RADA ELECTRONIC INDUSTRIES LTD
Form F-1/A
July 15, 2015
As filed with the Securities and Exchange Commission on July 15, 2015

Registration No. 333-204695

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1 to
Form F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

RADA ELECTRONIC INDUSTRIES LTD.
(Exact Name of Registrant as Specified in its Charter)

State of Israel	5065	Not Applicable
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

7 Giborei Israel Street
Netanya 4250407, Israel
Tel: (972)(9) 892-1111
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Puglisi & Associates
850 Library Avenue, Suite 204
P.O. Box 885
Newark, Delaware 19715
Tel. (302) 738-6680
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies of Communications including Communications sent to Agent for Service, should be sent to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after effectiveness of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, check the following box. o

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

The information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JULY 15, 2015

$8,500,000 Ordinary Shares

This is a public offering of the ordinary shares of Rada Electronic Industries Ltd.

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol "RADA." The last reported sale price of our ordinary shares on July 14, 2015 was $1.94 per share. We are offering all of the ordinary shares offered by this prospectus.

Investing in our ordinary shares involves a high degree of risk. See "Risk Factors" beginning on page 6 of this prospectus for a discussion of information that should be considered in connection with an investment in our ordinary shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount and commissions (1)	$	$
Proceeds to us (before expenses)	$	$

(1) In addition, we have agreed to reimburse the underwriters for certain expenses. See the section captioned "Underwriting" in this prospectus for additional information.

We have granted the underwriters an option to purchase up to additional ordinary shares from us at the public offering price, less the underwriting discount, within 45 days from the date of the final prospectus solely to cover over-allotments, if any.

The underwriters expect to deliver the shares to purchasers in the offering on or about , 2015.

Chardan Capital Markets, LLC

, 2015

TABLE OF CONTENTS

Unless the context otherwise requires, references in this prospectus to “the company,” “our company,” “we,” “our,” “us,” or “Rada” means Rada Electronic Industries Ltd. and its subsidiary. You should rely only on the information contained in this prospectus and in any free writing prospectus which we file with the Securities and Exchange Commission. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus or such free writing prospectus, if any. We and the underwriters are not offering to sell, and seeking offers to buy, ordinary shares only in jurisdictions where offers and sales are not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the ordinary shares.

Presentation of Financial Information

The term “NIS” refers to new Israeli shekels, and “dollar,” “USD” or “$” refers to U.S. dollars. Unless otherwise indicated, USD translations of the NIS amounts presented in this prospectus are translated using the rate of NIS 3.889 per $1.00, the representative rate of exchange as of December 31, 2014, as published by the Bank of Israel. In reading this prospectus, you should note that currency fluctuations may positively or negatively affect the presentation of our operating expenses and net income in U.S. dollars depending on increases or decreases of the U.S. dollar conversion amounts.

Market, Industry and Other Data

This prospectus includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe these industry publications and third-party research, surveys and studies are reliable, we have not independently verified such data and you are cautioned not to give undue weight to this information.

PROSPECTUS SUMMARY

The following summary highlights information contained in other parts of this prospectus and provides an overview of the material aspects of this offering. The following summary does not contain all of the information you should consider before investing in our ordinary shares. You should read this entire prospectus carefully, including the risks of investing in our ordinary shares discussed under “Risk Factors” beginning on page 6, our financial statements incorporated by reference to this prospectus and the related notes included in this prospectus and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our Company

We are an Israeli-based defense electronics contractor specializing in the development, manufacture, marketing and sales of military avionics systems for manned and unmanned aircraft, inertial navigation systems for air and land platforms and tactical land radars for force and border protection applications.

We develop, manufacture and sell defense electronics, including avionics solutions (including avionics for unmanned aerial vehicles, or UAVs), airborne data/video recording and management systems, inertial navigation systems and tactical land radars for defense forces and border protection systems. In addition, we continue to sell and support our legacy commercial aviation products and services, mainly through our Chinese subsidiary, Beijing Hua Rui Aircraft Maintenance and Service, Co., Ltd., known as CACS.

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), which accounted for approximately 89% of our sales in 2014;
- Inertial navigation systems, or INS, for aerial and land platforms; and
- Tactical radars for defense forces and land based border protection systems.

We have been a developer and manufacturer of core avionics systems for over 30 years and have developed, fielded and supported a wide range of solid-state digital recorders, cameras and debriefing systems for aerospace and military applications, including flight data recorders for fighter aircraft, digital video/audio/data recorders, high-rate (no compression) data recorders for aircraft and airborne pods, video recorders and airborne data servers, a wide range of head-up-displays color video cameras for fighter aircraft and a variety of ground debriefing solutions.

We currently offer a wide spectrum of military avionics systems designed for integration in new and upgraded military aircraft and UAVs worldwide. Our avionics solutions range from fully integrated avionics suites, to Military off-the-shelf, or MOTS, core avionics subsystems, to tailor-made “built-to-spec” units, backed by our teams of experts dedicated to providing global technical and maintenance support. Our avionic products are operational in aircraft of leading air forces and in aircraft sold by prime integrators worldwide, such as the Israeli Air Force, or IAF, Lockheed Martin Corporation, or Lockheed Martin, The Boeing Company, or Boeing, GE Aviation, a subsidiary of General Electric Company, Hindustan Aeronautics Limited, or HAL, Embraer S.A., or Embraer, Israel Aerospace Industries, or IAI, Rafael Advanced Defense Systems, or Rafael, the Chilean Air Force (Fuerza Aérea de Chile) or FACh, and many others. Our units are installed onboard F-16, F-15, A-4, Jaguar, MiG-27, Su-30MKI, Dhruv Helicopter, MiG-29, Super-Tucano and other aircraft and onboard a number of UAVs.

Leveraging our long-standing scientific research and algorithmic expertise, utilizing state-of-the-art fiber optic gyro and micro-electro mechanical system sensors and taking advantage of our experience in electronic and mechanical design, we independently developed a line of advanced, yet affordable, INS. Our INS products are adaptable to the performance and interface requirements of multiple combat platforms and weapon systems. Among our customers for INS are leading air forces and prime integrators worldwide, including the IAF, IAI, Rafael, Embraer, Indra Sistemas S.A., or Indra, and India's Defense Research and Development Organization, or DRDO.

We also independently developed advanced ground radars for tactical applications such as defense forces protection and border protection. Our pulse Doppler, software-defined radars are solid-state, fully digital, incorporate active electronically scanned array, or AESA, antenna, are compact, mobile and highly reliable, provide hemispheric spatial coverage and multi-mission capabilities, and demonstrate unprecedented performance-to-price ratio. We offer two radar hardware platforms: (i) a compact hemispheric radar, or CHR, which is tailored for use in combat vehicles and short-range protection applications; and (ii) a multi-mission hemispheric radar, or MHR, which is tailored for use in force and border protection applications. Among our customers who have purchased our ground radars for research and testing purposes are prime integrators and air forces, including Boeing, Lockheed Martin, DRS Technologies, Inc., or DRS, the US Office of Naval Research, or the ONR,(all of which have purchased radar systems for research and experimental purposes only) and a leading ministry of defense for its national alert system.

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

Industry Background

The defense electronics market has grown in recent years and currently accounts for a large part of the defense business. We believe that the defense electronics market reflects two contradictory trends, the increased use of defense electronics, which has been offset by the significant reduction in the price of electronic systems, resulting in a reduction in the dollar value of the market. These two trends have kept the annual total global defense electronics market size at an almost constant level during recent years. With our new inertial navigation systems and tactical radar products, the size of the markets which we address has expanded. According to a report issued in June 2014 by the market research company Yole Développement, titled “High-End Gyroscopes Accelerometers and IMUs for Defense Aerospace and Industrial,” the estimated market for INS was approximately $2 billion in 2014 and that the market was expected to grow by a 4.5% compounded annual growth rate, or CAGR, through 2019. Similarly, in an article published in the Microwave Journal in December 2014, the program director of Strategy Analytics reported that the global military radar market would grow at a CAGR of 3.6% from 2013 to 2023 with a total market worth of over $18.5 billion in 2023. Today, new military vehicles of all kinds are equipped with significantly more electronic systems than they used to carry in the past. The increasing usage of advanced electronics in modern vehicles, including upgrades of existing technology and the growing use of unmanned vehicles of all kinds, have provided significant growth number of units sold in the market.

Today’s advanced defense electronics systems typically incorporate components that are derived from the industrial or the consumer electronics markets, especially from the telecom markets. Most of the defense electronics systems are built with commercial components and sub-systems, which reduce the overall price, and at the same time generate component obsolescence issues. The obsolescence issues arise because commercial suppliers generally do not sell or support components or subsystems for the lengthy periods of time required by purchasers of defense electronic systems. As a result, we may be required to invest additional amounts to source, substitute and integrate the components and subsystems and keep them updated.

Purchasers of our defense electronics products are either governments or major defense contractors acting as integrators. Engagement in business relationships with these customers is complex, has long sales cycles and requires long-term commitments for future support of delivered hardware. Production batches of such products are usually small. Suppliers of defense electronic systems with whom we compete are either providers of sub-systems to major integrators or providers of integrated systems to the industry or to armed forces. Our competitors are typically very large companies with substantially greater resources than us and have diversified product offerings.

Our Strengths

We believe that, because of the following competitive strengths, we will be able to enhance our position as a provider of defense electronics:

As an industry innovator, we continue to develop and incorporate cutting edge technologies into our products;

We employ approximately 45 persons in our research and development activities who have hands-on experience and expertise;

We provide innovative and cost-effective products, often at prices significantly lower than our competitors;

In our industry, we offer a rare combination of being a small, well established and highly responsive company with a wealth of experience;

We provide a high level of responsiveness to customer needs; and

We have an experienced management team with almost 200 years of industry and military experience and an average tenure with our company of 17 years.

Our Strategy

Our business development strategy is based on the following principles:

Maintaining our business focus on electronic systems for the military and para-military markets;

Expanding our product offerings by adding new applications to our existing product lines and by adapting our products to land systems;

Expanding our customer base by including our products in solutions and integrated systems for airborne and land vehicles;

Establishing sales channels with system integrators and major manufacturers such as Embraer, HAL, Lockheed Martin, Boeing, Israel Military Industries, or IMI, IAI, Rafael, DRS and others;

Expanding our products base through identification of current and future applications that may become affordable by the incorporation of advanced commercial off-the-shelf technologies that offer superior performance and/or significant price savings; and

Developing new marketing channels aimed directly at large potential markets, especially land-based defense systems and homeland security segments.

Recent Developments

On May 26, 2015 we published our 2015 first quarter results in a press release. We announced that our revenues declined to $3.6 million in the first quarter of 2015 from $5 million in the corresponding quarter in 2014. The decline in revenues in the first quarter of 2015 was mainly due to the request of several customers to delay deliveries of certain avionics production items. We incurred a net loss of $777,000, or $(0.09) per share in the first quarter of 2015 compared to net income of $158,000, or $0.02 per share in the first quarter of 2014.

On May 25, 2015, our board of directors approved the adoption of our 2015 Israel Stock Option Plan, or the 2015 Option Plan, pursuant to which 3,000,000 ordinary shares will be reserved for issuance. No options have been granted as yet under the 2015 Option Plan. See “Recently Adopted Employee Share Option Plan.”

In April and June 2015, following shareholder approval, the standstill agreement with our two lenders was amended and the forbearance period was extended to August 31, 2016. In the event that this offering is not completed by September 30, 2015, our controlling shareholder and the other director lender to our company will be entitled, on a pro rata basis, to convert some or all of the remaining outstanding debt from time to time into our ordinary shares. The terms of such conversion, which were approved by the shareholders of our company are as follows: (i) the minimum amount to be converted at any one time is $300,000 of debt; (ii) the share issue price will be the lower of $1.00 or 15% below the preceding seven (7) days volume weighted average price; and (iii) any unconverted debt will continue to be subject to the terms of the Standstill Agreement. See “Related Party Transactions” beginning on page 45 of this prospectus for further details.

Corporate Information

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

THE OFFERING

Ordinary shares offered by us	$8,500,000 of our ordinary shares
Over-allotment option	The underwriters have an option for a period of 45 days to purchase up to $1,275,000 additional ordinary shares to cover over-allotments, if any.
Ordinary shares currently outstanding	8,988,396 ordinary shares
Ordinary shares to be outstanding after the offering	13,369,839 ordinary shares (or 14,027,056 ordinary shares if the underwriter exercises in full its option to purchase additional ordinary shares)
Use of Proceeds	We estimate that we will receive $7.6 million in net proceeds from the sale of the securities in this offering, based on a price of $1.94 per ordinary share and after deducting underwriting discounts and commissions and offering expenses payable by us. If the representative of the underwriters exercises the over-allotment option in full, we estimate that the net proceeds from this offering will be approximately $8.8 million, based on the offering price of $1.94 per ordinary share, and after deducting underwriting discounts and commissions and offering expenses payable by us. We intend to use the net proceeds from this offering to repay debt of approximately $7.6 million (including accrued interest), and the repayment of certain expenses incurred by an affiliate of our controlling shareholder. See “Use of Proceeds” beginning on page 20 of this prospectus.
Risk Factors	See “Risk Factors” beginning on page 6, and other information included in this prospectus for a discussion of factors you should carefully consider when making an investment decision.

NASDAQ Capital Market symbol	RADA

The number of our ordinary shares that will be outstanding immediately after this offering is based on 8,988,396 ordinary shares outstanding as of July 14, 2015, and assumes the issuance and sale of $8,500,000 of our ordinary shares in this offering at an assumed offering price of $1.94 per share, which was the closing price of our ordinary shares on the NASDAQ Capital Market on July 14, 2015.

The number of our ordinary shares outstanding after this offering excludes:

- 1,435,407 ordinary shares issuable upon exercise of a currently outstanding $3,000,000 convertible loan having an exercise price of $2.09 per share; and
- up to 3,000,000 ordinary shares issuable under the company's 2015 Option Plan.

Unless otherwise indicated, all information in this prospectus assumes:

- no exercise of the underwriters' over-allotment option to purchase up to an additional $1,275,000 of our ordinary shares; and
- a public offering price of $1.94, the closing price on the NASDAQ Capital Market for our ordinary shares on July 14, 2015.

Unless otherwise stated, all information in this prospectus reflects an assumed public offering price $1.94 per share, which was the closing price of our ordinary shares on the NASDAQ Capital Market on July 14, 2015. To the extent a portion of our outstanding debt of approximately $9.9 million remains outstanding after the offering, the holders of the remaining debt will have the right to convert such debt into our ordinary shares at the lower of $1.00 or 15% below the preceding seven (7) days volume weighted average price.

SUMMARY FINANCIAL DATA

The following summary consolidated financial data for and as of the five years ended December 31, 2014 are derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. We derived the following summary consolidated statements of operations data for the years ended December 31, 2014, 2013 and 2012 and the consolidated balance sheets data as of December 31, 2014 and 2013 from our audited consolidated financial statements incorporated by reference in this prospectus from our Annual Report on Form 20-F for the year ended December 31, 2014. You should read this data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus and our audited consolidated financial statements and related notes and the information under the captions "Consolidated Statements and Other Financial Information" and "Operating and Financial Review and Prospects" in our Annual Report on Form 20-F for the year ended December 31, 2014, which is incorporated by reference in this prospectus. For more details on how you can obtain the documents incorporated by reference in this prospectus, see "Where You Can Find Additional Information" and "Documents Incorporated by Reference" appearing elsewhere in this prospectus. Our historical results are not necessarily indicative of future results.

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(U.S. dollars in thousands, except per share data)				
Summary Statement of Operations Data:					
Revenues	$ 22,481	$ 21,761	$ 21,551	$ 19,405	$ 27,523
Cost of revenues	15,944	17,160	16,233	13,800	20,117
Gross profit	6,537	4,601	5,318	5,605	7,406
Operating expenses:					
Research and development, net	789	1,459	2,423	2,543	1,182
Selling and marketing	2,392	1,959	1,664	2,106	2,563
General and administrative	1,901	1,919	2,137	1,944	1,732
Total operating expenses	5,082	5,337	6,224	6,593	5,477
Operating income (loss)	1,455	(736)	(906)	(988)	1,929
Financial income (expenses)	(1,254)	(1,907)	(1,149)	(531)	(1,184)
Income (loss)	201	(2,643)	(2,055)	(1,519)	745
Net (income) loss attributable to non-controlling interest	7	8	4	(7)	(11)
Net income (loss) attributable to RADA Electronic Industries Ltd.'s shareholders	$ 208	$ (2,635)	$ (2,051)	$ (1,526)	$ 734
Per Share Data:					
Basic and diluted net income (loss) per ordinary share attributable for RADA Electronic Industries Ltd.'s shareholders	0.02	(0.30)	(0.23)	(0.17)	0.08
Weighted average number of shares used to compute basic and diluted net income (loss) per share	8,945	8,919	8,919	8,899	8,869

	As of December 31, 2014	
	Actual	Adjusted
Summary Balance Sheet Data:	(in thousands)	
	$ 35	$ 7,518

Working capital		
Total assets	20,097	20,097
Convertible note, short-term credits and shareholders' loans	9,709	4,048
Shareholders' equity	$ 3,547	$ 11,130

RISK FACTORS

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

Risks Related to Our Business and Our Industry

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

We incurred operating losses in each of the years 2011, 2012 and 2013 and we incurred an operating loss of $458,000 and a net loss of $777,000 in the quarter ended March 31, 2015. We may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. As of March 31, 2015, our accumulated deficit was over $68 million. To the extent that we incur operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations and will be required to obtain additional financing to maintain our operations. Such financing may not be available, or, if available, may not be on terms satisfactory to us. If adequate funds to maintain operations are not available to us, our business, results of operations and financial condition will be adversely affected.

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

In pursuit of our growth strategy, we entered into a number of strategic relationships with Embraer, HAL, IAI, Lockheed Martin, Boeing, Rafael, IMI, and DRS to increase our penetration into the defense electronics market. We are currently focusing our business development efforts to further develop these relationships and to enter into new relationships. Should our relationships fail to materialize into significant agreements or should we fail to work efficiently with these companies, we may lose sales and marketing opportunities and our business, results of operations and financial condition could be adversely affected.

Our military avionic products accounted for more than 89% of our sales in the year ended December 31, 2014. Our future growth is dependent on our gaining market acceptance and regular production orders for both our land-based tactical radar products and our inertial navigation systems for aerial platforms. In the event we are not successful in obtaining a significant volume of orders for our tactical radar products and inertial navigation systems, we will face significant obstacles in expanding our business.

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

There can be no assurance that our advanced ground radar products will gain market acceptance and therefore we may never recover our investment in this new product family.

We have developed two radar hardware platforms for use in combat vehicles and short-range protection applications and in defense forces and border protection applications. In December 2014, we announced the first significant order for this product family, a $2.8 million order from a leading ministry of defense for its national alert system. Shipments under this order are not expected to begin until the fourth quarter of 2015. To date, we have not received any other significant orders. In March 2015 we announced that we entered into (i) a contract with Lockheed Martin, which selected our multi-mission hemispheric radar product to support internally funded high energy laser weapon system prototype testing, and (ii) an agreement with DRS under which they agreed to sell, produce, and support, our tactical radars as part of their tactical radar portfolio. Other than a single radar unit ordered and delivered to Lockheed Martin and two radar units ordered and delivered to DRS, we have not yet received any orders arising from Lockheed Martin's weapon development efforts or from DRS with respect to the sale of our radar products to third parties and there can be no assurance that we will ever receive any such orders. If these products do not achieve market acceptance, our business, results of operations and financial condition will be adversely affected.

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

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

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

The vast majority of our revenues are derived from the sale of products with military applications. These revenues totaled approximately $21.6 million, or 96% of our revenues, in 2014, $20.3 million, or 93% of our revenues, in 2013 and $20.3 million, or 94% of our revenues, in 2012. The defense budgets of a number of countries may be reduced in the future. Declines in defense budgets may result in reduced demand for our products and manufacturing services. This would result in reduction in our core business' revenues and adversely affect our business, results of operations and financial condition.

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

During periods of slowing economic activity, our customers may reduce their demand for our products and technology, which would reduce our sales, and our business, operating results and financial condition may be adversely affected. Economies throughout the world currently face a number of challenges, including threatened sovereign defaults, credit downgrades, restricted credit for businesses and consumers and potentially falling demand for a variety of products and services. Notwithstanding the improving economic conditions in some of our markets, many companies are still cutting back expenditures or delaying plans to add additional personnel or systems. Any further worsening of the global economic condition could result in longer sales cycles, slower adoption of new technologies and increased price competition for our products and services. We could also be exposed to credit risk and payment delinquencies on our accounts receivable, which are not covered by collateral. Any of these events would likely harm our business, operating results and financial condition.

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

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

- their requirements or budgetary constraints change;

- they cancel multi-year contracts and related orders if funds become unavailable;
- they shift spending priorities into other areas or for other products; or
- they adjust contract costs and fees on the basis of audits.

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

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

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

We are subject to laws regulating export of "dual use" items (items that are typically sold in the commercial market, but that also may be used in the defense market) and defense export control legislation. If government approvals required under these laws and regulations are not obtained, or if authorizations previously granted are not renewed, our ability to export our products from Israel could be negatively impacted, which may cause a reduction in our revenues and a potential material negative impact on our financial results. Additionally, our participation in governmental procurement processes in Israel and other countries is subject to specific regulations governing the conduct of the process of procuring defense contracts. Furthermore, solicitations for procurements by governmental purchasing agencies in Israel and other countries are governed by laws, regulations and procedures relating to procurement integrity, including avoiding conflicts of interest and corruption in the procurement process. We may not be able to respond quickly and effectively to changing laws and regulations and any failure to comply with such laws and regulations may subject us to significant liability and penalties.

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

A significant portion of our revenues is derived from a small number of customers. During the years ended December 31, 2014 and 2013, 51% and 54% of our revenues, respectively, were attributable to three customers. We anticipate that a significant portion of our future revenues will continue to be derived from sales to a small number of customers. No assurances can be given that our customers will continue to purchase our products, that we will be successful in any bid for new contracts to provide such products, or that if we are grantedsubsequent orders, that such orders would be of a scope comparable to the sales that we have experienced to date. If our principal customers do not continue to purchase products from us at current levels or if we do not retain such customers and we are not able to derive sufficient revenues from sales to new customers to compensate for their loss, our revenues would be reduced and adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

- 9 -

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

We are a defense electronics company with worldwide operations. While we derived 58% of our sales in the year ended December 31, 2014 from sales in Israel (22%) and from exports to North America (36%), we expect to derive an increasing portion of our sales and future growth from other regions such as Latin America, India and Central and Eastern Europe, which may be more susceptible to political or economic instability. In addition, in many less-developed markets, we rely heavily on third-party distributors and other agents for the marketing and distribution of our products and capabilities. Many of these distributors do not have internal compliance resources comparable to ours. Business activities in many of these markets have historically been more susceptible to corruption. If our efforts to screen third-party agents and detect cases of potential misconduct fail, we could be held responsible for the noncompliance of these third parties under applicable laws and regulations, which may adversely affect our reputation and our business, financial condition or results of operations.

Exports, including to North America, accounted for 78% of our sales in 2014, 80.4% of our sales in 2013 and 75% of our sales in 2012. Our reliance on export sales subjects us to many risks inherent in engaging in international business, including:

- Limitations and disruptions resulting from the imposition of government controls;
- Changes in regulatory requirements;
- Export license requirements;
- Economic or political instability;
- Trade restrictions;
- Changes in tariffs;
- Currency fluctuations;
- Longer receivable collection periods and greater difficulty in accounts receivable collection;
- Greater difficulty in safeguarding intellectual property;
- Difficulties in managing overseas subsidiaries and international operations; and
- Potential adverse tax consequences.

Any of these risks could materially affect our international operations, which may adversely affect our business, results of operations and financial condition.

We may not be able to sustain or increase revenues from international operations and may encounter significant difficulties in connection with the sale of our products in international markets.

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

We are subject to risks associated with currency exchange rate fluctuations in the world markets in which we conduct business.

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

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

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

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

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

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

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

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

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

Risks Related to Our Ordinary Shares and to the Offering

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

As of June 30, 2015, Mr. Howard Yeung beneficially owned approximately 48% of our outstanding shares. For as long as Mr. Yeung has a controlling interest in our company, he will have the ability to exercise a controlling influence over our business and affairs, including any determinations with respect to potential mergers or other business combinations involving us, our acquisition or disposition of assets, our incurrence of indebtedness, our issuance of any additional ordinary shares or other equity securities, our repurchase or redemption of ordinary shares and our payment of dividends. Similarly, as long as Mr. Yeung has a controlling interest in our company, he will have the power to determine or significantly influence the outcome of matters submitted to a vote of our shareholders, including the power to elect all of the members of our Board of Directors (except outside directors, within the meaning of Israeli law), or prevent an acquisition or any other change in control of us. Because the interests of Mr. Yeung may differ from the interests of our other shareholders, actions taken by him with respect to us may not be favorable to our other shareholders.

If the offering is not completed, our controlling shareholder and the other lender to our company may elect to convert some or all of the debt held by them into equity.

As a consequence of our need to invest in research and development, our controlling shareholder and one of our directors have provided us with loans in the aggregate amount of approximately $9.9 million (including accrued interest), which are secured by second degree liens over all of our properties. In the event that this offering is not completed by September 30, 2015, our controlling shareholder and the other director lender to our company will be entitled, on a pro rata basis, to convert some or all of the remaining outstanding debt from time to time into our ordinary shares. The terms of such conversion, which were approved by the shareholders of our company, are as follows: (i) the minimum amount to be converted at any one time is $300,000 of debt; (ii) the share issue price will be the lower of $1.00 or 15% below the preceding seven (7) days volume weighted average price; and (iii) any unconverted debt will continue to be subject to the terms of the Standstill Agreement. Any remaining debt owed to the two lenders after this offering may be converted into our ordinary shares on the same terms as described above. Any such conversion of the outstanding debt will result in dilution to our shareholders, in an increase of our controlling shareholder's interest in our company, may result in a loss of investor confidence in our company and will likely result in a decline in the share price of our outstanding shares.

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

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

- Quarterly variations in our operating results;
- Operating results that vary from the expectations of securities analysts and investors;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

- Announcements of technological innovations or new products by us or our competitors;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Changes in the status of our intellectual property rights;
- Announcements by third parties of significant claims or proceedings against us;
- Additions or departures of key personnel;
- Future sales of our ordinary shares;
- Delisting of our shares from the NASDAQ Capital Market; and
- Stock market price and volume fluctuations.

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

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

Our ordinary share price may be volatile as a result of this offering.

The trading price of our ordinary shares may fluctuate substantially. The price of the ordinary shares that will prevail in the market after this offering may be higher or lower than the offering price depending on many factors, some of which are beyond our control and may not be directly related to our operating performance.

Substantial future sales of our ordinary shares by our controlling shareholder may depress our share price.

If our controlling shareholder sells substantial amounts of his ordinary shares, including shares issuable upon the conversion of outstanding convertible notes, or if the perception exists that our controlling shareholder may sell a substantial number of our ordinary shares, the market price of our ordinary shares may fall. Any substantial sales of our shares in the public market also might make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms we deem appropriate.

We do not intend to pay dividends.

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

You will experience immediate and substantial dilution as a result of this offering and may experience additional dilution in the future.

You will incur immediate and substantial dilution as a result of this offering. An assumed public offering price of $1.94 per share (the closing price of a share of our ordinary shares on July 14, 2015) and after deducting the underwriters' discount and estimated offering expenses payable by us, investors in this offering can expect an immediate dilution of $1.11 per share. In addition, we have outstanding convertible notes, as well as additional outstanding existing debt, the conversion of which may result in significant future dilution.

Shareholder ownership interest in our company may be diluted as a result of future financings or additional acquisitions.

We may seek to raise funds from time to time in public or private issuances of equity and such financings may take place in the near future or over the longer term. Sales of our securities offered through future equity offerings may result in substantial dilution to the interests of our current shareholders. The sale of a substantial number of securities to investors, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales. Our Board of Directors recently approved the adoption of our 2015 Option Plan which authorizes the grant of options to purchase up to 3,000,000 of our ordinary shares. Any exercise of grants under the 2015 Option Plan may result in dilution to our shareholders. In addition, we have issued shares of our ordinary shares for various acquisitions in the past and may do so in the future, which may also result in substantial dilution to the interests of our current shareholders.

While we believe that we are not currently a PFIC and do not anticipate becoming a PFIC, United States tax authorities could treat us as a "passive foreign investment company," which could have adverse United States federal income tax consequences to United States shareholders.

Generally, if for any taxable year, 75% or more of our gross income is passive income, or at least 50% of the value of our assets, averaged quarterly, are held for the production of, or produce, passive income, we will be characterized as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes. Determination that we are a PFIC could cause our U.S. shareholders to suffer adverse tax consequences, including having gains realized on the sale of our shares taxed at ordinary income rates, rather than capital gains rates, and being subject to an interest charge on such gain. Similar rules apply to certain "excess distributions" made with respect to our ordinary shares. A determination that we are a PFIC could also have an adverse effect on the price and marketability of our shares. If we are a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

Reports published by securities or industry analysts, including projections in those reports that exceed our actual results, could adversely affect our ordinary shares' price and trading volume.

Securities research analysts, including those affiliated with our underwriters, may establish and publish their own periodic projections for our business. These projections may vary widely from one another and may not accurately predict the results we actually achieve. Our share price may decline if our actual results do not match securities research analysts' projections. Similarly, if one or more of the analysts who writes reports on us downgrades our shares or publishes inaccurate or unfavorable research about our business, our share price could decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, our share price or trading volume could decline. While we expect securities research analyst coverage, if no securities or industry analysts begin to cover us, the trading price for our shares and the trading volume could be adversely affected.

Risks Related to Our Location in Israel

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

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

Since its establishment in 1948, Israel has been involved in a number of armed conflicts with its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has continued into 2015. Also, since 2011, riots and uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in neighboring areas to Israel, such as Hamas in Gaza and Hezbollah in Lebanon. Following extensive missile attacks on its southern border and against Israeli population centers in July 2014, Israel invaded the Gaza Strip. On July 21, 2014, all U.S. airlines and most major airlines of other nationalities suspended their flights to Israel's Ben-Gurion International Airport for several days after a missile landed approximately 1.5 kilometers away. To date, these events have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

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

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

Approximately 15% of our employees in Israel are obligated to perform annual military reserve duty and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods. Our operations could be disrupted by the absence for a significant period of one or more of our key employees or a number of other employees due to military service. Any disruption in our operations could adversely affect our business.

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

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

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

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

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

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

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

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

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

Provisions of Israeli law may delay, prevent or otherwise encumber a merger with or an acquisition of our company, which could prevent a change of control, even when the terms of such transaction are favorable to us and our shareholders.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could delay, prevent or impede a merger with or an acquisition of our company, which could prevent a change of control, even when the terms of such transaction are favorable to us and our shareholders and therefore potentially depress the price of our shares. For further details see "Description of Share Capital – Provisions Restricting Change in Control of Our Company."

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

We participate from time to time in programs of the Office of the Chief Scientist in the Ministry of Economy, or OCS, for which we receive funding for the development of technologies and products. The benefits available under these programs depend on meeting specified conditions. If we fail to comply with these conditions, we may be required to pay penalties, make refunds and may be denied future benefits. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under these programs, and therefore these benefits may not be available to us in the future at their current levels or at all.

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

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated in it by reference contain forward-looking statements that involve known and unknown risks and uncertainties. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as “may,” “will,” “should,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential” or the negative of such terms, or oth comparable terminology.

Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in this prospectus and in the documents incorporated by reference into this prospectus and other unforeseen risks. These risks and uncertainties include factors relating to, without limitation: (i) our ability to sustain profitability and have sufficient working capital to fund our operations in the future; (ii) the competitive nature of the industry and our products’ ability to achieve market acceptance; (iii) our ability to manage our growth effectively; (iv) effects of reductions in defense budgets worldwide; (v) material adverse changes in our industry or the global economy; (vi) our expectation to be able to continue to participate in the government market; (vii) our ability to retain key personnel; (viii) our ability to maintain business relationships with our customers and suppliers; (ix) our ability to predict future commerce trends and technology; and (x) the political or economic instability and corruption level in markets worldwide.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption “Risk Factors” and certain other matters discussed in this prospectus, the documents incorporated by reference in this prospectus, and other publicly available sources. These factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements. We are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section, and you are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of this prospectus.

RATE INFORMATION

The following table shows, for each of the months indicated, the high and low exchange rates between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar and based upon the daily representative rate of exchange as published by the Bank of Israel:

Month	High	Low
January 2015	3.998	3.899
February 2015	3.966	3.844
March 2015	4.053	3.926
April 2015	4.014	3.861
May 2015	3.890	3.819
June 2015	3.872	3.761

The following table shows, for the periods indicated, the average exchange rate between the NIS and the U.S. dollar, expressed as NIS per U.S. dollar, calculated based on the average of the representative rate of exchange on the last day of each month during the relevant period as published by the Bank of Israel:

Year	Average
2010	3.730
2011	3.579
2012	3.847
2013	3.598
2014	3.589
2015 (through June 30)	3.895

As of July 14, 2015, the daily representative rate of exchange between the NIS and the U.S. dollar as published by the Bank of Israel was NIS 3.775 to $1.00.

USE OF PROCEEDS

We estimate that we will receive $7.6 million, or $8.8 million if the underwriters exercise in full their option to purchase additional ordinary shares, in net proceeds from the sale of the securities in this offering, based on a per share purchase price of $1.94 and after deducting underwriting discounts and commissions and offering expenses payable by us. The proceeds of the offering will be used as follows: (i) approximately $7.5 million for repayment of debt, including accrued interest, all of which is payable on August 31, 2016 and bears interest at a default interest rate of LIBOR plus 9% (9.4% at June 30, 2015); and (ii) the payment of $100,000 to an affiliate of our controlling shareholder for expenses incurred by the affiliate in the course of our financing negotiations, including the fees and expenses of its financial and legal advisers. See "Related Party Transactions."

PRICE RANGE OF ORDINARY SHARES

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

The following table sets forth, for the periods indicated, the high and low closing prices of our ordinary shares on the NASDAQ Capital Market.

Year	High	Low
2010	$ 2.93	$ 1.81
2011	$ 4.48	$ 1.55
2012	$ 2.37	$ 0.95
2013	$ 2.26	$ 0.96
2014	$ 6.29	$ 1.26
2015 (through July 14)	$ 3.25	$ 1.55

Quarterly Stock Information

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

	High	Low
2013		
First Quarter	$ 1.92	$ 1.05
Second Quarter	$ 1.52	$ 0.96
Third Quarter	$ 1.60	$ 1.00
Fourth Quarter	$ 2.26	