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RADA ELECTRONIC INDUSTRIES LTD
Form 20-F/A
August 29, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 20-F/A
AMENDMENT NO. 1

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR
12 (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, 2001
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
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 42504, Israel
(Address of Principal Executive Offices)

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

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Ordinary Shares, NIS 0.005 Par Value
(Title of Class)

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

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 0.005 per share.....13,816,839
(as of December 31, 2001)

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 X No _____

Indicate by check mark which financial statement item the registrant has elected
to follow:

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Item 17___ Item 18 X

This annual report on Form 20-F is incorporated by reference into the registrant's Registration Statement on Form F-3, Registration No. 333-12074.

ITEM 18. FINANCIAL STATEMENTS

We are filing our audited consolidated financial statements pursuant to SEC Temporary Final Rule and Final Rule: Requirements for Arthur Andersen LLP Auditing Clients; Rel. No. 33-8070.

In our unaudited balance sheets as of December 31, 2000 and 2001 we classified our accrued severance pay net of deposits with insurance companies. Under Israeli law and labor agreements, the Company is required to make severance and/or pension payments to employees who are dismissed, as well as to those leaving employment under certain other circumstances. In respect of these liabilities, regular deposits are made with various severance pay and pension funds and insurance companies. On advice of our auditors and in accordance with US GAAP, our audited balance sheets as of December 31, 2000 and 2001 classify the total amount of severance liability as a long-term liability and the deposits as a long-term asset rather than classifying our accrued severance pay net of deposits with severance pay and pension funds and insurance companies, which classification has no effect on our results of operations and shareholders equity.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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ITEM 19 EXHIBITS

INDEX TO EXHIBITS

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Exhibit -----	Description -----
3.1*	Memorandum of Association of the Registrant
3.2*	Articles of Association of the Registrant
4.1*	Specimen of Share Certificate
10.1*	1993 Employee Stock Option Plan, as amended
10.2*	1994 Employee Stock Option Plan, as amended
10.3*	1996 Employee Stock Option Plan, as amended
10.4*	1999 Employee Stock Option Plan, as amended
10.5*	Form of warrants to directors
10.6*	Loan Agreement dated June 3, 2001 between the Registrant and Mr. Howard Yeung
10.7*	Deed of Termination of Joint Venture Agreement dated June 3, 2001, effective as of January 1, 2000 and Agreement for the acquisition of part of the issued share capital of New Reef Holding Ltd. dated June 3, 2001, effective as of January 1, 2000
10.8**	Letter Agreement dated May 15, 2002 between the Registrant and the authorized representative of Howard P.L. Yeung re Conversion of Outstanding Loans into Ordinary Shares and Warrants
10.9**	Letter Agreements dated May 15, 2002 between the Registrant and the Investors re Private Placement of Ordinary Shares and Warrants
23.1	Consent of Kost, Forer & Gabbay, Certified Public Accountants (Israel)
99.1	CEO Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002
99.2	CFO Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002

* Filed as an exhibit to our Annual Report on Form 20-F for the year ended December 31, 2000 and incorporated herein by reference.

** Filed as an exhibit to our Annual Report on Form 20-F for the year ended December 31, 2001 and incorporated herein by reference.

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RADA ELECTRONIC INDUSTRIES LTD.

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
RADA ELECTRONIC INDUSTRIES LIMITED

We have audited the accompanying consolidated balance sheets of RADA Electronic Industries Limited and its subsidiaries (the "Company") as of December 31, 2000 and 2001 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2000 and 2001, and the results

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of its operations and cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/Luboshitz Kasierer
LUBOSHITZ KASIERER
ARTHUR ANDERSEN

Tel-Aviv, Israel
April 28, 2002

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RADA ELECTRONIC INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

In thousands of U.S. dollars, except share and per share data

		DECEMBER 31,	
	NOTE	2001	2000
	----	-----	-----
Current assets			
Cash and cash equivalents		\$ 74	\$ 20
Trade receivables (net of allowance for doubtful accounts of \$189 and \$141 as of December 31, 2001 and 2000, respectively)		817	894
Other receivables and prepaid expenses	(3)	67	687
Recoverable costs and accrued profits not yet billed	(4)	109	192
Inventories	(5)	2,022	1,641
		3,089	3,434
Long-term assets			
Inventories in excess of amounts expected to be sold currently	(5)	-	347
Long-term receivables	(6)	1,163	911
		1,163	1,258
Severance pay funds		1,351	1,505
Property and equipment, net			
Cost	(7)	18,631	19,783
Less - accumulated depreciation		12,010	11,768

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Total property and equipment, net		6,621	8,015
		-----	-----
Other assets, net	(8)	4,108	4,662
		-----	-----
Total assets		\$ 16,332	\$ 18,874
		=====	=====

The accompanying notes are an integral part of these consolidated financial statements

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RADA ELECTRONIC INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

In thousands of U.S. dollars, except share and per share data

		DECEMBER 31,	
	NOTE	2001	2000
	----	-----	-----
Current liabilities			
Short-term bank credits and loans	(9)	\$ 5,912	\$ 5,581
Current maturities of long-term debt	(11)	8	43
Trade payables		797	1,020
Other liabilities and accrued expenses	(10)	2,825	2,924
Deferred revenues		2,363	2,408
Billing in excess of incurred costs and profits	(4)	224	126
		-----	-----
Total current liabilities		12,129	12,102
		-----	-----
Long-term liabilities			
Long-term debt, net of current maturities	(11)	-	8
Accrued severance pay		1,784	1,938
Loan due to a related party	(16)	1,061	-
		-----	-----
		2,845	1,946
		-----	-----
Contingencies, commitments and liens	(12)		
Minority interests		658	757
		-----	-----
Shareholders' equity	(13)		
Share capital			
Ordinary shares of NIS 0.005 par value:			
Authorized - 26,000,000 shares; issued			
and outstanding - 13,816,839 shares as			
of December 31, 2001 and 2000		103	103

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Additional paid-in capital	56,646	56,646
Accumulated deficit	(56,049)	(52,680)
	-----	-----
Total shareholders' equity	700	4,069
	-----	-----
Total liabilities and shareholders' equity	\$ 16,332	\$ 18,874
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

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RADA ELECTRONIC INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands of U.S. dollars, except per share data

		FOR THE YEAR ENDED DECEMBER 31,		
	NOTE	2001	2000	1999
	----	-----	-----	-----
Revenues				
Sale of ATE products and avionics equipment		\$ 5,784	\$ 2,530	\$ 9,715
Sale of aircraft spare parts and repair and maintenance services		1,246	848	658
Leasing of equipment		1,312	438	-
		-----	-----	-----
		8,342	3,816	10,373
		-----	-----	-----
Cost of revenues	(15A)	7,416	5,307	12,707
		-----	-----	-----
Gross profit (loss)		926	(1,491)	(2,334)
		-----	-----	-----
Operating expenses				
Research and development expenses	(15B)	534	730	428
Marketing and selling expenses		1,512	1,292	1,540
General and administrative expenses		2,105	2,320	2,776
		-----	-----	-----
Total operating expenses		4,151	4,342	4,744
		-----	-----	-----
Operating loss from continuing operations		(3,225)	(5,833)	(7,078)
Financing expenses, net	(15C)	(210)	(861)	(1,141)
Other income (expenses), net	(15D)	(30)	563	505
		-----	-----	-----
		(3,465)	(6,131)	(7,714)

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Equity in losses of affiliated company	-	-	(101)
Minority interest in losses of subsidiaries	96	32	292
	-----	-----	-----
Loss from continuing operations	(3,369)	(6,099)	(7,523)
Gain from disposal of discontinued segment	-	-	306
	-----	-----	-----
Net loss	\$ (3,369)	\$ (6,099)	\$ (7,217)
	=====	=====	=====
Basic and diluted net loss per share:			
From continuing operations	\$ (0.24)	\$ (0.46)	\$ (0.77)
	=====	=====	=====
From discontinued segment	-	-	\$ 0.03
	=====	=====	=====
Net loss	\$ (0.24)	\$ (0.46)	\$ (0.74)
	=====	=====	=====
Weighted average number of ordinary shares used in computing basic and diluted net loss per share (in thousands)	13,817	13,305	9,722
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

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RADA ELECTRONIC INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (DEFICIENCY)
In thousands of U.S. dollars, except share data

	NUMBER OF ORDINARY SHARES -----	SHARE CAPITAL -----	ADDITIONAL PAID-IN CAPITAL -----	RECEIVABLE ON ACCOUNT OF SHARES -----	RECEIPT ACCOUNT SHARE -----
Balance at January 1, 1999	6,531,342	\$ 94	\$ 39,176	\$ -	\$
Issuance of ordinary shares (*)	3,110,000	4	6,310	240	
Conversion of loans to ordinary shares	2,496,016	3	4,873	-	
Issuance of ordinary shares in consideration for services performed	60,000	(**)	90	-	
Consideration received for shares to be issued	-	-	-	-	12

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Net loss	-	-	-	-	-
Balance at December 31, 1999	12,197,358	101	50,449	240	12
Issuance of ordinary shares (*)	1,458,372	2	5,125	-	(12)
Amount received on account of shares	-	-	240	(240)	
Conversion of loan to ordinary shares	7,292	(**)	28	-	
Issuance of ordinary shares in connection with settlement of debt	153,817	(**)	804	-	
Net loss	-	-	-	-	-
Balance at December 31, 2000	13,816,839	103	56,646	-	
Net loss	-	-	-	-	-
Balance at December 31, 2001	13,816,839	\$ 103	\$ 56,646	\$ -	\$ -

(*) Net of issuance expenses of approximately \$263 and \$60 in the years 1999 and 2000, respectively.

(**) Represents an amount less than \$1.

The accompanying notes are an integral part of these consolidated financial statements

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RADA ELECTRONIC INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
In thousands of U.S. dollars

	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss	\$ (3,369)	\$ (6,099)	\$ (7,000)
Adjustments to reconcile net loss to net cash used in operating activities (See Appendix A)	2,468	1,951	3,000

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Net cash used in operating activities	(901)	(4,148)	(3,
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(236)	(1,020)	(1,
Capitalization of software development costs	(104)	(243)	(
Grant of loans to employees, officers and directors	(9)	-	
Sale of a consolidated subsidiary (See Appendix B)	(14)	-	
Net cash used in investing activities	(363)	(1,263)	(1,
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares and amount received on account of shares, net	-	5,007	6,
Increase (decrease) in short-term bank credits and loans, net	361	377	(1,
Proceeds from issuance of long-term debt and loan to related party	1,000	15	
Repayment of long-term debt	(43)	(146)	(
Net cash provided by financing activities	1,318	5,253	4,
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	54	(158)	(
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
	20	178	
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	\$ 74	\$ 20	\$
Noncash transactions:			
Conversion of convertible debt, net	\$ -	\$ 28	\$ 4,
Ordinary shares issued in settlement of debt	\$ -	\$ 804	\$
Receivable from shareholder	\$ -	\$ -	\$
Offset of advance from investment in affiliated company	\$ -	\$ -	\$ 1,
Reclassification of property and equipment to inventory	\$ 325	\$ -	\$
Supplement disclosures of cash flow activities -			
Net cash paid during the year for:			
Income taxes	\$ 13	\$ 69	\$
Interest	\$ 525	\$ 520	\$

The accompanying notes are an integral part of these consolidated financial statements

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RADA ELECTRONIC INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)
In thousands of U.S. dollars

	DECEMBER 31,		
	2001	2000	1
	-----	-----	-----
APPENDIX A -			
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH			
USED IN OPERATING ACTIVITIES:			
Depreciation and amortization	\$ 1,710	\$ 1,950	\$
Write-off of inventories	-	200	
Loss on investment in affiliated company	-	-	
Write-off of property and equipment and other assets	251	217	
Gain on sale of discontinued segment	-	-	
Loss on sale of a consolidated subsidiary	30	-	
Minority interest in losses of subsidiaries	(96)	(32)	
Equity in losses of affiliated company	-	-	
Others	61	29	
Decrease in trade receivables	21	693	
Decrease in other receivables and prepaid expenses	559	236	
Decrease (increase) in inventories	7	(558)	
Decrease (increase) in long-term receivables	47	(56)	
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts, net	181	560	(
Decrease in trade payables	(159)	(684)	(
Decrease in other liabilities and accrued expenses	(99)	(1,591)	(
Increase (decrease) in deferred revenues	(45)	1,159	
Increase (decrease) in accrued severance pay, net	-	(172)	
	-----	-----	-----
	\$ 2,468	\$ 1,951	\$
	=====	=====	=====
		DECEMBER 31,	
		2001	

APPENDIX B - SALE OF A CONSOLIDATED SUBSIDIARY (JETBORNE)			
Working capital (excluding cash and cash equivalents)	\$ 69		
Property and equipment	2		
Long-term assets	238		
Minority interest	(3)		
Loss on realization	(30)		
Long-term receivable	(290)		

	\$ (14)		

The accompanying notes are an integral part of these consolidated financial statements

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of U.S. dollars except share and per share data

NOTE 1 - GENERAL

- A. RADA Electronic Industries Limited, an Israeli corporation (the "Company") is engaged in the development, manufacturing and sale of Automated Test Equipment ("ATE") products, avionics equipment and aviation data acquisition and debriefing systems.
- B. As reflected in the consolidated financial statements, as of December 31, 2001, the Company had an accumulated deficit of \$56,049 and a working capital deficiency of \$9,040. Subsequent to balance sheet date, a shareholder agreed to convert a \$1.0 million loan granted to the Company into shares, under certain conditions. In addition, this shareholder agreed to advance to the Company an additional \$500 as a loan. Three other shareholders committed to purchase shares of the Company in the amount of approximately \$950, under certain conditions. The Company believes that the actions described above, together with its improved operations will enable it to finance its liquidity needs at least through December 31, 2002. See Note 18(1) and 18(2).
- C. The Company operates a test and repair shop based on the use of its ATE in Beijing, China through its 80% owned Chinese subsidiary, Beijing Huari Aircraft Components Maintenance and Services Co. Ltd. ("CACS"). CACS was established as a joint venture company with a third party, which owns the remaining 20% equity interest.
- D. The Company sold aircraft spare parts through Jetborne International, Inc. ("Jetborne"), which was 75% owned by the Company until December 31, 2001. Jetborne historically purchased inventory in bulk, mainly at auctions, and sold the spare parts over long periods of time through a computerized communication system through which sales and purchases of airplanes spare parts are effected. In March 2002, the Company sold its 75% equity interest in Jetborne in consideration for one dollar and recorded a loss of \$30. As of December 31, 2001, the Company did not consolidate the assets and liabilities of Jetborne in the December 31, 2001 balance sheet, as the Company did not have control over Jetborne as of December 31, 2001 and none of its directors or representatives had functioned as directors or managers of Jetborne. The Company consolidated Jetborne's results of operations for the year 2001 and did not include its assets and liabilities as of December 31, 2001 (see Note 6).
- E. As for major customer see Note 17.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

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In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, are as follows:

A. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

B. FINANCIAL STATEMENTS IN U.S. DOLLARS

The consolidated financial statements of the Company have been prepared in U.S. dollars as the currency of the primary economic environment in which the operations of the Company and its subsidiaries (the "Group") are conducted is the U.S. dollar. Most of the Group's sales are made outside Israel in U.S. dollars, as is a substantial portion of its expenses and capital issuances. Thus, the functional and reporting currency of the Group is the U.S. dollar.

Transactions and balances denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" ("SFAS 52") of the U.S. Financial Accounting Standards Board ("FASB"). Accordingly, items have been remeasured as follows:

- Monetary items - at the exchange rate in effect on the balance sheet date.
- Nonmonetary items - at historical exchange rates.
- Revenues and expense items - at the exchange rates in effect as of the date of recognition of those items (excluding depreciation and other items deriving from non-monetary items).

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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B. FINANCIAL STATEMENTS IN U.S. DOLLARS (Cont.)

All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of operations. The representative rate of exchange at December 31, 2001 was U.S.\$1.00 = NIS 4.416; and at December 31, 2000 and 1999 = NIS 4.041 and NIS 4.153, respectively.

C. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The Company consolidates the financial statements of all subsidiaries with greater than 50% ownership and control. The major subsidiary is CACS. The Company sold its 75% equity interest in Jetborne and therefore consolidated only the statement of operations for the year ended December 31, 2001 (see Note 6). Significant intercompany balances and transactions have been eliminated in consolidation.

D. CASH EQUIVALENTS

All highly liquid investments that are not restricted as to withdraw or use with an original maturity of three months or less are considered cash equivalents.

E. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance is determined based upon management's evaluation of receivables doubtful of collection on a specific identification basis.

F. INVENTORIES

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items, excess inventories, and for market prices lower than cost.

Cost is determined as follows:

Raw materials and components- using "the first-in, first-out" cost method.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. INVENTORIES (Cont.)

Work-in-process - represents the cost of manufacturing with the

addition of allocable indirect manufacturing costs.

Finished goods - on the basis of direct manufacturing costs with the addition of allocable indirect manufacturing costs.

Amounts related to long-term contracts as determined by the percentage of completion method of accounting are recorded as "Recoverable cost and accrued profit not yet billed".

Inventories include aircraft spare parts that, although currently available for sale, are expected to be sold over a period exceeding one year and are included under long-term assets.

G. RESEARCH AND DEVELOPMENT EXPENSES

Statement of Financial Accounting Standards No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," ("SFAS No.86") "requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company and its subsidiaries product development process, technological feasibility is established upon completion of a working model.

Research and development costs incurred in the process of producing product masters and product enhancements and producing the Company's Aircraft Test Systems Programs Sets ("TPS") software library, which is integrated with the Company's test station, are generally charged to expenses as incurred, net of participation of the Office of the Chief Scientist in the Israeli Ministry of Industry and Trade ("OCS") and the Israel - United States Binational Industrial Research and Development Foundation ("BIRD Foundation").

Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release, have been capitalized.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

H. OTHER ASSETS

Capitalized software costs are amortized by the greater of the amount computed using the: (i) ratio that current gross revenues from sales of the software to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method over the estimated useful life of the product (five to twenty years). The Company assesses the recoverability of this intangible asset on a regular basis by

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determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold.

I. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets. Annual rates of depreciation are as follows:

Buildings	2.5 - 4%
Machinery and equipment	10 - 33%
Office furniture and equipment	6 - 33%
Motor vehicles	15 - 20%

Leasehold improvements are amortized over the shorter of the estimated useful life or the lease period.

Assets, in respect of which investment grants have been received, are presented at cost less the related grant amount. Depreciation is based on net cost.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

J. LONG LIVED ASSETS

The Company periodically evaluates the recoverability and the appropriateness of the amortization periods of its long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long Lived Assets and for the Long Lived Assets to be Disposed of" ("SFAS No. 121"). The Company recognizes impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future undiscounted cash flows associated with such assets. The measurement of the impairment losses to be recognized is to be based on the difference between the fair values and the carrying amounts of the assets. Impairment loss recorded in the statement of operations for the years ended December 31, 2001, 2000 and 1999 amounted to \$251, \$217 and \$898, respectively.

K. INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities

and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary to reduce deferred tax assets to their estimated reliable value.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. SEVERANCE PAY

The Company's liability for severance pay is calculated pursuant to Israeli severance pay 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. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its Israeli employees is partly provided by monthly deposits for insurance policies and/or pension funds and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet. The deposited funds of the Company's employees include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Severance expense recorded in the statement of operations is net of interest and other income accumulated in the deposits. Severance expense, for the years ended December 31, 2001, 2000 and 1999 amounted to \$194, \$29 and \$158, respectively.

M. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group used the following methods and assumptions in estimating their fair value disclosures for financial instruments:

The carrying amount of cash and cash equivalents, trade receivables, short-term bank credits and trade payables approximate their fair value due to the short term maturity of these instruments.

The carrying amount of long term debts are equivalent or approximate their fair value as they bear interest at approximate market rates.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. CONCENTRATION OF CREDIT RISK

The Groups sells its products and services mainly to financially sound, well-established customers. Credit risk is concentrated in the United States, Europe and Israel.

Financial instruments that potentially subject the Groups to concentrations of credit risk consist principally of cash and cash equivalent and short-term bank credit.

Cash and cash equivalents are mainly in U.S dollars with major banks in Israel. Management believes that the financial institutions that hold the Groups investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

O. ROYALTY BEARING GRANTS

Royalty-bearing grants in respect of research and development projects from the OCS and the BIRD Foundation, are recognized at the time the Company is entitled to such grants on the basis of the costs incurred and are included as a deduction from research and development costs.

P. SHARE BASED COMPENSATION

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25 - "Accounting for Stock Based Compensation" ("APB No. 25") and FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" ("Fin No. 44"). Under APB No.25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognize. The pro forma disclosures, required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), are provided in Note 13B.

The Company accounts for shares, stock options and warrants issued to non-employees in accordance with SFAS No. 123. The Company uses the Black-Scholes Option Pricing model to value options and warrants granted to non-employees.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Q. REVENUE RECOGNITION

The Group generates revenues mainly from the sale of products and from long-term fixed price contracts for ATE, avionics, ground debriefing systems. In addition, the Group leases ATE and provides manufacturing services.

Revenues from sales of products are recognized in accordance with Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB No. 101"), when shipment has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation remains and collectibility is probable.

Revenues from services are recognized upon performance of the services.

Revenues from long-term fixed price contracts are recognized based on Statement of Position No. 81-1 "Accounting for Performance of Construction - Type and Certain Production - Type Contracts" ("SOP 81-1"), using contract accounting on a percentage of completion method 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.

Revenue under operating leases of equipment are recognized in accordance with Statement of Financial Accounting Standard No. 13 "Accounting for Leases" ("SFAS No. 13"), ratably over the lease period.

Deferred revenues include unearned amounts received under services contract, and amounts received from customers but not yet recognize as revenues.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

R. BASIC AND DILUTED NET LOSS PER SHARE

Basic net loss per share is computed based on the weighted average number of ordinary shares outstanding during each year. Diluted net loss per share is computed based on the weighted average number of ordinary shares outstanding during each year,

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plus dilutive potential ordinary shares considered outstanding during the year, in accordance with Statement of Financial Accounting Standard No. 128 "Earnings per Share" ("SFAS No. 128"). All outstanding share options and warrants have been excluded from the computation of diluted loss per share because their effect is anti-dilutive for all periods presented. Options and warrants to purchase 1,115,200, 2,511,982 and 2,359,894 ordinary shares were not included in the computation of years 1999, 2000 and 2001 diluted loss per share because such options and warrants were considered anti-dilutive.

S. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. All other intangible assets will continue to be amortized over their estimated useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The adoption of SFAS 141 and 142 will not have an impact on the Company's financial position or results of operations since there is no goodwill and no intangible assets with indefinite lives.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Cont.)

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). Although SFAS 144 supersedes FASB Statement No. 121, it retains the requirements of SFAS 121 regarding recognition of impairment loss for long-lived assets to be held and used (based on undiscounted cash flows) and resolves certain implementation issues. Also, the accounting model used in SFAS 121 for long-lived assets to be disposed of by sale (lower of carrying amount or fair value less cost to sell) is broadened by SFAS 144 to include discontinued operations and supersedes the reporting provision of APB Opinion No. 30, "Reporting the Results of Operations of a Segment of a Business". Therefore, discontinued operations will no longer be measured on a net realizable value

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basis and future operating losses will no longer be recognized before they occur. SFAS 144 also broadens the presentation of discontinued operations to include a component of an entity (rather than a segment of a business). The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those years. The Company believes that the adoption of SFAS 144 will not have a material impact on the Company's financial statements.

NOTE 3 - OTHER RECEIVABLES AND PREPAID EXPENSES

	DECEMBER 31,	
	2001	2000
	----	----
Advances to suppliers	\$ 19	\$483
Prepaid expenses	47	143
Other	1	61
	--	--
	\$ 67	\$687
	====	====

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 4 - CONTRACTS IN PROCESS

Amounts included in the financial statements which relate to recoverable costs and accrued profits not yet billed on contracts in process are classified as current assets. Billings on uncompleted contracts in excess of incurred cost and accrued profits are classified as current liabilities. Summarized below are the components of the amounts:

A. RECOVERABLE COSTS AND ACCRUED PROFITS NOT YET BILLED:

	DECEMBER 31,	
	2001	2000
	----	----
Costs incurred on uncompleted		
Contracts	\$ 1,425	\$ 732
Accrued profits	1,709	546
	----	---
	3,134	1,278
Less - amount billed and progress		
Payments	3,021	1,086
Less - estimated loss on contracts	4	-
	--	--

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\$ 109	\$ 192
=====	=====

B. BILLING IN EXCESS OF INCURRED COSTS AND PROFITS

Costs incurred on uncompleted		
Contracts	\$ 994	\$ 2,276
Accrued profits	1,090	2,112
	-----	-----
	2,084	4,388
Less - amount billed and progress		
payments	2,308	4,514
	-----	-----
	\$ (224)	\$ (126)
	=====	=====

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
In thousands of U.S. dollars, except share and per share data

NOTE 5 - INVENTORIES

	DECEMBER 31,	
	2001	2000
	----	----
Current:		
Raw materials and components	\$ 1,199	\$ 933
Work in process	417	302
Finished goods	406	406
	---	---
	\$ 2,022	\$ 1,641
	=====	=====
Inventories in excess of amounts expected to be sold currently:		
Aircraft spare parts	\$ -	\$ 347
	=====	=====

Write-off of inventories, for the years ended December 31, 2001, 2000 and 1999 amounted to \$0, \$200 and \$2,718 respectively.

NOTE 6 - LONG-TERM RECEIVABLES

	DECEMBER 31,	
	2001	2000
	----	----
Loan to former Chief Executive Officer (1)	\$ 605	\$ 632
Loan to a former officer (1)	239	250
Loans to employees	29	29
Loan to Jetborne (2)	290	-
	---	---

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\$ 1,163 \$ 911
 ===== =====

- (1) The loans to former officers are linked to the Israeli Consumer Price Index ("CPI") and bears interest of 4% per annum. The loans were granted from 1989 through 1997. The Company is currently in litigation with its former CEO and the former officer - see Note 16.

- (2) Loan to Jetborne - On December 31, 2001, the Company sold its 75% ownership in Jetborne in consideration for one dollar. Jetborne will repay the Company within ten years from the date of the agreement the outstanding loan and debt including accrued interest as of December 31, 2001. In addition, Jetborne will pay the Company royalties as a percentage of the gross revenues of Jetborne which derived from the inventory held by Jetborne as of December 31, 2001. It is agreed that the first payment on account of the royalties shall be deducted from the outstanding loan and debt. In any event, all payments due to the Company under the agreement will be paid no later than the tenth anniversary of the agreement. The outstanding loan and debt are presented at an estimated discounted fair value of \$290. Accordingly, the Company recorded a loss of \$30 as a result of the sale of Jetborne pursuant to the agreement.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 7 - PROPERTY AND EQUIPMENT, NET

	DECEMBER 31,	
	2001	2000
	-----	-----
COST		
Factory building	\$ 1,940	\$ 1,940
Other building	1,042	1,042
Machinery and equipment	14,386	15,548
Motor vehicles	623	623
Office furniture and equipment	422	412
Leasehold improvements	20	20
Tools and implements - base stock	198	198
	---	---
	18,631	19,783
	-----	-----
ACCUMULATED DEPRECIATION		
Factory building	1,030	958
Other building	104	78
Machinery and equipment	10,158	10,110
Motor vehicles	483	414
Office furniture and equipment	231	206
Leasehold improvements	4	2
	--	--

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	12,010	11,768
	-----	-----
Depreciated cost	\$ 6,621	\$ 8,015
	=====	=====

The Company's factory building in Beit-Shean, Israel is located on land leased from the Israel Lands Administration until the year 2034.

Depreciation expense was \$1,103, \$1,071 and \$1,398 for the years ended December 31, 2001, 2000 and 1999, respectively. Write-off of property and equipment was \$200, \$47 and \$720 for the years ended December 31, 2001, 2000 and 1999, respectively.

Machinery and equipment, net includes self constructed machinery and equipment under rental as of December 31, 2001 and 2000 in the amount of approximately \$1,800 and \$1,900, respectively.

Liens - see Note 12G.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 8 - OTHER ASSETS, NET

	DECEMBER 31,	
	2001	2000
	-----	-----
COST		
Test Systems Programs Sets (TPS)	\$ 8,275	\$ 8,171
Product masters and enhancements	1,411	1,411
	-----	-----
	\$ 9,686	\$ 9,582
	-----	-----
ACCUMULATED AMORTIZATION		
Test Systems Programs Sets	\$ 4,449	\$ 4,073
Product masters and enhancements	1,129	847
	-----	-----
Amortized cost	5,578	4,920
	-----	-----
	\$ 4,108	\$ 4,662
	=====	=====

Amortization expense was \$607, \$879 and \$1,039 for the years ended December 31, 2001, 2000 and 1999, respectively.

Write-off of other assets was \$51, \$170, \$178 for the years ended December 31, 2001, 2000 and 1999, respectively.

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NOTE 9 - SHORT-TERM BANK CREDITS AND LOANS

	DECEMBER 31,	
	2001	2000
	-----	-----
Loans in U.S. dollars (1)	\$ 4,043	\$ 2,082
Short-term bank credits in U.S. Dollars	1,000	773
Short-term bank credits in NIS (2)	869	1,580
Loans in NIS (3)	-	1,146
	-----	-----
	\$ 5,912	\$ 5,581
	=====	=====

(1) The interest rate at December 31, 2001 is between 4.5% and 4.9%.
(December 2000 - 7%-8.75%)

(2) The interest rate at December 31, 2001 is approximately 6.8%.

(3) The interest rate at December 31, 2000 is between 10.5% and 11.8%.

The weighted average interest rate on the aggregate amount of short-term bank credits and loans at December 31, 2001 is 5% (December 2000 - 10%).

The total authorized credit line of the Company at December 31, 2001 is \$5,795.

Liens - see Note 12G.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 10 - OTHER LIABILITIES AND ACCRUED EXPENSES

	DECEMBER 31,	
	2001	2000
	-----	-----
Payroll and related expenses	\$ 1,083	\$ 1,131
Accrued professional fees	141	237
Accrued royalties (see Note 13B and 13C)	469	450
Provision for legal proceedings	394	427
Other	738	679
	---	---
	\$ 2,825	\$ 2,924
	=====	=====

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NOTE 11 - LONG-TERM DEBT, NET OF CURRENT MATURITIES

	DECEMBER 31,	
	2001	2000
	----	----
Lease obligations and others	\$ 8	\$ 51
Less - current maturities	8	43
	--	--
	\$ -	\$ 8
	----	-----

Liens - see Note 12G.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 12 - CONTINGENCIES, COMMITMENTS AND LIENS

A. As of December 31, 2001, the Company was a party to various legal proceedings, including the following:

- (1) In June 1998, the Company's Board of Directors accepted the resignation of the Company's former CEO. In November 1998, the former CEO commenced legal proceedings against the Company in the Tel Aviv Regional Court for Labor Disputes, claiming approximately \$500 in respect of salary, severance pay, vacation pay and other fringe benefits. The former CEO also claimed that a personal loan that was provided to him by the Company had been forgiven. In May 2001, an additional claim of approximately \$250 was filed by the former CEO against the Company in the Tel-Aviv District Court for damages allegedly caused to him as a result of attachment imposed on certain of his assets by the Company that was subsequently cancelled by the Court. In addition, in 2001, the Company filed a claim against a former Board member that in case the former CEO's claim in the Labor Court is accepted by the court, damages in the amount of \$250 will be covered by the former Board member. Furthermore, the Company filed additional suits against the former CEO and a former director in the amount of \$250 for funds that they allegedly transferred from the Company to a third party. In September 1999 and in 2001, the Company filed suits against the former CEO and the former Board member in the District Court of Tel Aviv in the amount of \$1,650 for damages caused to the Company in the purchase of a subsidiary and negligence of management. In August 2000, the Company filed an additional suit against the former CEO in the amount of approximately \$500 regarding the repayment of the loan provided to the former CEO. Legal counsel believes that the Company has a valid defense against the claims. Although these claims are

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in preliminary stages, management believes that there will be no material adverse effect on the Company's financial position or result of operations.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 12 - CONTINGENCIES, COMMITMENTS AND LIENS (CONT.)

- (2) In 1999 and 2000, the former CEO and his son filed a few complaints against the President and are seeking damages for alleged slander by the defendant in the amount of approximately \$800.
- (3) In 1999, a supplier filed a claim against the Company's former subsidiary, Vectronics. As part of the sale of Vectronics, the Company agreed to take responsibility for former claims against Vectronics. The claim is in the amount of \$2,500 for damages relating to Vectronic's alleged failure to manufacture a certain component for the supplier. In the opinion of the Company's legal counsel, Vectronics has a strong defense against the allegations.
- (4) In 2000, a former employee and officer of the Company filed a claim against the Company in the Tel Aviv District Court for Labor Disputes claiming approximately \$580 in respect of severance pay, vacation pay and other fringe benefits. In 2001, the Company filed a counter-claim in the amount of \$300 in respect of the repayment of a personal loan that was provided to the former employee. In the opinion of the Company's legal counsel, the Company has a strong defense against the allegations.
- (5) In May 2001, a former director filed a claim against the Company, whereby he claims that he is entitled to 600,000 options to purchase Ordinary shares of the Company. Legal counsel believes that the claim does not have any merit.
- (6) The Company is involved from time to time in various legal claims in the ordinary course of business, including claims by agents for commissions and others. The Company's management, based on the advice of its legal counsel, believes such claims will not have a material adverse effect on the financial position or results of operations of the Company.

Presently, the Company is unable to predict the final outcome of the above claims. The Company has accrued an amount which it believes is sufficient to cover any damages, if any, that may result from these claims.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 12 - CONTINGENCIES, COMMITMENTS AND LIENS (CONT.)

B. The Company's research and development efforts have been partially financed through royalty bearing programs sponsored by the OCS. In return for the OCS's participation, the Company is committed to pay royalties at a rate ranging from 3 % to 5% of sales of the products supported by the OCS, up to 100% of the amount of such participation received. The Company's total obligation for royalties, net of royalties paid or accrued totaled approximately \$686 as of December 31, 2001.

The total amount of royalties charged to operations in the years ended December 31, 1999, 2000 and 2001 was approximately \$73, \$2 and \$153, respectively.

C. Research and development projects undertaken by the Company and a subsidiary abroad were partly financed by the BIRD Foundation. The Company and the subsidiary are committed to pay royalties to the BIRD Foundation at a rate of 2.5% of sales proceeds for which the BIRD Foundation provided funding up to 150% of the sum financed by the BIRD Foundation. The Company's and subsidiaries total obligation for royalties, net of royalties paid or accrued, totaled approximately \$1,918 as of December 31, 2001.

The total amount of royalties charged to operations for in the years ended December 31, 1999, 2000 and 2001 was approximately \$0, \$29 and \$13, respectively.

D. The offices of the Company and its subsidiaries are rented under non-cancelable operating leases expiring by January 31, 2003. Annual minimum future rental payments under the leases, at exchange rates in effect on December 31, 2001, are approximately as follows:

2002	\$ 150
2003	12
	--
	\$ 162
	=====

Rent expense for the years ended December 31, 2001, 2000 and 1999 was \$171, \$200 and \$179, respectively.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 12 - CONTINGENCIES, COMMITMENTS AND LIENS (CONT.)

- E. The vehicles of the Company are rented under operating leases expiring by July 1, 2005. Annual minimum future rental payments under the leases, at exchange rates in effect on December 31, 2001, are approximately as follows:

2002	\$ 107
2003	107
2004	92
2005	18
	--
	\$ 324
	=====

Rent expense for the years ended December 31, 2001, 2000 and 1999 was \$24, \$7 and \$0, respectively.

- F. The Company has certain offset obligations with the Ministry of Economic Affairs of the Netherlands to purchase equipment. The offset obligations expire August 16, 2003.
- G. The Company has recorded floating liens on all of its assets and specific liens on certain assets for liabilities to the banks and other creditors.

NOTE 13 - SHAREHOLDERS' EQUITY

A. SHARE CAPITAL

Ordinary Shares confer upon their holders voting rights, the right to receive cash dividends and the right to share in excess assets upon liquidation of the Company.

In March 2001, the Company effected a 2.5 to 1 reverse stock split with respect to its ordinary shares. All shares, stock options and warrants and net loss per share amounts in these financial statements have been restated for all periods to reflect the reverse stock split.

In February 1999, the Company issued 1,360,000 Ordinary shares in a private placement to certain investors in consideration for an aggregate amount of \$2,125.

In February 1999, the Company issued 270,592 Ordinary shares in connection with the conversion of a short-term loan granted to the Company in June 1998 in the amount of \$677, including accrued interest as of the date of conversion. Since these shares were not registered, as required by the loan agreement, the Company issued an additional 80,000 shares for no further consideration. Expense for the value of these shares was not recorded as the amount is not material.

RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 13 - SHAREHOLDERS' EQUITY (CONT.)

A. SHARE CAPITAL (Cont.)

In March 1999, the Company issued 40,000 Ordinary shares in connection with services provided to the Company in the amount of \$90. Since these shares were not registered as agreed upon with the service provider, the Company agreed to issue an additional 20,000 unregistered shares for no further consideration. Expense for the value of the 20,000 unregistered shares was not recorded as the amount is not material.

In June 1999, the Company issued 320,000 Ordinary shares in a private placement to a shareholder in consideration for \$460 and 1,280,000 Ordinary shares in consideration for the conversion of a loan in the amount of \$2,037 granted to the Company in May 1998.

In August 1999, the Company issued 1,310,000 Ordinary shares in a private placement to certain investors in consideration for an aggregate amount of \$3,865.

In August 1999, the Company issued 865,424 Ordinary shares in connection with a loan granted to the Company in September 1998 in the amount of \$2,142 including interest not paid as of the date of the conversion.

In February 2000, the Company issued 518,372 Ordinary shares in a private placement to certain investors in consideration for an aggregate amount of approximately \$2,758.

In May 2000, the Company issued 940,000 Ordinary shares in a private placement to certain investors in consideration for an aggregate amount of approximately \$2,249.

During 2000, the Company issued 36,230 Ordinary shares to a services provider in connection with settlement of a debt in the amount of \$304. All shares issued to the above mentioned service provider were issued at market price which represented fair market value.

During 2000, the Company issued 117,587 Ordinary shares to an additional service provider in connection with settlement of a debt in the amount of \$500. All shares issued to the above mentioned service provider were issued at market price which represented fair market value.

In August 2000, the Company issued 7,292 Ordinary shares in respect of a loan in the amount of \$28 given to the Company in December 1997.

RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 13 - SHAREHOLDERS' EQUITY (CONT.)

B. STOCK OPTION PLANS

In 1993, the Company's Board of Directors approved the adoption of an Employee Stock Option Plan (the "1993 Plan"), which authorizes the grant of options to purchase up to an aggregate of 200,000 ordinary shares to officers, directors, consultants and key employees of the Company and its subsidiaries. Options granted under the 1993 Plan expire within maximum of ten years from the date of grant. The 1993 Plan will expire on November 23, 2003 unless sooner terminated by action of the Board of Directors. Options granted under the Company's Plans vest ratably over three years, one third on each anniversary of the grant.

The exercise price of an option granted to an employee may not be less than 60% of the fair market value of the Company's ordinary shares on the date of grant of the option. The exercise price of an option granted to a non-employee director or consultant may not be less than 80% of the fair market value of the Company's ordinary shares on the date of grant of the option.

In 1994, the Company's Board of Directors approved the adoption of an Employee Stock Option Plan (the "1994 Plan"), which authorizes the grant of options to purchase up to an aggregate of 200,000 ordinary shares to officers, directors, consultants and key employees of the Company and its subsidiaries. The terms of the 1994 Plan are substantially identical to those of the 1993 Plan.

In 1996, the Company's Board of Directors approved the adoption of an Employee Stock Option Plan (the "1996 Plan"), which authorizes the grant of options to purchase up to an aggregate of 240,000 ordinary shares to officers, directors, consultants and key employees of the Company and its subsidiaries. The terms of the 1996 Plan are substantially identical to the terms of the plan described above.

In 1999, the Company's Board of Directors and shareholders approved the adoption of an Employee Stock Option Plan (the "1999 Plan"), which authorizes the grant of options to purchase up to an aggregate of 800,000 ordinary shares to employees, officers, and directors of the Company and its subsidiaries. The terms of the 1999 Plan are substantially identical to the Plans described above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)
In thousands of U.S. dollars, except share and per share data

NOTE 13 - SHAREHOLDERS' EQUITY (CONT.)

B. STOCK OPTION PLANS (Cont.)

In addition, in 1999, the Board of Directors approved the issuance of 840,000 warrants to purchase ordinary shares to the President and certain directors of the Company. The warrants were granted at an exercise price equal to or greater than the fair market value of an ordinary share at the date of grant. The remaining terms of the warrants are substantially identical to the terms described above. In November 2000, the shareholders of the Company approved the increase in the number of shares subject to the 1999 Plan by an additional 240,000 ordinary shares. At December 31, 2001, 642,000 options were available for grant under the Plans described above.

All options were granted at fair market value. Transactions related to the above plans during the years ending December 31, 2001, 2000 and 1999 were as follows:

	YEAR ENDED DECEMBER 31,					
	2001		2000		1999	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at beginning of the year	1,742,000	\$ 5.40	1,155,200	\$ 5.98	360,000	\$ 4.90
Granted	-	-	664,800	4.50	854,000	6.30
Forfeited or cancelled	(104,000)	4.78	(78,000)	5.85	(58,800)	4.35
Options outstanding at end of the year	1,638,000	\$ 5.48	1,742,000	\$ 5.40	1,155,200	5.98
Exercisable at end of year	949,200	\$ 4.71	531,867	\$ 4.08	237,067	\$ 5.43
Weighted average fair value of options granted		\$ -		\$ -		\$ -

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

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In thousands of U.S. dollars, except share and per share data

NOTE 13 - SHAREHOLDERS' EQUITY (CONT.)

B. STOCK OPTION PLANS (Cont.)

The following table summarizes information about options outstanding and exercisable at December 31, 2001:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT DECEMBER 31, 2001	WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 2001	WEIGHTED- AVERAGE EXERCISE PRICE
	-----	-----	-----	-----	-----
\$ 2.25-6.25	1,202,400	7.87	\$ 4.24	781,600	\$ 3.80
\$ 6.50-10.00	427,600	7.67	8.82	159,600	8.72
\$ 13.70	8,000	2.00	13.70	8,000	13.70
	-----		-----	-----	-----
	1,638,000 (*)		\$ 5.48	949,200	\$ 4.71
	=====		=====	=====	=====

(*) Includes 840,000 warrants outstanding to directors of the Company.

The Company accounts for stock option grants to employees and directors in accordance with APB No. 25. Pro forma information regarding net loss and net loss per share is required by SFAS No. 123 as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant, using the Black and Scholes Option Valuation Model, with the following weighted-average assumptions for each of the three years in the period ended December 31, 2001: (1) expected life of option of two years; (2) dividend yield of 0%; (3) expected volatility of 36%; and (4) risk-free interest rate of 1.75% (5% -2000 and 1999). If deferred compensation had been determined under the above mentioned fair value method, the effect on the Company's net loss and net loss per share would have been immaterial for all the reported periods.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 13 - SHAREHOLDERS' EQUITY (CONT.)

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C. WARRANTS

In May 2001, in connection with the loan described in Note 16, a warrant to purchase 91,912 ordinary shares was issued to a shareholder at an exercise price of \$2.176 per ordinary share exercisable until June 2003. As of December 31, 2001, no shares were issued in respect to the above mentioned warrant.

In May 2000, warrants to purchase 388,778 ordinary shares were issued to investors who participated in the February 2000 private placements, at an exercise price of \$2.75 per share, exercisable until June 2003. As of December 31, 2001, no shares were issued in respect to the abovementioned warrants.

In May 1998, in connection with a loan granted to the Company by a shareholder, warrants to purchase 144,000 ordinary shares were issued, to the shareholder at exercise prices between \$3.75 and \$6.25 per share, exercisable until June 2003. The Company accounted for this warrant grant in accordance with Accounting Principles Board Opinion No. 14 - "Accounting for Convertible Debt and Debt Issued with Purchase Warrants" ("APB No. 14"). As of December 31, 2001, no shares were issued in respect to the above mentioned warrants.

During 1997 and 1998, warrants to purchase 80,000 ordinary shares were issued to the President of the company at exercise prices between \$3.06 and \$6.13 per ordinary share, with no expiry date. As of December 31, 2001, no shares were issued in respect to the above mentioned warrants. The above mentioned warrants were issued at a market price which represented fair market value at each of the dates of grant.

D. DIVIDENDS

The Company has never paid cash dividends to shareholders. The Company intends to retain future earnings for use in its business and does not anticipate paying cash dividends on its ordinary shares in the foreseeable future. Any future dividend policy will be determined by the Board of Directors and will be based upon conditions then existing, including results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions as the Board of Directors may deem relevant.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 14 - TAXES ON INCOME

- A. TAX BENEFITS UNDER THE LAW FOR THE ENCOURAGEMENT OF CAPITAL INVESTMENT, 1959.

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The Company has been granted an "Approve Enterprise" status for one investment program in the alternative program, by the Israeli Government under the Law for Encouragement of Capital Investments, 1959 ("the Law"). Since the Company is a "foreign investors' company", as defined by the Law, it is entitled to a ten-years period of benefits, for enterprises approved after April 1993. The main tax benefits from said status are a tax exemption for two years, and a reduced tax rate (based on the percentage of foreign shareholding in each tax year) on income from its approved enterprise, for the remainder of the benefit period. These tax benefits are subject to a limitation of the earlier of twelve years from commencement of operations, or fourteen years from receipt of approval. In the event of a distribution of a cash dividends out of tax-exempt income, the Company will be liable to corporate tax at a rate of 25% in respect of the amount distributed. As the Company has not yet reported any taxable income, the benefit period has not yet commenced.

Income from sources other than the Approved Enterprise during the benefit period will be subject to tax at the regular corporate tax rate of 36%.

The Company is entitled to charge accelerated depreciation in respect of machinery and equipment used by the Approved Enterprise.

The entitlement to the above mentioned benefits is conditional upon the Company's fulfilling the conditions stipulated by the above mentioned law, regulations published thereunder and the certificates of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences, to the CPI and interest.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 14 - TAXES ON INCOME (CONT.)

B. MEASUREMENT OF TAXABLE INCOME UNDER THE INCOME TAX (INFLATION ADJUSTMENTS) LAW

Results for tax purposes are measured and adjusted in accordance with the change in the CPI. As explained in Note 2B, the consolidated financial statements are presented in U.S. dollars. The differences between the change in the Israeli CPI and in the NIS/U.S. dollar exchange rate cause a difference between taxable income or loss and the income or loss before taxes reflected in the consolidated financial statements. In accordance with paragraph 9(f) of SFAS No. 109, the Company has not provided

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deferred income taxes on this difference between the financial reporting basis and the tax basis of assets and liabilities.

C. THE LAW FOR THE ENCOURAGEMENT OF INDUSTRY (TAXES), 1969

The Company is an "Industrial Company" under the Law for the Encouragement of Industry. The principal benefit is the deductibility of expenses in connection with a public offering.

D. As of December 31, 2001, the net operating loss carryforwards for tax purposes relating to the Company in Israel amounted to approximately \$43,745. Carryforward losses in Israel may be carried forward indefinitely and may be offset against future taxable income. The Company expects that during the period in which these tax losses are utilized its income would be substantially tax-exempt, and accordingly, no deferred tax asset has been recorded.

As of December 31, 2001, carryforward losses relating to non-Israeli companies, approximately \$4,255. Carryforward losses in non-Israeli companies may be carried forward indefinitely and may be offset against future taxable income. As the Company believes that the realization of this carryforward loss is not more likely than not to be realized, the Company has recorded a valuation allowance in respect of the entire amount of the deferred tax asset relating to the carryforward losses.

E. Final tax assessments have been received by the Company in Israel through the tax year 1998. Based on certain disputed tax assessments of the Company's U.S. subsidiaries an amount of approximately \$50 is due to the Internal Revenue Service. The Company is appealing the assessment and does not believe it will ultimately be required to pay this balance.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 14 - TAXES ON INCOME (CONT.)

F. LOSS BEFORE INCOME TAXES

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	----	----	----
Israel	\$ 2,837	\$ 5,869	\$ 4,146
Others	532	230	3,071
	---	---	----
	\$ 3,369	\$ 6,099	\$ 7,217
	=====	=====	=====

G. The main reconciling items between the statutory tax rate of the

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Company and the effective tax rate are the non-recognition of tax benefits from accumulated net operating losses carryforward and other temporary differences among the various subsidiaries worldwide due to the uncertainty of the realization of such tax benefits.

NOTE 15 - SELECTED STATEMENTS OF OPERATIONS DATA

A - COST OF REVENUES

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Salaries and employee benefits	2,598	1,232	2,322
Procurement	1,928	908	3,291
Estimated loss (profit) on contracts	-	(142)	342
Depreciation and amortization	1,592	1,885	2,268
Write-off of inventories	-	200	2,718
Other manufacturing costs	263	321	477
Cost of sale of aircraft spare parts and repair and maintenance services	1,035	903	1,289
	-----	-----	-----
	\$7,416	\$5,307	\$12,707
	=====	=====	=====

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 15 - SELECTED STATEMENTS OF OPERATIONS DATA (CONT.)

B - RESEARCH AND DEVELOPMENT EXPENSES

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Salaries and employee benefits	\$ 373	\$ 559	\$ 488
Subcontractors	55	63	74
Materials	16	48	-
Other	194	303	174
	---	---	---
	638	973	736
Capitalization of software development costs	(104)	(243)	(308)
	-----	-----	-----
	\$ 534	\$ 730	\$ 428
	=====	=====	=====

C - FINANCING EXPENSES, NET

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	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	----	----	----
INCOME:			
Translation adjustments	\$ 335	\$ -	\$ -
Interest income on cash equivalents and bank deposits	33	-	10
Other	-	-	84
	--	--	--
	368	-	94
	----	----	----
EXPENSES:			
Translation adjustments	-	185	102
Interest on long-term debt	6	27	230
Interest on short-term loans and other credit balances	418	540	462
Bank commissions	63	97	152
Interest to related parties	61	-	289
Other	30	12	-
	--	--	--
	578	861	1,235
	----	----	----
	\$ (210)	\$ (861)	\$ (1,141)
	=====	=====	=====

D - OTHER INCOME (EXPENSES), NET

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	----	----	----
Loss on sale of subsidiary (1999 - loss on investment in affiliated company)	\$ (30)	\$ -	\$ (300)
Other	-	563	805
	-----	-----	-----
	\$ (30)	\$ 563	\$ 505
	=====	=====	=====

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 16 - RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances reflected in the balance sheets as of December 31, 2001 and 2000 are as follows:

	DECEMBER 31,	
	2001	2000
	----	----

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Loan due to a related party (1)	\$1,061	\$ -
	=====	=====
Balance due to related party	\$ 12	\$ -
	=====	=====

(1) In 2001, a Company's shareholder and director granted a loan to the Company in the amount of \$1,000 at an annual interest rate of 10% until December 31, 2001 and 15% annual interest rate commencing January 1, 2002. In June 2002 the loan and the accrued interest were converted into 2,775,201 ordinary shares. (See Note 18(2)).

Related party transactions reflected in the statement of operations for the years ended December 31, 2001, 2000, and 1999 are as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	----	----	----
Affiliated company:			
Sales revenues	\$ -	\$ 24	\$ 24
Commission expense to former			
Director	-	-	32
Loss on investment in affiliated			
company	-	-	300
Purchases	43	-	-
Other	-	183	-
Shareholder:			
Interest expense	61	-	289

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 17 - CUSTOMERS AND GEOGRAPHIC INFORMATION

In accordance with SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information", the Company is organized and operates as one business segment, which develops, manufactures and sales ATE products, avionics equipment and aviation data acquisition and debriefing systems.

A. REVENUES BY GEOGRAPHIC AREAS

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

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	----	----	----
North America	\$ 3,931	\$ 1,416	\$ 944

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Europe	1,826	721	6,597
Israel	1,963	1,326	2,297
Other	622	353	535
	---	---	---
Total	\$ 8,342	\$ 3,816	\$ 10,373
	=====	=====	=====

B. REVENUES

Revenues from single customers which exceed 10% of the total revenues in the reported year as a percentage of total revenues, are as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	----	----	----
	%	%	%
	----	----	----
Customer A	12	13	16
Customer B	(*)	12	(*)
Customer C	(*)	12	16
Customer D	-	-	20
Customer E	(*)	(*)	15
Customer F	16	16	(*)
Customer G	17	-	-

(*) Less than 10%.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 17 - CUSTOMERS AND GEOGRAPHIC INFORMATION (CONT.)

C. LONG LIVED ASSETS BY GEOGRAPHIC AREAS

	AS OF DECEMBER 31,	
	2001	2000
	----	----
Israel	\$ 8,285	\$ 9,833
China	2,444	2,844
	-----	-----
	\$10,729	\$12,677
	=====	=====

NOTE 18 - SUBSEQUENT EVENT (UNAUDITED)

1. In June 30, 2002, the Company issued 1,938,766 ordinary shares in

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a private placement to certain investors in consideration for an aggregate amount of \$950. In addition, such investors will be issued warrants to purchase 4,302,041 of the Company's ordinary shares. Such warrants will be valid for five years and will be exercisable during the first 36 months after issuance at an exercise price of \$2 per share, and thereafter, during the following 24 month period, at an exercise price which will be equal to the higher of: (i) \$2 per share or (ii) 50% of the average closing price during the ten trading days prior to an exercise date.

2. In June 2002, the Company issued 2,775,201 ordinary shares in a private placement to a shareholder in consideration for a loan that was given to the company in the amount of \$1,350 (\$1,000 outstanding as of December 31, 2001). In addition, the Company will issue the shareholder warrants to purchase 8,265,306 ordinary shares. Such warrants will be valid for five years and will be exercisable during the first 36 months at an exercise price of \$2 per share, and thereafter, during an additional period of 24 months, at an exercise price which shall be equal to the higher of: (i) \$2 per share or (ii) 50% of the average closing price of one ordinary shares during the ten trading days prior to the exercise date.

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RADA ELECTRONIC INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

In thousands of U.S. dollars, except share and per share data

NOTE 18 - SUBSEQUENT EVENT (UNAUDITED) (CONT.)

3. On June 6, 2002, the Company announced that its ordinary shares will trade on the Nasdaq SmallCap Market effective as of the open of business on June 10, 2002. The Company's ordinary shares will continue to be listed on Nasdaq SmallCap Market via an exception from the minimum \$2.5 million net tangible assets requirement. While the Company failed to meet this requirement as of September 30, 2001, the Company was granted a temporary exception from this standard subject to the Company meeting certain conditions. The exception will expire on August 30, 2002. In the event that the Company is deemed to have met the terms of the exception, it shall continue to be listed on the Nasdaq SmallCap market. The Company believes that it can meet these conditions, however, there can be no assurance that it will do so. If at some future date the Company's ordinary shares should cease to be listed on the Nasdaq SmallCap market, they may continue to be listed in the OTC-Bulletin Board.

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S I G N A T U R E S

THE REGISTRANT HEREBY CERTIFIES THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM 20-F AND THAT IT HAS DULY CAUSED AND AUTHORIZED THE UNDERSIGNED TO SIGN THIS AMENDED REGISTRATION STATEMENT ON ITS BEHALF.

RADA ELECTRONIC INDUSTRIES LTD.

By: /s/ Herzle Bodinger

Name: Herzle Bodinger
Title: President

Dated: August 29, 2002

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EXHIBIT INDEX

Exhibit -----	Description -----	Page No. -----
3.1*	Memorandum of Association of the Registrant	
3.2*	Articles of Association of the Registrant	
4.1*	Specimen of Share Certificate	

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- 10.1* 1993 Employee Stock Option Plan, as amended
- 10.2* 1994 Employee Stock Option Plan, as amended
- 10.3* 1996 Employee Stock Option Plan, as amended
- 10.4* 1999 Employee Stock Option Plan, as amended
- 10.5* Form of warrants to directors
- 10.6* Loan Agreement dated June 3, 2001 between the Registrant and Howard Yeung
- 10.7* Deed of Termination of Joint Venture Agreement dated June 3, 2001, effective as of January 1, 2000 and Agreement for the acquisition of part of the issued share capital of New Reef Holding Ltd. dated June 3, 2001, effective as of January 1, 2000
- 10.8** Letter Agreement dated May 15, 2002 between the Registrant and the authorized representative of Howard P.L. Yeung re Conversion of Outstanding Loans into Ordinary Shares and Warrants
- 10.9** Letter Agreements dated May 15, 2002 between the Registrant and the Investors re Private Placement of Ordinary Shares and Warrants
- 23.1 Consent of Kost, Forer & Gabbay, Certified Public Accountants (Israel)
- 99.1 CEO Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002
-
- 99.2 CFO Certification Pursuant To 18 U.S.C. Section 1350 As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002

* Filed as an exhibit to our Annual Report on Form 20-F for the year ended December 31, 2000 and incorporated herein by reference.

** Filed as an exhibit to our Annual Report on Form 20-F for the year ended December 31, 2001 and incorporated herein by reference.