

RADA ELECTRONIC INDUSTRIES LTD
Form 20-F
April 30, 2014

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

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

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

Commission file number: 0-15375

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

Israel
(Jurisdiction of incorporation or organization)

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

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

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

Title of each class	Name of each exchange on which registered
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Ordinary Shares, NIS 0.015 Par Value

NASDAQ Capital Market

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

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

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

Ordinary Shares, par value NIS 0.015 per share...8,918,647
(As of December 31, 2013)

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

Item 17 Item 18

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

Yes No

INTRODUCTION

We are an Israel based defense electronics contractor. We specialize in the development, manufacture and sale of airborne data recording and management systems (such as digital video and data recorders, ground debriefing stations, head-up display cameras), inertial navigation systems for air and land applications, avionics solutions (such as aircraft upgrades, avionics for unmanned aircraft vehicles, or UAVs, store management systems and interface computers) and tactical land radars for force and border protection applications (active protection systems for armored fighting vehicles, hostile fire detection, and perimeter surveillance).

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

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

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

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

TABLE OF CONTENTS

	Page No.
<u>PART I</u>	1
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
<u>2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
<u>3. KEY INFORMATION</u>	1
A. Selected Financial Data	1
B. Capitalization and Indebtedness	2
C. Reasons for the Offer and Use of Proceeds	2
D. Risk Factors	2
<u>4. INFORMATION ON THE COMPANY</u>	12
A. History and Development of the Company	12
B. Business Overview	12
C. Organizational Structure	20
D. Property, Plants and Equipment	21
<u>4A. UNRESOLVED STAFF COMMENTS</u>	21
<u>5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	21
A. Operating Results	21
B. Liquidity and Capital Resources	28
C. Research and Development, Patents and Licenses	30
D. Trend Information	31
E. Off-Balance Sheet Arrangements	31
F. Tabular Disclosure of Contractual Obligations	31
<u>6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	32
A. Directors and Senior Management	32
B. Compensation	34
C. Board Practices	34
D. Employees	44
E. Share Ownership	45

<u>ITEM</u>	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	46
<u>7.</u>		
A.	Major Shareholders	46
B.	Related Party Transactions	47
C.	Interests of Experts and Counsel	48
<u>ITEM</u>	<u>FINANCIAL INFORMATION</u>	48
<u>8.</u>		
A.	Consolidated Statements and Other Financial Information	48
B.	Significant Changes	49
<u>ITEM</u>	<u>THE OFFER AND LISTING</u>	49
<u>9.</u>		
A.	Offer and Listing Details	49
B.	Plan of Distribution	49
C.	Markets	50
D.	Selling Shareholders	50
E.	Dilution	50
F.	Expense of the Issue	50
<u>ITEM</u>	<u>ADDITIONAL INFORMATION</u>	50
<u>10.</u>		
A.	Share Capital	50
B.	Memorandum and Articles of Association	50
C.	Material Contracts	53
D.	Exchange Controls	53
E.	Taxation	53
F.	Dividend and Paying Agents	66
G.	Statement by Experts	66
H.	Documents on Display	66
I.	Subsidiary Information	66
<u>ITEM</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS</u>	61
<u>11.</u>		
<u>ITEM</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	61
<u>12.</u>		

<u>PART II</u>	61
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	61
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	61
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	62
<u>ITEM 16. RESERVED.</u>	63
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	63
<u>ITEM 16B. CODE OF ETHICS</u>	63
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	63
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	64
<u>ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	64
<u>ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	64
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	64
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	65
<u>PART III</u>	66
<u>ITEM 17. FINANCIAL STATEMENTS</u>	66
<u>ITEM 18. FINANCIAL STATEMENTS</u>	66
<u>ITEM 19. EXHIBITS</u>	66

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

We derived the following consolidated statements of operations data for the years ended December 31, 2011, 2012 and 2013 and the consolidated balance sheet data as of December 31, 2012 and 2013 from our audited consolidated financial statements included elsewhere in this annual report. We derived the consolidated statements of operations data for the years ended December 31, 2009 and 2010, and the consolidated balance sheet data as of December 31, 2009, 2010 and 2011 from our audited consolidated financial statements that are not included in this annual report.

	Year Ended December 31,				
	2009	2010	2011	2012	2013
	(U.S. dollars in thousands, except per share data)				
Revenues	\$18,442	\$27,523	\$19,405	\$21,551	\$21,761
Cost of revenues	12,223	20,117	13,800	16,233	17,160
Gross profit	6,219	7,406	5,605	5,318	4,601
Research and development, net	1,616	1,182	2,543	2,423	1,459
Marketing and selling	1,607	2,563	2,106	1,664	1,959
General and administrative	1,937	1,732	1,944	2,137	1,919
Operating income (loss)	1,059	1,929	(988)	(906)	(736)
Financial expense, net	832	1,184	531	1,149	1,907
Net Income (loss)	\$227	\$745	\$(1,519)	\$(2,055)	(2,643)
Net (income) loss attributable to non-controlling interest	(14)	(11)	(7)	4	8
Net income (loss) attributable to RADA Electronic Industries' shareholders	\$213	\$734	\$(1,526)	\$(2,051)	(2,635)
Basic and diluted net income (loss) per Ordinary share attributable for RADA Electronic Industries' shareholders	\$0.02	\$0.08	\$(0.17)	\$(0.23)	\$(0.30)
Weighted average number of shares used to compute basic and diluted net income (loss) per share	8,862	8,869	8,899	8,919	8,919

	2009	2010	As of December 31,		2013
			2011	2012	
	(U.S. dollars in thousands)				
BALANCE SHEET DATA:					
Working capital (deficiency)	\$4,773	\$7,594	\$2,954	\$1,977	\$(152)
Total assets	18,989	27,098	24,190	22,886	22,007
Short-term credits and current maturities of long-term loans	184	4,274	6,338	7,140	7,194
Convertible note - short term	2,482	-	2,810	3,000	3,000
Long-term debt, net of current maturities	1,410	881	176	-	-
Convertible note - long term	-	2,598	-	-	-
Shareholders' equity	7,291	8,583	7,224	5,906	3,350

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Related to Our Business and Our Industry

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

We incurred operating losses in each of the last three years and may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. As of December 31, 2013, our accumulated deficit was \$68.2 million. To the extent that we incur operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations and will be required to obtain additional financing. Such financing may not be available, or, if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be adversely affected.

We will need to raise additional capital in the future, which may not be available to us; We have entered into a standstill agreement with our controlling shareholder and other shareholders after not repaying fully and timely the interest and principal due on loans provided to us.

As a consequence of our need to invest in research and development, we incurred significant bank debt and sold equity and debt securities in private placements to fund our operating requirements. Our controlling shareholder and other shareholders have provided us with loans in the aggregate amount of approximately \$7.1 million, which are secured by second degree liens over all of our properties. As of April 30, 2014 we have not timely and fully repaid

the principal and interest due on a portion of such shareholders' loans and therefore such loans are subject to acceleration upon the demand of the lenders. However, we reached a standstill agreement with our shareholders according to which, except in extraordinary circumstances, they will not take any action to accelerate the loans prior to January 31, 2015.

Our working capital requirements and the cash flow from our operating activities are likely to vary greatly from quarter to quarter, depending on the timing of orders and deliveries, the build-up of inventories, and the payment terms offered to our customers. We will need to raise additional funds for a number of uses, including:

- Working capital and operating activities;
- Implementing marketing and sales activities for our products;
- Maintaining and expanding research and development programs;
- Hiring additional qualified personnel; and
- Supporting an increased level of operations.

We may not be able to obtain additional funds on favorable terms. If we cannot raise needed funds on favorable terms, we may be required to delay, scale back or eliminate some aspects of our operations and we may not be able to:

- Develop new products;
- Enhance our existing products;
- Remain current with evolving industry standards;
- Fulfill our contractual obligations;
- Take advantage of future opportunities;
- Respond to competitive pressures or unanticipated requirements; or
- Retain our listing on the NASDAQ Capital Market.

If adequate funds are not available to us, our business, and results of operations and financial condition will be adversely affected. Any equity or debt financings may cause dilution to our then existing shareholders and may increase our financial expenses. If additional funds are raised through the issuance of equity securities, the net tangible book value per share of our ordinary shares would decrease and the percentage ownership of then current shareholders would be diluted.

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

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

performance than those of our competitors. Failure to do so could adversely affect our business, financial condition and results of operations.

3

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

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

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

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 \$20.7 million, or 95% of our revenues, in 2013, \$20.3 million, or 94% of our revenues, in 2012 and \$17.9 million, or 92% of our revenues, in 2011. The defense budgets of a number of countries may be reduced in the future. Declines in defense budgets may result in reduced demand for our products and manufacturing services. This would result in reduction in our core business' revenues and adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

A significant portion of our revenues is derived from a small number of customers. During each of the years ended December 31, 2013 and 2012, 54% of our revenues 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. If our principal customers do not continue to purchase products from us at current levels or if such customers are not retained 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, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

We are a global aviation and defense company with worldwide operations. Although over 44% of our sales are in Israel, North America and Western Europe, we expect to derive an increasing portion of our sales and future growth from other regions such as Latin America, India and Central and Eastern Europe, which may be more susceptible to political or economic instability. In addition, in many less-developed markets, we rely heavily on third-party distributors and other agents for the marketing and distribution of our products and capabilities. Many of these distributors do not have internal compliance resources comparable to ours. Business activities in many of these markets have historically been more susceptible to corruption. If our efforts to screen third-party agents and detect cases of potential misconduct fail, we could be held responsible for the noncompliance of these third parties under applicable laws and regulations, which may adversely affect our reputation and our business, financial condition or results of operations.

Exports accounted for 81% of our sales in 2013, 75% of our sales in 2012 and 64% of our sales in 2011. Our reliance on export sales subjects us to many risks inherent in engaging in international business, including:

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

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

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

business, results of operations, and cash flows.

7

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

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

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

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

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

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

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

Rules adopted by the SEC implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act impose diligence and disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in our products. Compliance with these rules may result in additional cost and expense, including for due diligence to determine and verify the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. These rules may also affect the sourcing and availability of minerals used in the manufacture of our products to the extent that there may be only a limited number of suppliers offering “conflict free” metals that can be used in our products. There can be no assurance that we will be able to obtain such metals in

sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers, shareholders and other stakeholders if we are unable to sufficiently verify the origins of the metals used in our products. We may also encounter customers who require that all of the components of our products be certified as conflict free. If we are not able to meet customer requirements, such customers may choose to disqualify us as a supplier, which could impact our sales and the value of portions of our inventory.

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

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

Risk Factors Related to Our Ordinary Shares

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

Mr. Howard Yeung beneficially owned approximately 56.6% of our outstanding shares as of April 30, 2014. 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.

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

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

- Quarterly variations in our operating results;
- Operating results that vary from the expectations of securities analysts and investors;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- Announcements of technological innovations or new products by us or our competitors;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Changes in the status of our intellectual property rights;

- Announcements by third parties of significant claims or proceedings against us;
- Additions or departures of key personnel;
- Future sales of our ordinary shares;
- Delisting of our shares from the NASDAQ Capital Market; and
- Stock market price and volume fluctuations.

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

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

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

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

We do not intend to pay dividends.

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

Risks Relating to Our Location in Israel

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

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

partners, or a significant downturn in the economic or financial condition of Israel could adversely affect our business, financial condition and results of operations.

Since its establishment in 1948, Israel has been involved in a number of armed conflicts with its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has continued into 2014. 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. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

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

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

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

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

We develop, manufacture and sell defense electronics including, avionics solutions (including avionics for unmanned aerial vehicles), airborne data/video recording and management systems, inertial navigation systems and tactical land radars for force and border protection systems. In addition, we continue to sell and support our legacy commercial aviation products and services, mainly through our Chinese subsidiary.

B. Business Overview

Industry Overview

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

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

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

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

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

Products and Services

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

Our current product lines are:

- Data/video recording and management for aerial platforms;
- Inertial navigation systems for aerial and land platforms;
- Avionics solutions (including avionics for UAVs); and
- Radars for force and border protection systems (land based).

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

Data/Video Recording and Management

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

- Flight data recorders, or FDR, for fighter aircraft;
- Digital video/audio/data recorders, or DVDR (with data transfer functions);
- High-rate (no compression) data recorders, or HRDR, for aircraft and airborne pods;
- Video recorders and airborne data servers, or VRDS, the latest approach to avionic data management;

- A wide range of head-up-displays color video cameras, or HCVC, for fighter aircraft; and
 - A variety of ground debriefing solutions, or GDS.

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

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

Our products are fully qualified and operational with fixed and rotary-wing aircraft and land vehicles, and are backed by our support experts who provide global technical and maintenance support. Our customers include leading air forces and prime integrators worldwide, such as the Israeli Air Force, or IAF, the Chilean Air Force, GE Aviation, Lockheed Martin, Boeing, HAL, Embraer, Rafael, IAI, and others.

Inertial Navigation Systems

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

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

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

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

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

Avionics Solutions

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

In 2009 we were awarded, as a prime contractor and integrator, an intelligence, reconnaissance and surveillance upgrade program by a strategic customer for its aircraft fleet. We believe that this program places us among the few companies worldwide that are performing such upgrades and will lead to other such programs in the future.

Our avionics systems are easily adapted to western, eastern, and indigenous-origin platforms of all kinds. We provide our avionic expertise as team members and subcontractors and as prime contractors for avionic upgrades. In particular, our avionics for UAVs are extremely compact through modern board connectivity solutions, use of innovative conductive cooling techniques, withstand extreme environmental conditions and are very reliable and affordable.

We offer the following avionics solutions:

- Complete integrated avionics upgrade suites for fighters and mission aircraft;
 - Mission and display computers;
 - Weapon management systems;
 - Data interface and processing computers;
 - Mission data recorders and debriefing solutions;
 - HUD video cameras;
 - INS;
 - Air data sensors; and
- Avionics for UAVs (Interface control processors, engine control computers, Payload management computers, and others).

Our avionics solutions are accepted by leading air forces and prime integrators worldwide, such as the IAF, Lockheed Martin, Boeing Company, GE Aviation, HAL, Embraer, IAI, Rafael and many others. Our units are installed onboard F-16, F-15, A-4, Jaguar, MiG-27, Su-30MKI, Dhruv Helicopter, MiG-29 and Super-Tucano aircraft, and onboard a continuously-growing number of UAVs.

Tactical Radars for Force and Border Protection Solutions

We develop advanced ground radars for tactical applications such as force protection and border protection. Our pulse Doppler software-defined radars, are solid-state, fully digital, do not include any moving parts, are compact, mobile and highly reliable, provide hemispheric spatial coverage and multi-mission capabilities and demonstrate unprecedented performance-to-price ratio.

The asymmetric and irregular conflicts in which modern armies are engaged with in recent years dictate the needs for instantaneous and real-time intelligence, minimal cycle time for target acquisition, highly accurate weapons with minimal collateral damage and discrimination between hostiles and civilians. Our tactical radars, which move with the combat units in the field and are operated by them, provide the real-time knowledge of whether and from where they are being fired at, detect all relevant threats from any firing angles (including very high angles), discriminate among threats and provide the needed intelligence for any course of action, whether counter-fire or avoidance. The

performance-over-price ratio of our radars makes them ideal solutions to the requirements imposed by the asymmetric arena.

We have developed two radar hardware platforms: the compact hemispheric radar, or CHR, which is tailored for use in combat vehicles and short-range protection applications; and the multi-mission hemispheric radar, or MHR, which is tailored for use in force and border protection applications. For each radar platform we implement several operational missions by changing the radar operational parameters.

The current operational missions of the CHR are the following:

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

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

The current operational missions of the MHR are the following:

§ The RPS-40 hostile fire detection radar system detects, tracks, classifies and locates direct and elevated threats fired at stationary or mobile forces. It computes the Point-Of-Origin (POO) and Point-Of-Impact (POI) of the threats, which may be rockets, artillery, mortars, ATGMs, RPGs, and more other threats. The system can be integrated with any protection and Command, Control, Communications, Computers and Intelligence (C4I) system and be installed at stationary bases and posts, or onboard fighting vehicles.

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

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

Support of Legacy Products

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

Business Development, Sales and Marketing

Strategy

Our business development strategy is based on the following principles:

- Maintaining our business focus on electronic systems for the military and para-military markets;
- Expanding our product offerings by adding new applications to our existing product lines and by adapting our products to land systems;
- Expanding our customer base by including our products in solutions and integrated systems for airborne and land vehicles;
- Establishing sales channels with system integrators and major manufacturers such as Embraer, HAL, Lockheed Martin, Boeing, IMI, IAI, Rafael and others; and

- Expanding our products base, business development and marketing activities to large potential markets, especially in the land systems and the Homeland Security segments, through identification of current and future applications that may become affordable by the injection of advanced commercial off-the-shelf technologies that offer superior performance and/or significant price savings, and developing new marketing channels aimed directly at these segments.

Strategic Relationships and Customers

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

Lockheed Martin. Lockheed Martin is the manufacturer of the F-16 aircraft, one of the most popular fighter aircraft in the western world today. We are supplying the DVDR and GDS for new F-16 aircraft production and for F-16 upgrade programs led by Lockheed Martin.

GE Aviation. GE Aviation is a world leader in avionics systems for fighter and commercial aircraft. We have prolonged and successful cooperation with GE for over 12 years. We are performing built-to-print production of several products for GE.

Israel Military Industries. IMI is a world leader in the field of APS for land platforms and is the developer and manufacturer of the "Iron Fist" APS. We are teamed with IMI on the integration and production of our RPS-10 radars as part of their "Iron Fist" APS solution for local and global customers. In July 2011, the "Iron Fist" APS successfully completed trials conducted by the U.S. Defense Department. The "Iron Fist" APS was selected by the Israel Defense Forces, or IDF, as the APS designed to protect the NAMER heavy infantry fighting vehicle.

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

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

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

Rafael Advanced Defense Systems Ltd. Rafael is a world leader in the development and supply of missiles, smart weapons and pods of various types. Rafael has become a strategic customer of ours as a result of our development and production of a few advanced built-to-specification products in recent years.

Boeing Defense, Space and Security. Boeing, a provider of air defense and high-energy laser systems, has acquired our MHR in 2013 for evaluation of its use as part its directed energy tactical systems. Field testing of the MHR, which was recently delivered to Boeing, are ongoing and initial results are positive.

Air Forces. We are performing a major upgrade program for an air force in Latin America. We are the sole provider of digital recorders and debriefing solutions to another air force in the region. We are the primary provider of recorders and debriefing solutions to a major Asian air force. All these air forces introduce the potential of prolonged cooperation and are strategic customers of ours.

Business Development and Marketing

Our executive chairman, Maj. Gen. (Ret.) Herzle Bodinger, our chief executive officer, Mr. Zvi Alon, and our chief business development officer, Mr. Dov Sella, lead our business development and marketing efforts. We currently employ three additional professionals in the marketing and sales of our products. Our chief technology officer and our

engineering department support our marketing and sales efforts with respect to proposal preparations and products demonstrations. In addition, we have business development consultants in Europe, South America and Asia who receive fees for sales generated by them.

The Israeli Ministry of Defense has historically supported, and continues to support, our marketing efforts through its defense export assistance branch and through various projects for the IDF and its related divisions. The Israeli Ministry of Industry, Commerce and Labor supports our marketing efforts through its Industrial Cooperation Authority by the exploitation of "Industrial Participation" commitments made to the government of Israel by major U.S. integrators such as Lockheed Martin, Boeing Company, General Dynamics Corporation, GE Aviation and others. There is no guarantee that this type of assistance will be available to us in the future.

In 2012 and 2013, our MHR and CHR production-standard prototypes underwent highly successful field tests and demonstrations in Israel and abroad. In October 2012 and 2013, we showcased our full range of tactical land radar solutions for the defense and HLS markets at the Association of the United States Army (AUSA) Annual Meeting in Washington, D.C.

Fixed Price Contracts

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

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

Principal Customers

Generally, we complete a few major transactions each year, each in an amount comprising more than 10% of our revenues for such year. As a result, each year a significant portion of our revenues is derived from a small number of customers. The following table sets forth our principal customers in 2011, 2012 and 2013:

	Percentage of Revenues					
	2011		2012		2013	
Embraer S.A.	23	%	32	%	20	%
Lockheed Martin Corporation	2	%	5	%	17	%
Hindustan Aeronautics Ltd	8	%	6	%	17	%
Israel Aerospace Industries	17	%	11	%	12	%
A Latin America Customer	8	%	9	%	11	%
Israeli Ministry of Defense	13	%	5	%	1	%
GE Aviation	7	%	4	%	2	%
Russian Aircraft Corporation MiG	3	%	11	%	2	%

Although we continually strive to increase the number of our customers, we anticipate that a significant portion of our future revenues will continue to be derived from a small number of customers. Because of our dependency on a small number of customers and on government contracts, we are subject to business risks, including changes in governmental appropriations and changes in national defense policies and priorities. Although many of the programs in which we participate as a contractor or subcontractor may extend for several years, our business is dependent upon annual appropriations and funding of new and existing contracts. Most of the contracts are subject to termination for the convenience of the customer, pursuant to which the customer pays only for reimbursement of costs incurred and the applicable profit on work performed. The Israeli government or any other government may discontinue funding purchases of our products over the long term. See Item 3D "Key Information – Risk Factors - Risks Related to Our

Business and Our Industry.”

18

Geographical Markets

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

	2011		2012		2013	
Israel	36	%	25	%	20	%
South and Latin America	37	%	41	%	31	%
Asia	16	%	21	%	25	%
North America	10	%	11	%	24	%
Europe	1	%	1	%	1	%

Competition

The markets for our products are highly competitive. Our principal competitors in the defense electronics market include Elbit Systems Ltd., GE Aviation, 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 may be able to achieve greater economies of scale and may be less vulnerable to price competition than us. We may not be able to offer our products as part of integrated systems to the same extent as our competitors or successfully develop or introduce new products that are more cost effective or offer better performance than those of our competitors. Failure to do so could adversely affect our business, financial condition and results of operations.

Government Regulations

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

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

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

Proprietary Information

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

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

Manufacturing and Supply

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

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

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

Source and Availability of Raw Materials

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

C. Organizational Structure

We own an 80% interest in CACS, a company based in China that is engaged in aircraft repair services. In 2010, we and our local partner in China, Tianzhu Forest Development Co., or Tianzhu, agreed that Tianzhu would divest its 20% interest and CACS would become a wholly-owned subsidiary. In consideration for the 20% interest in CACS, we agreed to provide Tianzhu our 80% interest in the land and building in CACS. The agreement is subject to the approval of the Chinese authorities and other procedures which need to be performed by both parties, which have not been completed as yet and the necessary approval may never be obtained.

D. Property, Plants and Equipment

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

Our executive offices and research and development facilities are located in a 17,200 square feet office facility in Netanya, Israel. The lease for this facility expires in January 2015. The aggregate annual rent for our offices in Israel was approximately \$316,000 in 2013.

ITEM 4A.

UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

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

Overview

We develop, manufacture and sell defense electronics including 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 UAVs, store management systems and interface computers) and radar systems for force and border protection solutions (ground radars for applications such as active protection systems for armored fighting vehicles, hostile fire detection, perimeter surveillance and alike). We sell and support our commercial aviation electronic products and services, mainly through our 80% -owned Chinese subsidiary.

General

Our consolidated financial statements appearing in this annual report are prepared in dollars and in accordance with U.S. GAAP. Transactions and balances originally denominated in dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into dollars in accordance with the principles set forth in the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC 830. The majority of our sales are made outside of Israel and a substantial part of them are in dollars. In addition, a substantial portion of our costs are incurred in dollars. Since the dollar is the primary currency of the economic environment in which we operate, the dollar is our functional and reporting currency and, accordingly, monetary accounts maintained in currencies other than the dollar are remeasured using the foreign exchange rate at the balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the exchange rate in effect at the date of the transaction. All monetary balance sheet accounts have been remeasured using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been remeasured using the average exchange rate for the period. The financial statements of our foreign subsidiary, whose functional

currency is not the dollar, have been translated into dollars. All balance sheet amounts have been translated using the exchange rates in effect at balance sheet date. Statement of operation amounts have been translated using the average exchange rate prevailing during the year. Such translation adjustments are reported as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Discussion of Critical Accounting Policies and Estimations

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

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

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

We also generate revenues from repair services using our automated test equipment, mainly through CACS. Revenues from services are recognized when the service is performed.

Impairment of Long-Lived Assets. We are required to assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of our assets based on a number of factors, including any significant changes in the manner of our use of the respective assets or the strategy of our overall business and significant negative industry or economic trends. Upon determination that the carrying value of a long-lived asset may not be recoverable, based upon a comparison of expected undiscounted future cash flows to the carrying amount of the asset, an impairment charge is recorded in the amount of the carrying value of the asset exceeds its fair value. As of December 31, 2013 and 2012, 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, 2013 and 2012(our annual assessment date), no impairment indicators have been identified. As a result, step two was not required.

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 2013 and 2012, we entered into forward contracts in order to hedge certain expense transactions denominated in NIS. Our forward contracts did not qualify as hedging instruments under ASC 815. Changes in the fair value of forward contracts are reflected in the consolidated statements of operations as financial income or expense and not against the Other Comprehensive Income. As of December 31, 2013, the fair value of the outstanding forward contracts was \$46,000, which was recorded in other receivables against financial income and as of December 31, 2012, the fair value of the outstanding forward contracts was \$151,000, which was accrued against financial expenses.

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. Cost of raw materials is determined using the "standard cost" method. 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 \$313,000, \$72,000 and \$136,000 as of December 31, 2013, 2012 and 2011, 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 \$36,000, \$15,000 and \$7,000 as of December 31, 2013, 2012 and 2011, respectively.

Explanation of Key Income Statement Items

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

Cost of Revenues. Cost of revenues consist primarily of manufacturing costs, depreciation of fixed assets, project development costs, amortization of capitalized software and inventories write-downs.

Marketing and Selling Expenses Marketing and selling expenses consist primarily of expenses for payments for marketing and business development personnel, marketing activities, public relations, promotional materials, amortization of customer relationship assets, 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 salary expenses for research and development personnel, use of subcontractors and other costs incurred in the process of developing product masters.

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

Results of Operations

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

	Year Ended December 31,					
	2011		2012		2013	
Revenues	100.0	%	100.0	%	100	%
Cost of revenues	71.1	%	75.3	%	78.9	%
Gross profit	28.9	%	24.7	%	21.1	%
Research and development, net	13.1	%	11.2	%	6.7	%
Marketing and selling	10.8	%	7.8	%	9.0	%
General and administrative	10	%	9.9	%	8.8	%
Operating income (loss)	(5	)%	(4.2	)%	(3.4)%
Financial expenses, net	(2.8	)%	(5.3	)%	(8.8)%
Net income (loss)	(7.8	)%	(9.5	)%	(12.2)%
Net income attributable to non-controlling interest	0.0	%	0.0	%	0.0	%
Net income (loss) attributable to RADA shareholders	(7.8	)%	(9.5	)%	(12.2)%

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Revenues. Our revenues increased by 1% to \$21.8 million in 2013 from \$21.6 million in 2012.

Cost of Revenues. Cost of revenues increased by 6% to \$17.2 million in 2013 from \$16.2 million in 2012. The increase is primarily due to the erosion of the dollar against the NIS. We expect that our cost of revenues as a percentage of revenues will be similar in 2014.

Gross Profit. Our gross profit decreased by 13% to \$4.7 million in 2013 from \$5.3 million in 2012. Our profit margin was approximately 21% in 2013 and 25% in 2012. The decrease in gross profit in 2013 was mainly attributable to the increase in the cost of revenues.

Research and Development Expenses, Net. Our research and development expenses, net, decreased by 40% to approximately \$1.5 million in 2013 (net of \$15,000 of grants received from the OCS) from \$2.4 million in 2012 (net of \$142,000 in grants received from the OCS). We expect that our research and development expenses in 2014 will be lower than in 2013 as our inertial navigation and radar products are mature enough to enable business development and marketing activities.

Marketing and Selling Expenses. Marketing and selling expenses increased by 18% to approximately \$2.0 million in 2013 from \$1.7 million in 2012. This increase is primarily due to an increase in commissions and the costs associated with the engagement of a U.S. market consultant.

General and Administrative Expenses. General and administrative expenses decreased by 10% to approximately \$1.9 million in 2013 from \$2.2 million in 2012. We expect that in 2014 our general and administrative expenses will remain similar to those we incurred in 2013.

Financial Expenses, Net. Our financial expenses, net, increased by 66% to \$1.9 million in 2013 compared to \$1 million in 2012. Our interest expense, net, was \$729,000 in 2013 compared to \$376,000 in 2012. Our expense resulting from the amortization of the discount on a convertible note and loans from shareholders was \$489,000 in 2013 compared to \$516,000 in 2012. Foreign currency exchange differences, net resulted in loss of \$120,000 in 2013 compared to income of \$105,000 in 2012, primarily due to changes in the NIS/dollar exchange rate. We expect that in 2014 our financial expenses will decrease based on possible decrease in loan interest.

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

Revenues. Our revenues increased by 11% to \$21.6 million in 2012 from \$19.4 million in 2011. The increase in revenues is primarily attributed to two major projects, which were delayed in 2011 and resumed during the second half of 2012.

Cost of Revenues. Cost of revenues increased by 18% to \$16.2 million in 2012 from \$13.8 million in 2011. The increase is primarily due to a loss provision in one of our projects in the avionic upgrade product line.

Gross Profit. Our gross profit decreased by 5% to \$5.3 million in 2012 from \$5.6 million in 2011. Our profit margin was approximately 25% in 2012 and 29% in 2011. The decrease in gross profit in 2012 was mainly attributable to the increase in the cost of revenues.

Research and Development Expenses, Net. Research and development expenses, net decreased by 5% to approximately \$2.4 million in 2012 from \$2.5 million in 2011. The decrease is primarily attributable to reduced spending on the development of our INS and radar technology.

Marketing and Selling Expenses. Marketing and selling expenses decreased by 21% to approximately \$1.7 million in 2012 from \$2.1 million in 2011. This decrease is primarily due to lower commissions that we paid in 2012 compared to 2011.

General and Administrative Expenses. General and administrative expenses increased by 10% to approximately \$2.1 million in 2012 from \$1.9 million in 2011, primarily due to lower payments received from judgments relating to completed litigation.

Financial Expenses, Net. Our financial expenses, net, increased by 116% to \$1 million in 2012 compared to \$0.5 million in 2011. Our interest expense, net, was \$376,000 in 2012 compared to \$159,000 in 2011. Our expense resulting from the amortization of discount on a convertible note and loans from shareholders was \$516,000 in 2012 compared to \$212,000 in 2011. Foreign currency exchange differences, net resulted in income of \$105,000 in 2012 compared to income of \$107,000 in 2011, primarily due to changes in the NIS/dollar exchange rate.

Our Location in Israel

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

Corporate Tax Rate

Israeli companies were generally subject to corporate tax at the rate of 25% in 2013. The tax rate is expected to increase to 26.5% in 2014.

As of December 31, 2013, our net operating loss carry forward for Israeli tax purposes was approximately \$67.5 million, including a capital loss carry forwards of approximately \$3.8 million.

Trade Relations

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

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

Impact of Currency Fluctuation and of Inflation

A significant portion of the cost of our Israeli operations, primarily personnel and facility-related, is incurred in NIS. Therefore, our NIS related costs, as expressed in dollars, are influenced by the exchange rate between the dollar and the NIS. In addition, if the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the dollar, or if the timing of such devaluations were to lag considerably behind inflation, our cost as expressed in

dollars may increase. NIS linked balance sheet items, may also create foreign exchange gains or losses, depending upon the relative dollar values of the NIS at the beginning and end of the reporting period, affecting our net income and earnings per share. Although we may use hedging techniques, we may not be able to eliminate the effects of currency fluctuations. Therefore, exchange rate fluctuations could have a material adverse impact on our operating results and share price. The caption "Financial expenses, net" in our consolidated financial statements includes the impact of these factors as well as traditional interest income or expense. See Note 14 to our consolidated financial statements.

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

	Year Ended December 31,									
	2009		2010		2011		2012		2013	
NIS vs. U.S. Dollar	(0.7	)%	(6.0	)%	7.7	%	(2.3	)%	(7.0)%
Israeli Consumer Price Index	3.9	%	2.7	%	2.2	%	1.6	%	1.9	%

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

Recently Issued Accounting Standards

Not applicable.

B. Liquidity and Capital Resources

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

As of December 31, 2013, we owed \$0.9 million under an annual line of credit and \$0.93 million of secured borrowing with a bank against specific accounts receivable. In addition, the Banks provided \$1.2 million of guarantees on our behalf, mainly to our customers and suppliers in the ordinary course of business. The guarantees are secured by a first priority floating charge on all of our assets and by a fixed charge on our property in Beit She'an, goodwill (intangible assets), unpaid share capital and insurance rights (rights to proceeds on insured assets in the event of loss). Our agreements with the Banks prohibit us from: (i) selling or otherwise transferring any assets except in the ordinary course of business; (ii) placing a lien on our assets without the Banks' consent; or (iii) declaring dividends to our shareholders.

We had working capital as of December 31, 2012 of \$2 million and a working capital deficit of \$0.152 million at December 31, 2013. Cash and cash equivalents amounted to \$1.2 million as of December 31, 2012 compared to \$2.1 million as of December 31, 2013. Short-term and long-term bank deposits and restricted bank deposits amounted to \$1.3 million as of December 31, 2012 compared to \$1.0 million as of December 31, 2013.

In July 2008, we borrowed \$1.5 million from Faith Content Development Limited, or FCD, a company controlled by Mr. Yeung, our controlling shareholder, in order to facilitate further development of our INS technology. This loan carried interest at LIBOR + 3% payable at the beginning of every quarter. On August 29, 2012, FCD agreed to postpone the repayment of \$1.5 million of the principal that was due to be repaid, so that 50% of such amount would be paid on December 15, 2012 and the remaining 50% would be payable on February 15, 2013.

In August 2013, FCD agreed to reissue \$350,000 of the loan that had been previously repaid by our company in March 2013 and to facilitate an additional short term loan in the amount of up to \$1,000,000 to be repaid by December 31, 2013, or the Credit Facility. The Credit Facility provided for interest at 3.5% per annum above the three month LIBOR rate. In September 2013, we borrowed \$850,000 under the Credit Facility and the total amount of the loan increased to \$1.2 million. As of April 30, 2014, we repaid the amount due under the Credit Facility but not the remaining balance of the original INS loan (\$1,150,000). We continue to incur default interest payment at the rate of Libor +7% on such loan.

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

In September 2011, we entered into a revolving loan agreement with FCD. The loan was in the principal amount of \$1.7 million, bearing interest of three month LIBOR + 2.5% per annum. The principal and all the unpaid and accrued interest was paid on February 29, 2012 with the proceeds from a new loan from FCD and Mr. Ben Zion Gruber, a shareholder and member of our board of directors. The loan was approved by our Audit Committee and Board of Directors, and the transaction was also approved by our shareholders at an extraordinary meeting of shareholders held in January 2012. FCD provided \$2.7 million and Mr. Ben Zion Gruber provided \$300,000. We used \$1.7 million of the loan to repay in full all of the amounts due and payable under the September 2011 loan, as described above. The remaining portion of the loan was added to our working capital. The loan bears interest at the rate of the greater of three months LIBOR + 5% per annum, or 7% per annum. Interest is payable quarterly in arrears and the principal was due on February 28, 2014. In addition, on February 28, 2012, we issued to FCD and to Mr. Ben Zion Gruber warrants to purchase 1,080,000 and 120,000 ordinary shares, respectively, at an exercise price of \$2.50 per share. These warrants have a term of three years. The second degree floating charge that was granted with respect to the convertible note of 2007 secures this loan as well. As of December 31, 2013, the outstanding balance of this loan was \$3.0 million.

Due to our cash flow and working capital difficulties we were not able to timely and fully make the repayment of interest and principal amounts to our shareholders as described above. As a result we are required to pay the default interest on account of all such loans and all such loans may be accelerated by our lenders. However, we have entered into a "standstill agreement" with our lenders, according to which, except in extraordinary circumstances, no action will be taken to accelerate the loans or to exercise their rights prior to January 31, 2015. As of April 30, 2014, we continue to incur default interest based on this agreement.

We made capital expenditures of \$351,000 in the year ended December 31, 2013, primarily for machinery and equipment. We currently do not have any significant capital spending or purchase commitments.

Cash Flows

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

	Year ended December 31,		
	2011	2012	2013
	(U.S. dollars in thousands)		
Net cash provided by (used in) operating activities	(1,372)	(752)	1,432
Net cash provided by (used in) investing activities	147	(219)	(85)
Net cash provided (used in) by financing activities	1,475	1,008	(435)
Effect of exchange rate changes on cash and cash equivalents	7	20	61
Net increase in cash and cash equivalents	257	57	973
Cash and cash equivalents at beginning of the year	850	1,107	1,164
Cash and cash equivalents at end of the year	1,107	1,164	2,137

Net cash used in operating activities was \$1,400,000 in 2013. This was primarily due to a decrease in trade receivables of \$491,000, depreciation and amortization of \$752,000 and amortization expense on a convertible note and loans of \$489,000. This was offset by an increase in other receivables of \$484,000, costs and estimated earnings in excess of billings, net of \$236,000, an increase in trade payables of \$981,000 and an increase in other payables of \$600,000. Net cash used in operating activities was \$700,000 in 2012. This was primarily due to a decrease in trade receivables of \$1.5 million, a decrease in trade payables of \$400,000, a decrease in other payables of \$390,000, depreciation and amortization of \$900,000 and amortization expense on a convertible note and loans of \$516,000. This was offset by an increase in other receivables of \$339,000, costs and estimated earnings in excess of billings; net of \$900,000. Net cash used in operating activities was \$1.4 million in 2011. This was primarily due to an increase in inventory of \$2.1 million, a decrease in trade payables of \$700,000 and a decrease in other payables of \$2,069,000. This was offset by a decrease in trade receivables of \$2.5 million, costs and estimated earnings in excess of billings, net of \$1.2 million, depreciation and amortization of \$1.0 million and amortization expense on a convertible note and loans of \$212,000.

Net cash used by investing activities was approximately \$85,000 in 2013, primarily due to a change in restricted cash of \$282,000 and our investment of \$370,000 in property, plant and equipment. Net cash used by investing activities was approximately \$219,000 in 2012, primarily due to a change in restricted cash of \$472,000 and our investment of \$688,000 in property, plant and equipment. Net cash provided by investing activities was approximately \$147,000 in 2011, primarily due to a change in restricted cash of \$348,000.

Net cash provided by financing activities was \$0.435 million in 2013, reflecting net proceeds of \$0.9 million from a shareholder loans transaction. Net cash provided by financing activities was \$1.01 million in 2012, reflecting net proceeds of \$1.8 million from a shareholder loan transaction. Net cash provided by financing activities was \$1.5 million in 2011, reflecting net proceeds of \$1.7 million from a shareholder loan transaction.

As a result of the foregoing, at December 31, 2013, we had a working capital deficit of \$0.152 million and cash and cash equivalents of \$2.1 million as compared to working capital of \$2.0 million and cash and cash equivalents of \$1.2 million at December 31, 2012.

We expect to fund our short-term liquidity needs, including our obligations under our credit facilities, other contractual agreements and any other working capital requirements, from our cash and cash equivalents, operating cash flow and our credit facilities. We believe that our current cash and cash equivalents, credit facilities and our expected cash flow from operations will be sufficient to meet our cash requirements in 2014.

As of December 31, 2013, warrants to purchase 2,778,947 of our ordinary shares were outstanding: (i) a warrant to purchase 1,578,947, which was issued on December 10, 2007 in connection with the issuance of a \$3.0 million convertible note to our controlling shareholder at an exercise price of \$2.38 per share, exercisable until October 15, 2014; and (ii) warrants to purchase 1,200,000 ordinary shares, which were issued on February 28, 2012 in connection with the loan agreement entered into in February 2012 at an exercise price of \$2.50 per share, exercisable until February 28, 2015. To the extent that the warrants will be exercised, the proceeds will be added to our working capital.

C. Research and Development, Patents and Licenses

Research and Development

Our research and development investments focus on improvements to our existing products and the development of complementary products that would provide continued support for our current customers and would improve our capability to market our products to new customers. In 2013, 2012 and 2011 we incurred \$1.5 million, \$2.4 million and \$2.5 million, respectively, of research and development expenses, net. The vast majority of these expenses are attributable to the research on our radars. In 2014, we will continue to invest in the research and development of new products. As of December 31, 2013, we employed 47 engineers in research and development who concentrate mainly on research and development activities generated through customer orders and to a lesser extent on internal research and development activities.

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

We are committed to pay royalties to the Israel - United States Binational Industrial Research and Development Foundation at the rate of 5% of the sales proceeds up to 150% of the research and development expenses financed by the foundation. Our total obligation for royalties, net of royalties paid or accrued, totaled approximately \$2.07 million as of December 31, 2013.

D. Trend Information

In 2013, our revenues increased by 1% compared to our revenues in 2012, and we expect that in 2014 our revenues will be similar to 2013. However, our revenues are subject to government budgets, and we cannot provide any assurances that the economic climate will not result in the cancellation or suspension of certain projects or programs.

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

- Avionics solutions (including for UAVs);
- Digital Video & Data Recorders and GDS;
- INS; and
- Tactical radar systems for force and border protection solutions.

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

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our minimum contractual obligations and commercial commitments, as of December 31, 2013 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Long-term debt obligations	\$ 8,307,000	\$ 8,307,000	-	-	-
Operating lease obligations	949,000	688,000	261,000	-	-
Total	\$ 9,256,000	\$ 8,995,000	\$ 261,000	-	-

In addition, we have long-term liabilities for severance pay for certain employees that are calculated pursuant to Israeli law generally based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Under Israeli law, employees are entitled to one month's salary for each year of employment or a portion thereof upon termination of employment in certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. As of December 31, 2013 our severance pay liability was \$569,000.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

Name	Age	Position
Herzle Bodinger	71	Executive Chairman of the Board of Directors
Zvi Alon	60	Chief Executive Officer
Dov Sella	58	Chief Business Development Officer
Shiri Lazarovich	39	Chief Financial Officer
Oleg Kiperman	60	Chief Technology Officer
Adrian Berg	66	Director
Roy Kui Chuen Chan	67	Director
Ben Zion Gruber (1)(2)	55	Director
Michael Letchinger	58	Director
Nurit Mor (1)(2)	70	Outside director
Elan Sigal (1)(2)	46	Outside director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

Messrs. Chan and Gruber will serve as directors until our 2015 annual general meeting of shareholders. Messrs. Bodinger and Letchinger will serve as directors until our 2016 annual general meeting of shareholders. Mr. Berg will serve as a director until our 2014 annual general meeting of shareholders. Mrs. Mor and Mr. Elan Sigal serve as outside directors pursuant to the provisions of the Israeli Companies Law. Mrs. Mor is serving a three-year term until October 21, 2015 and Mr. Elan Sigal is serving a three-year term until August 29, 2016.

Herzle Bodinger has served as the executive chairman of our board of directors since July 1998. General (Res.) Bodinger first joined us in May 1997 as the chief executive officer of our U.S. subsidiary and was appointed our chief executive officer in June 1998. General Bodinger served as our chief executive officer from 1998 until 2001 and from June 2006 until July 2007. General Bodinger served as the Commander of the IAF from January 1992 through July 1996. During the 35 years of his service in the IDF, he also served as a fighter pilot while holding various command positions. General Bodinger holds a B.A. degree in Economics and Business Administration from the Bar-Ilan University and completed the 100th Advanced Management Program at Harvard University.

Zvi Alon has served as our chief executive officer since July 2007. Mr. Alon joined us in January 2000 and served as our chief operating officer until March 2003 when he was appointed vice president of marketing and sales. From 1982 to 1999, Mr. Alon served in various managerial positions with the IAI, as director of business development and

marketing, director of electrical and avionics engineering, avionics programs manager and group leader and operational definition officer of the "Lavi" project office. Previously, Mr. Alon served in the IAF for ten years. Mr. Alon holds a B.Sc. degree in Mathematics and Computer Science and a M.Sc. degree in Computer Science, both from Tel Aviv University.

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

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

Oleg Kiperman has served as our chief technology officer since July 2007. Mr. Kiperman joined us in 1984 as project manager of several embedded avionics development programs and in 2000 was named as our director of engineering. From 1982 until 1984, Mr. Kiperman served as a hardware development team leader at Tadiran developing digital communication systems. From 1977 until 1982, Mr. Kiperman served as a senior engineer in the IAF Weapons Control Branch. Mr. Kiperman holds a B.Sc. degree in Electrical Engineering from the Technion - Israeli Institute of Technology.

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

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

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

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

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

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

B. Compensation

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2013.

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All directors and executive officers as a group, consisting of 11 persons	\$ 1,098,540	\$ 273,338

During the year ended December 31, 2013, we paid each of our outside directors a per-meeting attendance fee of NIS 1,850 (approximately \$500) and an annual fee of NIS 29,125 (approximately \$8,000).

As of April 30, 2014, our director, Mr. Ben Zion Gruber, held warrants to purchase 120,000 ordinary shares at an exercise price of \$2.50 per share that were issued pursuant to the loan agreement we entered into in February 2012. The warrants expire in February 2015. No other board members or executive officers held any options or warrants of our company as of that date.

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