the loan using the effective interest method pursuant to ASC 835.

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

5. In April 2014 the Company and the 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%, to be repaid by the Company by December 31, 2014.

6. As of December 31, 2014, the principle loans amounts to a total of $8,120 and were not yet repaid. Therefore, the loans were classified as a short term loans.

U.S. dollars in thousands

NOTE 8:- BANK CREDIT AND LOANS (Cont.)

7. In February 2013, the Company entered into a "standstill agreement" with its controlling shareholder and another shareholder ("the parties"), according to which those shareholders will not take any action, or otherwise exercise their rights, with respect to the collection of loans at least until January 31, 2014. According to the 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 in a year to January 31, 2015.

   On April 27, 2015, a second amendment was approved by the parties as follows: the termination of the forbearance period has 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 $7.5M on account of the debts (see also Note 16). Pursuant to such recent amendment, the default interest payable, as of and after February 1, 2015 on all outstanding principal amounts is Libor + 9%.

8. The Company has an annual line of bank credit of $1,000 out of which $930 was fully utilized as of December 31, 2014, and a line of credit for guarantees of approximately $1,134, out of which $479 was utilized as of December 31, 2014. In addition, the Company may secure borrowing with one of its banks against specific accounts receivables up to $2,250. As of December 31, 2014, the Company secured borrowings against specific accounts receivables in the amount of $659 (see also Note 10f).

   The annual average interest rate on the lines of credit is 3.023% at December 31, 2014.

   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

NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2014	December 31, 2013
Payroll and related accruals	$ 1,476	$ 1,895
Accrued expenses - subcontractors	1,433	1,053
Accrued expenses	486	607
Accrued commissions	-	434
Tax authorities	602	361
Derivatives Instruments	216	-
Others	54	-
	$ 4,267	$ 4,350

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

a. As of December 31, 2014, 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. The Company's total obligation for royalties, net of royalties paid or accrued, totaled approximately $1.5M as of December 31, 2014. The total amount of royalties charged to operations for the years ended December 31, 2014, 2013 and 2012 was approximately $18, $12 and $6, respectively. As of December 31, 2014, the company received total grants from the OCS in the amount of $5,545.

Research and development grants received from the OCS, amounted to $0, $15 and $142 in the years ended December 31, 2014, 2013 and 2012, respectively.

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

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. The Company's total obligation for royalties, net of royalties paid or accrued, totaled approximately $2,066 as of December 31, 2014. 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. No royalties were charged to operations for the years ended December 31, 2014, 2013 and 2012

U.S. dollars in thousands

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

d. The Company's offices in Netanya, Israel are rented under a non-cancelable operating lease expiring January 31, 2018. In addition, the Company's motor vehicles are rented under operating leases.

Annual minimum future rental commitments under these leases, at exchange rates in effect on December 31, 2014, are approximately as follows:

2015	$	549
2016		495
2017		412
2018		28
	$	1,484

Lease expense for the years ended December 31, 2014, 2013 and 2012 was $754, $747 and $791, 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, 2014 is approximately $479.

NOTE 11:- 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. (see also note 16).

b. Stock option plans:

In 2003, the Company's Board approved the adoption of Israeli Employee Stock Option Plan ("the Plan"), which authorized the grant of options to purchase up to an aggregate of 1,666,667 Ordinary shares (in 2006 the Company's Board approved an increase in the plan by an additional 500,000 options), respectively, 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. One third of the options granted under the Company's Plan vest immediately on the grant date and the remaining two thirds vest ratably over two years. Compensation expense is recognized by the straight-line method.

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

The exercise price of an option granted to an employee may not be less than 60% of the fair market value of the Ordinary shares on the date of grant of the option. The exercise price of an option granted to a non-employee director or consultant may not be less than 80% of the fair market value of the Ordinary shares on the date of grant of the option. Any options that are cancelled or forfeited before expiration become available for future grants. On December 31, 2014 and 2013, all outstanding options from prior years have been expired due to the plan expiry.

c. Warrants:

During February 2012, pursuant to 2012 loan agreement (Note 8(3)) the Company issued warrants to purchase 1,200,000 Ordinary shares at an exercise price of $2.5 per share for a term 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 to 69,749 Ordinary shares on a cashless basis as agreed in the warrants agreement. All other 1,080,000 warrants were expired on February 2015 due to the end of their contractual life.

NOTE 12:- TAXES ON INCOME

a. The Israeli corporate tax rate was 25% in 2012 and 2013 and 26.5% in 2014.

On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, increasing the corporate tax rate from 25% to 26.5% and cancelling the reduction in the tax rates applicable to privileged enterprises (9% in development area A and 16% elsewhere).

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

NOTE 12:- 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, 2014, the net operating tax loss carryforward relating to the Company in Israel amounted to approximately $ 61.8 million, including a carryforward capital loss amounting to approximately $ 3.4 million. 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 $ 16.7 million will not be utilized, the Company recorded a 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,	
	2014	2013
Net operating loss carry forward	$ 16,389	$ 16,926
Allowance and reserve	346	351
Total deferred tax assets before valuation allowance	16,735	17,277
Valuation allowance	(16,735)	(17,277)
Net deferred tax assets	$ -	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- TAXES ON INCOME (Cont.)

As of December 31, 2014 and December 31, 2013, 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.

The Company account for its income tax uncertainties in accordance with FASB ASC No. 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, 2014 and 2013, there were no unrecognized tax benefits that if recognized would affect the annual effective tax rate.

NOTE 13:- FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2014	**2013**	**2012**
Income:			
Foreign currency exchange differences	$ 208	$ 15	$ 166
Interest on cash equivalents and restricted deposits	5	12	18
Others	-	-	31
	(213)	(27)	(215)
Expenses:			
Interest on convertible note and loans from shareholders	708	729	376
Withholding taxes of Interest to convertible note and loans from shareholders	294	205	106
Amortization of discount on a convertible note and loans from shareholders	43	489	516
Foreign currency exchange differences	271	135	60
Interest on loans from banks and other credit balances	7	84	26
Bank commissions and others	144	292	280
	1,467	1,934	1,364
Financial Expenses, net	$ 1,254	$ 1,907	$ 1,149

U.S. dollars in thousands

NOTE 14:- RELATED PARTY BALANCE AND TRANSACTIONS

For the year ended December 31, 2014, the Company incurred $473 in respect of interest on loans received from its shareholders.

See also Notes 8 and 11c for transactions with the Company's shareholders.

NOTE 15:- 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,		
	2014	2013	2012
Israel	$ 5,005	$ 4,267	$ 5,329
Asia	6,604	5,466	4,594
North America	8,072	5,091	2,370
Latin America	2,731	6,798	8,943
Europe	69	139	315
Total	$ 22,481	$ 21,761	$ 21,551

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 15:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

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,		
	2014	2013	2012
		%	
Customer A	5	1	5
Customer B	10	12	11
Customer C	-	11	9
Customer D	16	20	32
Customer E	2	2	11
Customer F	22	17	6
Customer G	13	17	5
Customer H	10	-	-

d. Long-lived assets by geographic areas:

	December 31,	
	2014	2013
Israel	$ 2,820	$ 2,930
China	557	644
	$ 3,377	$ 3,574

U.S. dollars in thousands

NOTE 16:- SUBSEQUENT EVENTS:

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

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

b. An outline for the repayment of the Company's debts to its shareholders, pursuant to which the Company will offer new Ordinary Shares in a registered public Offering in order to raise up to approximately US$ 13 million:

1. The lenders will have the right to participate in the Offering on the same terms as the underwriter or placement agent for the Offering will establish.

2. In the event that by September 30, 2015 the Offering is not completed, or if the net proceeds of the Offering are insufficient to repay the debts in full, the lenders shall be entitled to convert some or all of the remaining debt into the Company's ordinary shares. The terms of the Conversion were also agreed and are as follows: (i) the minimum amount to be converted at any one time is US$300,000 of Debt; (ii) the share issue price will be the lower of $1.00 or 15% below the preceding 7 days VWAP; and (iii) any unconverted debt will continue to be subject to the terms of the extended standstill agreement.

c. Following the approval of the Company's shareholders, the standstill agreement was further amended and the termination of the forbearance period has been extended as further details in Note 8, section 7 above.