Exhibit 99.1

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2016

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INDEX

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

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

	June 30, 2016 Unaudited	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,067	$ 1,754
Restricted deposits	602	609
Trade receivables (net of allowance for doubtful accounts of $10 at June 30, 2016 and December 31, 2015)	2,932	4,038
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 4)	2,184	2,207
Other accounts receivable and prepaid expenses	498	206
Inventories (Note 5)	7,042	6,565
Total current assets	15,325	15,379
LONG-TERM RECEIVABLES AND OTHER DEPOSITS	57	119
PROPERTY, PLANT AND EQUIPMENT, NET	3,074	3,078
Total assets	$ 18,456	$ 18,576

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

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

	June 30, 2016 Unaudited	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank credit	$ 1,322	$ 2,416
Trade payables	1,289	1,961
Convertible Note and Loans from shareholders, net (Note 7)	102	1,634
Other accounts payable and accrued expenses	2,858	2,846
Total current liabilities	5,571	8,857
LONG-TERM LIABILITIES:		
Convertible Note and Loans from shareholders, net (Note 7)	3,052	-
Accrued severance pay and other long term liability	671	660
Total long-term liabilities	3,723	660
EQUITY:		
Share capital (Note 9) -		
Ordinary shares of NIS 0.015 par value - Authorized: 75,000,000 shares at June 30, 2016 and 30,000,000 shares at December 31, 2015; Issued and outstanding: 32,920,241 at June 30, 2016 and 15,898,965 at December 31, 2015, respectively.	213	146
Additional paid-in capital	85,961	82,427
Accumulated other comprehensive income	329	387
Accumulated deficit	(77,874)	(74,453)
Total RADA Electronic Industries shareholders' equity	8,629	8,507
Non-controlling interest	533	552
Total equity	9,162	9,059
Total liabilities and equity	$ 18,456	$ 18,576

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

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

	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues:		
Products	$ 4,479	$ 6,498
Services	1,102	1,226
	5,581	7,724
Cost of revenues:		
Products	4,823	5,823
Services	454	584
	5,277	6,407
Gross profit	304	1,317
Operating costs and expenses:		
Research and development,	316	399
Marketing and selling	1,060	1,086
General and administrative	950	832
Total operating costs and expenses	2,326	2,317
Operating loss	(2,022)	(1,000)
Extinguishment and amortization of shareholders' convertible loans discount and beneficial conversion feature	1,096	1,223
Other financial expenses, net	307	559
Total financial expenses, net (Note 10)	1,403	1,782
Net loss	(3,425)	(2,782)
Less: Net loss attributable to non-controlling interest	(4)	(4)
Net loss attributable to Rada Electronic Industries' shareholders	$ (3,421)	$ (2,778)
Basic and Diluted net loss per Ordinary share	$ (0.12)	$ (0.31)
Weighted average number of Ordinary shares used for computing basic and diluted net loss per share	28,992,254	8,988,396

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

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

	Six months ended June 30,	
	2016	**2015**
Net loss	$ (3,425)	$ (2,782)
Other comprehensive loss, net:		
Change in foreign currency translation adjustment	(73)	19
Total comprehensive loss	(3,498)	(2,763)
Less: comprehensive income (loss) attributable to non-controlling interest	(19)	-
Comprehensive income (loss) attributable to RADA ElectronicIndustries' shareholders	$ (3,479)	$ (2,763)

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

CONDENSED INTERIM 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 (loss)	Accumulated deficit	Non controlling interest	Total equity
Balance at January 1, 2015	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 7)	-	-	4,140	-	-	-	4,140
Net loss	-	-	-	-	(6,461)	(36)	(6,497)
Other comprehensive loss	-	-	-	(149)	-	(37)	(186)
Balance at December 31, 2015	15,898,965	$ 146	$ 82,427	$ 387	$ (74,453)	$ 552	$ 9,059
Beneficial conversion feature related to convertible loans from shareholders (Note 7)	-	-	123	-	-	-	123
Extinguishment of convertible loan	-	-	(359)	-	-	-	(359)
Share-based compensation to employees			5	-	-	-	5
Issuance of shares and warrants, net of issuance costs of $169	17,021,276	$ 67	3,765	-	-	-	3,832
Net loss	-	-	-	-	(3,421)	(4)	(3,425)
Other comprehensive loss	-	-	-	(58)	-	(15)	(73)
Balance at June 30, 2016 (unaudited)	32,920,241	$ 213	$ 85,961	$ 329	$ (77,874)	$ 533	$ 9,162

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows from operating activities:		
Net loss	$ (3,425)	$ (2,782)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	302	338
Extinguishment and amortization expenses related to beneficial conversion feature of convertible loans	1,096	1,223
Severance pay, net	25	58
Share-based compensation to employees	5	-
Decrease (increase) in trade receivables, net	1,106	(995)
Increase in other accounts receivable and prepaid expenses	(299)	(173)
Decrease in costs and estimated earnings in excess of billings, net	23	850
Increase in inventories	(490)	(48)
Increase (Decrease) in trade payables	(702)	711
Increase (Decrease)in other accounts payable and accrued expenses	(2)	413
Net cash used by operating activities	(2,361)	(405)
Cash flows from investing activities:		
Change in restricted cash, net	71	-
Purchase of property, plant and equipment	(253)	(144)
Increase (decrease) in long-term receivables and deposits	6	(11)
Net cash used in investing activities	(176)	(155)
Cash flows from financing activities:		
Proceeds from (repayment of) short-term bank credit, net	(1,094)	341
Repayments of shareholder convertible loan	(2,988)	-
Issuance of shares and warrants, net	3,832	-
Proceeds from shareholder convertible loan	3,175	-
Net cash provided by financing activities	2,925	341
Effect of exchange rate changes on cash and cash equivalents	(75)	8
Increase (decrease) in cash and cash equivalents	313	(211)
Cash and cash equivalents at the beginning of the period	1,754	1,786
Cash and cash equivalents at the end of the period	$ 2,067	$ 1,575

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Six months ended June 30, 2016	Six months ended June 30, 2015
(a) Supplemental disclosures of cash flow activities:		
Net cash paid during the period for income taxes	$ 8	$ 8
Net cash paid during the period for interest	$ 273	$ 22
(b) Non-cash transactions		
Purchase of property, plant and equipment in credit	$ 30	$ 6
Transfer of inventory to property, plant and equipment	$ 13	$ 260

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

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 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.

The Company is organized and operates as one operating segment.

b. Revenues from major customers accounted for 46% and 64% of total revenues for the six month periods ended June 30, 2016 and 2015, respectively (see Note 11c).

c. Liquidity and Capital Resources:

Since incorporation, the Company incurred an accumulated deficit of $77,874.

On May 15, 2016, the Company's shareholders approved an investment transaction with a new investor (the "Investor") according to which the investor has become a controlling shareholder of the Company and the Company issued 17,021,276 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 have also issued to the Investor, 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").

NOTE 1:- GENERAL (Cont.)

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.

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

As of June 30, 2016 , the Company's cash position (cash and cash equivalents) totaled approximately $2,067. 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 and to support its operations into the third quarter of 2017.

NOTE 2:- UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Article 10 of U.S. Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments except as otherwise discussed) considered necessary for a fair presentation have been included

Operating results for the three and six month periods ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these unaudited interim condensed consolidated financial statements are identical to those applied in the preparation of the latest annual financial statements of the Company as of December 31, 2015, set forth in the Company's Annual Report on Form 20-F as filed with the U.S. Securiteis and Exchange Commission on May 16, 2016, except for the following:

a. Accounting for share-based compensation:

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

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

	Six months ended June 30, 2016	Six months ended June 30, 2015
Dividend yield	0%	-
Risk-free interest rate	1.17%	-
Expected term (in years)	4.5	-
Volatility	76.13%	-
Forfeiture rate	10%	-

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

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

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

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

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

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Recently Issued Accounting Standards:

ASU 2016-09 - Stock Compensation (Topic 718):
In March 2016, the FASB issued ASU 2016-9, “Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting”. This guidance simplifies various aspects related to how share-based payments are accounted for and presented in the financial statements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606):
In April 2016, the FASB issued ASU 2016-10, which clarifies the implementation guidance on identifying promised goods or services and on determining whether an entity's promise to grant a license with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The guidance is effective for the interim and annual periods beginning on or after December 15, 2017, or January 1, 2018, for the Company (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.

NOTE 4:- CONTRACTS IN PROGRESS

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

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

	June 30, 2016 Unaudited	December 31, 2015
Costs incurred on uncompleted contracts	$ 20,032	$ 19,167
Estimated earnings	6,755	6,465
	26,787	25,632
Less - billings and progress payments	24,603	23,425
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,184	$ 2,207

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

NOTE 5:- INVENTORIES

	June 30, 2016	December 31, 2015
	Unaudited	
Raw materials and components	$ 3,030	$ 3,169
Work in progress, net *)	2,763	2,087
Finished goods	1,249	1,309
	$ 7,042	$ 6,565

*) Net of provision for losses on long-term contracts as of June 30, 2016 and December 31, 2015, in the amount of $27 and $27, respectively.

NOTE 6:- 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.

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.

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

NOTE 6:- FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

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 measured at fair value on a recurring basis at June 30, 2016 and 2015:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Derivatives:				
Foreign currencies derivatives	$ -	$ 3	$ -	$ 3
Total	$ -	$ 3	$ -	$ 3

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Derivatives:				
Foreign currencies derivatives	$ -	$ 56	$ -	$ 56
Total	$ -	$ 56	$ -	$ 56

NOTE 7:- BANK CREDIT AND LOANS

A. Loans and convertable note from shareholders:

	June 30, 2016	December 31, 2015
	Unaudited	
Convertible note from shareholders	$ 3,277	$ 3,090
Less: debt discount	(123)	(1,456)
	$ 3,154	$ 1,634

In May 2016, as part of the investment transaction (see Note 1c), 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.

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

NOTE 7:- BANK CREDIT AND LOANS (Cont.)

A. Lons and convertable note from shareholders (Cont.):

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

The convertible loan bears interest of LIBOR+6%, which shall be paid on a quarterly basis.

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.

The Company accounted for the repayment of the then outstanding loan as extinguishment of convertible debt instrument with beneficial conversion feature in accordance with ASC 470-20-40-3. As a result, the Company recorded the amount of the requisition price to be allocated to the repurchase of the beneficial conversion feature in the amount of $359 against additional-paid-in capital and recognized a loss from extuinguishment of $37. In addition, the Company recorded a beneficial conversion feature related to the June 2016 convertible loan as debt discount in the amount of $123. The discount is amortized over the term of the convertible loan using the interest method.

B. Bank Credit:

	June 30, 2016	December 31, 2015
	Unaudited	
Bank Credit	$ 1,322	$ 2,416

The Company has an annual line of bank credit of $750 which was fully utilized as of June 30, 2016, and a line of credit for customers performance guarantees of approximately $625. As of June 30, 2016 the Company utilized $646.

In addition, the Company may secure borrowing with one of its banks against specific accounts receivables of up to $2,250. As of June 30, 2016, the Company secured borrowings against specific accounts receivables in the amount of $546 and short term loan of $26.

The annual average interest rate on the lines of credit is 3.5% at June 30, 2016.

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

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

a. The Company's research and development efforts have been partially financed through royalty-bearing programs sponsored by the Office of the Chief Scientist of Israel ("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 June 30, 2016, 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 priode ended June 30, 2016 and 2015 was approximately $50 and $28, respectively. As of June 30, 2016, the Company's contingent liability for royalties, net of royalties paid or accrued, totaled approximately $1,471. Research and development grants received from the OCS, amounted to $0, $0 in the period ended June 30, 2016 and 2015, respectively.

b. 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 June 30, 2016, 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 six month periods ended June 30, 2016 and 2015.

c. 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.

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

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Annual minimum future rental commitments under these leases, at exchange rates in effect on June 30, 2016, are approximately as follows:

2017	$ 621
2018	338
2019	39
	$ 998

Lease expense for the six months periods ended June 30, 2016 and 2015, were $330 and $354, respectively.

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

e. The Company provides bank guarantees to its customers and others in the ordinary course of business. The guarantees which are provided to customers are to secure advances received at the commencement of a project or to secure performance of operational milestones. The total amount of bank guarantees provided to customers and others as of June 30, 2016, is approximately $646.

NOTE 9:- SHAREHOLDERS' EQUITY

a. Equity transactions:

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.

On May 15, 2016, the Company's shareholders approved an investment transaction with a new investor according to which the investor became a controlling shareholder of the Company and the Company issued 17,021,276 Ordinary shares and Warrants (see Note 9c), in consideration for the aggregate amount of approximately $4,000.

b. Stock option plans:

In April 2015, the Company's Board of Directors approved the adoption of 2015 Share 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).

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

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

In June 2016, the Company granted options to certain employees and officers of the Company, to purchase a total 1,968,750 Ordinary shares at an exercise price of $0.45 per share. The options will vest as follows: 25% of the options granted to each employee will vest in June 2017, additional 75% shall vest in three equal annual installments of 25% each. These option shall be exercisable for 48 months following the date of the vesting.

As of June 30, 2016, 1,031,250 options are available for future grant under the Plan.

A summary of the Company's activity for options granted to employees and directors under its 2016 incentive option plan is as follows:

	Six months ended June 30, 2016 (Unaudited)		
	Number of options	Weighted average exercise price	Aggregate Intrinsic Value Price
Outstanding at the beginning of the period	-	$ -	
Granted	1,968,750	0.45	
Exercised	-	-	
Forfieted	-	-	
Outstanding at the end of the period	1,968,750	$ 0.45	$ 237
Exercisable	-	-	-
Vested and expected to vest	1,771,875	$ 0.45	$ 230

Intrinsic value of exercisable options (the difference between the Company's closing share price on the last trading day in the period and the exercise price, multiplied by the number of in-the-money options) represents the amount that would have been received by the employees and directors option holders had all option holders exercised their options on June 30, 2016. This amount changes based on the fair market value of the Company's Ordinary share.

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

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

During the six month periods ended June 30, 2016, the Company recognized stock-based compensation expense related to employees and directors stock options in the amount of $5, as follows:

	Six months ended June 30, 2016	Six months ended June 30, 2015
	Unaudited	Unaudited
Cost of revenues	3	-
Marketing and selling	1	-
General and administrative	1	-
	5	-

Unamortized compensation expenses related to employees and directors stock options to be recognized over an average time of approximately 3.5 years is approximately $543.

c. Warrants:

On May 18, 2016, the Company issued to the Investor (see Note 1c), 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.

On May 18, 2016, as part of the investment transaction, the Company issued to a consultant, 1,021,276 warrants to purchase Ordinary shares at an exercise price per Ordinary share of $0.235 (resulting in an aggregate exercise price of $240), exercisable for a period of 18 months following the date of the Initial Investment.

The Company's outstanding warrants as of June 30, 2016, are as follow:

Issuance date	Outstanding and exercisable	Excersice price	Exercisable through
May 18, 2016	8,510,638	0.235	May 18, 2018
May 18, 2016	7,272,727	0.275	May 18, 2020
May 18, 2016	1,021,276	0.235	November 18, 2017

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

NOTE 10:- FINANCIAL EXPENSES, NET

	Six months ended June 30, 2016	Six months ended June 30, 2015
	Unaudited	
Income:		
Foreign currency exchange differences	$ 19	$ 210
Interest on cash equivalents and restricted deposits	6	2
	(25)	(212)
Expenses:		
Extinguishment and amortization of shareholders' convertible loans discount and beneficial conversion feature	1,096	1,223
Interest on shareholders' convertible loans	151	374
Withholding taxes on interest of convertible loans from shareholders	45	82
Bank commissions and others	71	63
Foreign currency exchange differences	42	247
Interest on loans from banks and other credit balances	23	5
	1,428	1,994
Total financial expenses, net	1,403	1,782

NOTE 11:- 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).

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

NOTE 11:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

b. Revenues by geographic areas:

Revenues are attributed to geographic area based on the location of the end customers as follows:

	Six months ended June 30,	
	2016	**2015**
	Unaudited	
Israel	$ 2,904	$ 2,743
Asia	1,064	1,940
North America	630	2,271
Latin America	860	770
Europe	123	-
Total	$ 5,581	$ 7,724

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:

	Six months ended June 30,	
	2016	**2015**
	Unaudited	
Customer A	19	21
Customer B	15	6
Customer C	8	13
Customer D	4	13
Customer E	(*	11

*) Less than 1%

Exhibit 99.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OPERATIONS

The discussion and analysis which follows contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to future events and financial results. These include statements regarding our earnings, projected growth and forecasts, and similar matters which are not historical facts. We remind shareholders that forward-looking statements are merely predictions and therefore are inherently subject to uncertainties and other factors which could cause the actual future events or results to differ materially from those described in the forward-looking statements.

The condensed interim consolidated financial statements appearing elsewhere in this report should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 20-F for the year ended December 31, 2015. The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the operating results for the full fiscal year.

Overview

Our activity is primarily focused on the defense electronics market. 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; and
- Tactical Radars for defense forces and border protection systems (land and aerial 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.

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.

Recent Financings

On July 30, 2015, we announced the closing of our public offering of 6,910,569 of our Ordinary shares, offered at a price to the public of $1.23 per share. Our gross proceeds were $8,500,000 before deducting underwriting discounts and commissions and other offering expenses. We used $5,030,000 of the proceeds to repay outstanding debt and approximately $2,080,000 of outstanding accrued interest.

On May 18, 2016, we closed an equity financing transaction with DBSI Investments Ltd. ("DBSI"). DBSI purchased 17,021,276 of our Ordinary shares in consideration of approximately $4 million. In addition, DBSI received two- year warrants to purchase 8,510,638 additional Ordinary shares at an exercise price per share of $0.235 (having an aggregate exercise price of $2 million) and four-year warrants to purchase an additional 7,272,727 Ordinary shares at an exercise price per share of $0.275 (having an aggregate exercise price of $2 million). DBSI also granted us an option exercisable in our sole discretion to obtain a $3.2 million convertible loan for the repayment of outstanding debt that was due on August 31, 2016.

On June 14, 2016 our Board of Directors exercised the option to obtain the $3.2 million loan from DBSI and used the proceeds of the loan to extinguish the loan from our previous major shareholder that was due on August 31, 2016. The terms of the new loan are more favorable than those of the loan it replaced.

General

Our condensed interim consolidated financial statements appearing in this 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 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 condensed interim 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 our 80% owned Chinese subsidiary, Beijing Huari Aircraft Components Maintenance and Services Co. Ltd. ("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 June 30, 2016 and 2015, 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.

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 2016, 2015 and 2014, 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 condensed interimconsolidated statements of operations as financial income or expense and not against the Other Comprehensive Income. As of June 30, 2016, and 2015, the fair value of the outstanding forward contracts was $3,000 and $56,000, respectively. The forward contracts were recorded in other receivables against financial income.

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 $119,000, $153,000 and $138,000 as of June 30, 2016, December 31, 2015 and 2014, respectively.

Allowance for doubtful accounts. Our trade receivables are derived from sales to customers all over the world. We perform ongoing credit evaluations of our customers. In certain circumstances, we may require letters of credit or prepayments. We maintain an allowance for doubtful accounts for estimated losses from the inability of our customers to make required payments that we have determined to be doubtful of collection. We determine the adequacy of this allowance by regularly reviewing our accounts receivable and evaluating individual customers’ receivables, considering customers’ financial condition, credit history and other current economic conditions. If a customer’s financial condition were to deteriorate which might impact its ability to make payment, then additional allowances may be required. Provisions for doubtful accounts are recorded in general and administrative expenses. Our allowance for doubtful accounts was $10,000 as of June 30, 2016 and December 31, 2015, and $24,000 as of December 31, 2014.

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

Revenues. Our revenues for the six months ended June 30, 2016 decreased by $2.14 million, or 27.7%, to $5.58 million from $7.72 million for the six months ended June 30, 2015. The decrease in revenues in the first half of 2016 was mainly attributable to delays in securing expected contracts.

Cost of Revenues. Cost of revenues decreased by 17.6% to $5.28 million for the six months ended June 30, 2016 from $6.41 million for the six months ended June 30, 2015. The decrease in our cost of revenues is attributable to the reduction in sales.

Gross Profit. Our gross profit decreased by 76.9% to $0.304 million in the six months ended June 30, 2016 from $1.32 million in the six months ended June 30, 2015. The decrease in our gross profit and gross profit margin in 2016 was mainly attributable to the decrease in revenues and the relatively lower decrease in our cost of revenues.

Our operating expenses totaled $2.3 million in the first six months of 2016 and 2015.

Financial Expenses, Net. We had financial expenses, net, of $1.40 million in first half of 2016 compared to $1.78 million in the first half of 2015. Our financial expenses in both the 2016 and 2015 periods include a non-cash amortization expense of approximately $1.1 million and $1.22 million, respectively. The non-cash amortization expense was associated with the debt discount resulting from the beneficial conversion feature applicable to a previously outstanding loan from our former principal shareholder. We recorded such non-cash amortization expense until the repayment of the loan on June 16, 2016. On that date our Board of Directors exercised an option to obtain a $3.2 million loan from DBSI, which was used to repay the loan from the former principal shareholder. The terms of the new loan were approved by our shareholders in April 2016. Unlike the loan that we paid off in June 2016, the loan from DBSI does not have a beneficial conversion feature that would result in a non-cash amortization expense.

Net Loss. Our net loss in first half of 2016 was $3.42 million compared with $2.78 million in the first six months of 2015.

Liquidity and Capital Resources

As of June 30, 2016, our cash position (cash and cash equivalents) totaled approximately $2.07 million compared with approximately $1.75 million in cash and cash equivalents as of December 31, 2015.

Net cash used in operating activities for the first six months of 2016 was $2.36 million. This was primarily due to increases in other accounts receivables of $0.30 million and inventories of $0.49 million. This was offset by decreases in trade receivables of $1.10 million and trade payables of $0.7 million. For the first six months of 2015, net cash used in operating activities was $0.42 million.

Net cash used by investing activities during the first half of 2016 was $0.176 million. This was primarily due to change in restricted cash of $0.07 million which was offset by purchase of property plant and equipment of $0.25 million. Net cash used by investing activities during the first half of 2015 was $0.16 million.

Net cash provided by financing activities during the first six months of 2016 was $2.92 million reflecting proceeds of $3.80 million received in this period from DBSI and the repayment of $3.23 million in debt and accrued interest compared to $0.341 million provided by financing activities during the first six months of 2015.

We anticipate that our cash on hand and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for at least 12 months.

As part of the financing transaction with DBSI on May 18, 2016, we issued to DBSI 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 million) exercisable for a period of 24 months 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 million) exercisable for a period of 48 months. At the same date, we granted to our consultant, as part of the DBSI investment, 1,021,276 warrants to purchase Ordinary shares at an exercise price per Ordinary share of $0.235 (resulting in an aggregate exercise price of $0.240 million) exercisable for a period of 18 months.

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%.

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.