

RADA ELECTRONIC INDUSTRIES LTD
Form 20-F/A
April 07, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 20-F/A

Amendment No. 1

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, 2007

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 42504, ISRAEL
(Address of Principal Executive Offices)

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 |
|--------------------------------------|---|
| 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:

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ORDINARY SHARES, PAR VALUE NIS 0.015 PER SHARE...8,705,788
(As of December 31, 2007)

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 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 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

This Report on Form 20-F/A is incorporated by reference into our Form F-3 Registration Statements File Nos. 333-117954, 333-115598 and 333-12074, and our Form S-8 Registration Statements File Nos. 333-111437 and 333-12844.

EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A is being filed solely to amend Item 6. and Item 7. of RADA Electronic Industries Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2007, which was filed on March 28, 2008.

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INTRODUCTION

RADA Electronic Industries Ltd., an Israeli corporation, is engaged in the military and commercial aerospace industries. We develop, manufacture and sell avionics systems, including digital video recorders, ground debriefing stations, stores management systems, flight data recorders, inertial navigation systems, trainers upgrades, avionics systems for the avionics for unmanned aerial vehicles market, and electro-optic cameras for airplanes and armored vehicles.

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.

We currently use CATS(TM), ACE(TM) and FACE(TM) as trade names. We acquired the rights to the Israeli trademark VDS(R) and to the U.S. trademark application for the same trademark in February 2005. All other trademarks and trade names appearing in this annual report are owned by their respective holders.

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, 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, 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."

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TABLE OF CONTENTS

| | PAGE NO. ----- |
|---|-------------------|
| ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES | 1 |
| A. Directors and Senior Management | 1 |
| B. Compensation | 3 |
| C. Board Practices | 3 |
| D. Employees | 10 |
| E. Share Ownership | 10 |
| ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS | 13 |
| A. Major Shareholders | 13 |
| B. Related Party Transactions | 14 |
| C. Interests of Experts and Counsel | 14 |
| ITEM 19. EXHIBITS | 14 |
| S I G N A T U R E S | 16 |

ii

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 | 65 | Chairman of the Board and President |
| Zvi Alon | 54 | Vice President and Chief Executive Officer |
| Dov Sella | 52 | Vice President Marketing and Sales |
| Shiri Lazarovich | 33 | Chief Financial Officer |
| Yuval Dan-Gur | 44 | Vice President Engineering |
| Oleg Kiperman | 54 | Chief Technology Officer |
| Adrian Berg | 60 | Director |
| Roy Kui Chuen Chan | 61 | Director |
| Ben Zion Gruber | 49 | Director |
| Michael Letchinger | 52 | Director |
| Nurit Mor | 64 | Outside director |
| Eli Akavia | 60 | Outside director |

Mr. Berg will serve as a director until our 2008 annual general meeting of shareholders. Messrs. Chan and Gruber will serve as directors until our 2009 annual general meeting of shareholders. Messrs. Bodinger and Letchinger will serve as directors until our 2010 annual general meeting of shareholders.

Ms. Mor and Mr. Akavia will serve as outside directors pursuant to the provisions of the Israeli Companies Law for three-year terms until our 2009 annual general meeting of shareholders. Pursuant to the provisions of the Israeli Companies Law their terms may be extended for one additional three-year period.

HERZLE BODINGER has served as our chairman of the Board of Directors since July 1998, and since 2001 has served as our president as well. General (Res.) Bodinger first joined us in May 1997 as the president of our U.S. subsidiary,

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Rada Electronic Industries Inc., and was appointed our chief executive officer in June 1998. He served as our chief executive officer from 1998 until 2001 and resumed this position from June 2006 until July 2007. General (Res.) Bodinger served as the Commander of the Israeli Air Force from January 1992 through July 1996. During the last 35 years of his service, he also served as a fighter pilot while holding various command positions. General (Res.) 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 vice president and 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 Israel Aircraft Industries, 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 Israeli Air Force 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 served as our controller since September 2004. Prior to that and from January 2000 she served as a manager in the accountant, assurance and business advisory services department of PricewaterhouseCoopers, Israel. Ms. Lazarovich holds a double bachelor's 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 vice president of marketing and sales since July 2007. Prior to that, and since January 2003, Mr. Sella served as our chief operating 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 were director of programs, director of avionics engineering and director of business development. Between 1997 and 2000, Mr. Sella served UltraGuide Ltd., a medical devices start-up, as executive vice president and vice president of business development and vice president of research and development. 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 in Computer Engineering from the Technion Israel Institute of Technology, or the Technion, (cum laude). He served as a fighter aircraft navigator in the Israeli Air Force.

1

YUVAL DAN-GUR has served as our vice president engineering since July 2007. Prior to that and since October 2005, Mr. Dan-Gur served as our director of programs. Prior to his employment with Rada, from July 1998 until September 2005, Mr. Dan-Gur was in management of complex, inter-disciplinary projects using leading technologies for the Israeli MOD. Prior to that, from January 1996 until June 1998 Mr. Dan-Gur served as the head of the headquarters of the planning unit for operations of the Israeli's Navy Dockyards. Mr. Dan-Gur holds B.S.C in Electrical Engineering and M.S.C in Industrial and Management Engineering by the Technion and a PhD in Information Systems from Haifa University.

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 nominated as our director of engineering. From 1982 until 1984 Mr. Kiperman served as a hardware development team leader

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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. in Electrical Engineering from the Technion.

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 U.K. 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 U.S., 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 was elected as a director designee of the shareholders (excluding Howard Yeung) that participated in the private placement of our shares in June 2002. Mr. Gruber is 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 Israeli Defense Forces serving as Brigadier Commander of a tank battalion. Mr. Gruber holds an M.A. degree in Behavioral Sciences from Tel Aviv University, a B.Sc. degree in Engineering of microcomputers from "Lev" Technology Institute and is currently studying for his PhD 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. Mr. Gruber is a member of the Board of Employment Service of the Government of Israel. He also serves on the boards 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.

MICHAEL LETCHINGER was elected as a director designee of Horsham Enterprises Ltd. in November 2004. 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 JD from University of Chicago Law School.

NURIT MOR has served as our outside director since August 2006. Ms. Mor has served as an outside director of Aspen Real Estate Ltd. since September 2005 and from May 2004 Ms. Mor has served as an outside director of I.B.I Investment House Ltd., both Israeli public companies. From 1973 to 2003 Ms. Mor served in senior positions in the Bank of Israel, including in the public complaints and customer relations department. Ms. Mor holds a B.A. degree in Economics and Statistics a diploma in Business Administration from the Hebrew University, Jerusalem, and an M.A degree in Labor Studies from the Tel Aviv University.

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ELI AKAVIA has served as our Outside Director since August 2006. Mr. Akavia has since August 2002 served as an independent consultant in accounting and audit issues. From 1979 to 2002 Mr. Akavia served as partner in various positions in Luboshitz Kasierer, which was merged into Kost, Forer, Gabbay which is currently a member firm of Ernst & Young International. Mr. Akavia serves as a director of Eden Springs Ltd., On Track Innovation Ltd., Starling Ltd. and Eshld Ltd., all of which are public Israeli companies. Mr. Akavia has been a Certified Public Accountant (Israel) since 1975 and holds a B.Sc. degree in Mathematics and Economics from the Hebrew University in Jerusalem and an M.B.A degree from the Tel Aviv University.

Elan Sigal, our former chief financial officer, resigned as of December 2007.

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, 2007.

| | SALARIES, FEES, COMMISSIONS AND BONUSES | PENSION, RETIREMENT AND SIMILAR BENEFITS |
|---|--|---|
| | ----- | ----- |
| All directors and executive officers as a group, consisting of 12 persons | \$730,516 | \$268,844 |

During the year ended December 31, 2007, we paid each of our outside directors a per meeting attendance fee of NIS 1,000 (\$243) plus an annual fee of NIS 18,000 (\$4,382).

As of December 31, 2007, our directors and executive officers as a group, consisting of twelve persons, held options to purchase an aggregate of 626,666 ordinary shares, at exercise prices ranging from \$2.07 to \$4.02 per share, vesting over three years. These options were issued under our 2003 Stock Option Plan and expire in 2013. In 2007, 83,333 options having an exercise price of \$2.91 were granted under the 2003 Plan.

C. BOARD PRACTICES

INTRODUCTION

According to the Israeli Companies Law and our articles of association, the management of our business is vested in our board of directors. The board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. Our executive officers are responsible for our day-to-day management. The executive officers have individual responsibilities established by our chief executive officer and board of directors. Executive officers are appointed by and serve at the discretion of the board of directors, subject to any applicable agreements.

ELECTION OF DIRECTORS

Our articles of association provide for a board of directors consisting of no less than two and no more than eleven members or such other number as may be determined from time to time at a general meeting of shareholders. Our board of directors is currently composed of seven directors.

Pursuant to our articles of association, the board of directors is divided

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into three classes (other than outside directors). Generally, at each annual meeting of shareholders one class of directors (other than outside directors) is elected for a term of three years by a vote of the holders of a majority of the voting power represented and voting at such meeting. All the members of our board of directors (except the outside directors as detailed below) may be reelected upon completion of their term of office. The majority of directors may appoint additional directors to fill any vacancies in the board of directors until the next general meeting; provided, however that the total number of directors will not exceed the maximum number, if any, fixed by or in accordance with our articles of association, and that if the total number of directors decreases below six, the board of directors may call a general meeting of shareholders, so that following such meeting there will be at least six directors in office.

3

Mr. Berg is a Class C director and will hold office until the Annual General Meeting of Shareholders to be held in 2008. Messrs. Chan and Gruber are Class A directors and will hold office until the Annual General Meeting of Shareholders to be held in 2009. Messrs. Bodinger and Letchinger are Class B directors and will hold office until the Annual General Meeting of Shareholders to be held in 2010.

Ms. Mor and Mr. Akavia are outside directors and will hold office until our 2009 Annual General Meeting of shareholders.

We do not follow the requirements of the NASDAQ Marketplace Rules with regard to the nomination process of directors and instead follow Israeli law and practice. See below in this Item 6C. "Directors, Senior Management and Employees - Board Practices - NASDAQ Marketplace Rules and Home Country Practices."

OUTSIDE AND INDEPENDENT DIRECTORS

OUTSIDE DIRECTORS. Under the Israeli Companies Law, companies incorporated under the laws of the State of Israel whose shares have been offered to the public are required to appoint at least two outside directors. The Israeli Companies Law provides that a person may not be appointed as an outside director if the person, or the person's relative, partner, employer or an entity under that person's control, has or had during the two years preceding the date of appointment any affiliation with the company, or any entity controlling, controlled by or under common control with the company. The term "relative" means a spouse, sibling, parent, grandparent, child or child of spouse or spouse of any of the above. The term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder, as such term is defined below, excluding service as an outside director of a company that is offering its shares to the public for the first time.

In addition, no person may serve as an outside director if the person's position or other activities create, or may create, a conflict of interest with the person's responsibilities as director or may otherwise interfere with the person's ability to serve as director. If, at the time an outside director is appointed, all current members of the board of directors are of the same gender, then that outside director must be of the other gender. A director of one company may not be appointed as an outside director of another company if a director of the other company is acting as an outside director of the first company at such time.

As of 2006, at least one of the elected outside directors must have

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"accounting and financial expertise" and any other outside director must have "accounting and financial expertise" or "professional qualification," as such terms are defined by regulations promulgated under the Israeli Companies Law. This requirement does not apply to outside directors appointed prior to 2006.

Outside directors are elected at our annual general meeting of shareholders. The shareholders voting in favor of their election must include at least one-third of the shares of the non-controlling shareholders of the company who voted on the matter. This minority approval requirement need not be met if the total shareholdings of those non-controlling shareholders who vote against their election represent 1% or less of all of the voting rights in the company. In general, outside directors serve for a three-year term, which may be renewed for only one additional three-year term. Outside directors can be removed from office only by the same special percentage of shareholders as can elect them, or by a court, and then only if the outside directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the company.

Any committee of the board of directors must include at least one outside director and the audit committee must include all of the outside directors. An outside director is entitled to compensation as provided in regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

INDEPENDENT DIRECTORS. In general, NASDAQ Marketplace Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors and its audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective "independence" requirements of NASDAQ and the Securities and Exchange Commission. However, foreign private issuers, such as our company, may follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules. We do not follow the requirement of the NASDAQ Marketplace Rules to maintain a majority of independent directors on our board and instead follow Israeli law and practice. See below in this Item 6C. "Directors, Senior Management and Employees - Board Practices - NASDAQ Marketplace Rules and Home Country Practices." However, in accordance with the rules of the Securities and Exchange Commission and NASDAQ, we have the mandated three independent directors, as defined by the rules of the Securities and Exchange Commission and NASDAQ Marketplace, on our audit committee.

4

Our board of directors has determined that Ms. Mor and Mr. Akavia both qualify as independent directors under the Securities and Exchange Commission and NASDAQ requirements and as outside directors under the Israeli Companies Law requirements. Our board of directors has further determined that Mr. Gruber qualifies as an independent director under the Securities and Exchange Commission and NASDAQ requirements.

We do not follow the requirements of the NASDAQ Marketplace Rules with regard to regularly scheduled meetings of independent directors. Under Israeli law independent directors are not required to hold executive sessions. See below in this Item 6C. "Directors, Senior Management and Employees - Board Practices - NASDAQ Marketplace Rules and Home Country Practices."

COMMITTEES OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE. Our audit committee, established in accordance with

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Section 114 of the Israeli Companies Law and Section 3(a)(58)(A) of the Securities Exchange Act of 1934, assists our board of directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent public accountants' qualifications and independence, the performance of our internal audit function and independent public accountants, finding any defects in the business management of our company for which purpose the audit committee may consult with our independent auditors and internal auditor, proposing to the board of directors ways to correct such defects, and such other duties as may be directed by our board of directors.

Our audit committee also has the responsibility of approving related-party transactions as required by Israeli law. Under Israeli law, an audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, unless at the time of approval two outside directors are serving as members of the audit committee and at least one of the outside directors was present at the meeting in which an approval was granted.

Our audit committee is generally authorized to investigate any matter within the scope of its responsibilities and has the power to obtain from our internal auditing unit, our independent auditors or any other officer or employee any information that is relevant to such investigations. Our audit committee also has the right to hire independent counsel and accountants to assist it in any investigation that it may instigate.

The current members of our audit committee are Ms. Nurit Mor, and Messrs Eli Akavia and Ben Zion Gruber, each of whom satisfies the respective "independence" requirements of the Securities and Exchange Commission and NASDAQ. We also comply with Israeli law requirements for audit committee members. The audit committee meets at least once each quarter.

COMPENSATION COMMITTEE. Our board of directors established a compensation committee composed of Ms. Nurit Mor and Mr. Adrian Berg. The compensation committee is authorized to determine all compensations issues, including the administration of our option plans subject to general guidelines determined by our board of directors from time to time. The compensation committee will also make recommendations to our board of directors in connection with the terms of employment of our chief executive officer and president.

INTERNAL AUDIT

The Israeli Companies Law also requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. An internal audit must satisfy the Israeli Companies Law's independence requirements. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. Our internal auditor complies with the requirements of the Israeli Companies Law.

DIRECTORS' SERVICE CONTRACTS

We do not have any service contracts with our directors. There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

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APPROVAL OF RELATED PARTY TRANSACTIONS UNDER ISRAELI LAW

FIDUCIARY DUTIES OF OFFICE HOLDERS

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An "office holder" is defined in the Israeli Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the appropriateness of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The duty of loyalty includes (i) avoiding any conflict of interest between the office holder's position in the company and any other position he holds or his personal affairs, (ii) avoiding any competition with the company's business, (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company's affairs that the office holder has received due to his position as an office holder.

DISCLOSURE OF PERSONAL INTERESTS OF AN OFFICE HOLDER

The Israeli Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their position, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

APPROVAL OF TRANSACTIONS WITH OFFICE HOLDERS

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require approval by the board of directors, and exculpation, insurance and indemnification of, or an undertaking to, indemnify an office holder who is not a director requires both board of directors and audit committee approval. The compensation of office holders who are directors must be approved by our audit committee, board of directors and shareholders.

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, however, a transaction that is adverse to the company's interest may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, and under certain circumstances shareholder approval may be required. A director who has a personal interest in a transaction that is considered at a meeting of the board

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of directors or the audit committee may not be present during the board of directors or audit committee discussions and may not vote on the transaction, unless the transaction is not an extraordinary transaction or the majority of the members of the board or the audit committee have a personal interest, as the case may be. In the event the majority of the members of the board of directors or the audit committee have a personal interest, then the approval of the general meeting of shareholders is also required.

6

DISCLOSURE OF PERSONAL INTERESTS OF A CONTROLLING SHAREHOLDER; APPROVAL OF TRANSACTIONS WITH CONTROLLING SHAREHOLDERS

The disclosure requirements which apply to an office holder also apply to a controlling shareholder with respect to his or her personal interest in any existing or proposed transaction by us. The Israeli Companies Law provides that an extraordinary transaction with a controlling shareholder or an extraordinary transaction with another person in whom the controlling shareholder has a personal interest or a transaction with a controlling shareholder or his relative regarding terms of service and employment, must be approved by the audit committee, the board of directors and shareholders. The shareholder approval for such a transaction must include at least one-third of the shareholders who have no personal interest in the transaction who voted on the matter (not including abstentions). The transaction can be approved by shareholders without this one-third approval if the total shareholdings of those shareholders who have no personal interest and voted against the transaction do not represent more than one percent of the voting rights in the company.

Under the Companies Regulations (Relief from Related Party Transactions), 5760-2000, promulgated under the Israeli Companies Law, as amended, certain extraordinary transactions between a public company and its controlling shareholder(s) do not require shareholder approval. In addition, under such regulations, directors' compensation and employment arrangements in a public company do not require the approval of the shareholders if both the audit committee and the board of directors agree that such arrangements are solely for the benefit of the company. Also, employment and compensation arrangements for an office holder that is a controlling shareholder of a public company do not require shareholder approval if certain criteria are met. The foregoing exemptions from shareholder approval will not apply if one or more shareholders holding at least 1% of the issued and outstanding share capital of the company or of the company's voting rights, objects to the use of these exemptions provided that such objection is submitted to the company in writing not later than fourteen days from the date of the filing of a report regarding the adoption of such resolution by the company pursuant to the requirements of the Israeli Securities Law. If such objection is duly and timely submitted, then the transaction or compensation arrangement of the directors will require shareholders' approval as detailed above.

In addition, a private placement of securities that will (i) cause a person to become a controlling shareholder or (ii) increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital, or (iii) will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital in a private placement in which 20% or more of the company's outstanding share capital prior to the placement are offered, the payment for which (in whole or in part) is not in cash or not under market terms, requires approval by the board of directors and the shareholders of the company.

The Israeli Companies Law provides that an acquisition of shares in a

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public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if, in general, the acquisition was made in a private placement that received shareholder approval, (i) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, if there is not already a 25% or greater shareholder of the company, or (ii) was from a shareholder holding a 45% interest in the company which resulted in the acquirer becoming a holder of a 45% interest in the company if there is not already a 45% or greater shareholder of the company.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a public company's outstanding shares or a class of shares, the acquisition must be made by means of a tender offer for all of the outstanding shares or a class of shares. If less than 5% of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to the acquirer. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

7

EXCULPATION, INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

EXCULPATION OF OFFICE HOLDERS

The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care in the event of distributions.

INSURANCE OF OFFICE HOLDERS

The Israeli Companies Law provides that a company may, if permitted by its articles of association, enter into a contract to insure office holders in respect of liabilities incurred by the office holder with a respect to an act performed in his or her capacity as an office holder, as a result of:

- o a breach of the office holder's duty of care to the company or to another person;
- o a breach of the office holder's duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice the company's interests; or
- o a financial liability imposed upon the office holder in favor of another person.

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INDEMNIFICATION OF OFFICE HOLDERS

The Israeli Companies Law provides that a company may, if permitted by its articles of association, indemnify an office holder for acts or omissions performed by the office holder in such capacity for:

- o a monetary liability imposed on the office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court;
- o reasonable litigation expenses, including attorney's fees, actually incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any monetary liability in lieu of criminal proceedings, or concluded without the filing of an indictment against the office holder and a monetary liability was imposed on the officer holder in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent; and
- o reasonable litigation expenses, including attorneys' fees, incurred by the office holder or which were imposed on him or her by a court, in an action instituted by the company or on the company's behalf or by another person, against the office holder, or in a criminal charge from which he was acquitted, or in a criminal proceeding in which the office holder was convicted of a criminal offense which does not require proof of criminal intent.

In accordance with the Israeli Companies Law, a company's articles of association may permit the company to:

- o prospectively undertake to indemnify an office holder, except that with respect to a monetary liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of events which the company's board of directors deems foreseeable considering the company's actual operations at the time of the undertaking, and to an amount or standard that the board of directors has determined as reasonable under the circumstances.
- o retroactively indemnify an office holder of the company.

8

LIMITATIONS ON EXCULPATION, INSURANCE AND INDEMNIFICATION

The Israeli Companies Law provides that neither a provision of the articles of association permitting the company to enter into a contract to insure the liability of an office holder, nor a provision in the articles of association or a resolution of the board of directors permitting the indemnification of an office holder, nor a provision in the articles of association exculpating an office holder from duty to the company shall be valid, where such insurance, indemnification or exculpation relates to any of the following:

- o a breach by the office holder of his duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act

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would not prejudice the company;

- o a breach by the office holder of his duty of care if such breach was committed intentionally or recklessly, unless the breach was committed only negligently.
- o any act or omission done with the intent to unlawfully yield a personal benefit; or
- o any fine or forfeiture imposed on the office holder.

Pursuant to the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our audit committee and our board of directors and, if the office holder is a director, also by our shareholders.

Our Articles of Association allow us to insure, indemnify and exempt our office holders to the fullest extent permitted by law, subject to the provisions of the Israeli Companies Law. We currently maintain a directors and officers liability insurance policy with a per claim and aggregate coverage limit of \$7.5 million.

NASDAQ MARKETPLACE RULES AND HOME COUNTRY PRACTICES

Under NASDAQ Marketplace Rule 4350, or Rule 4350, foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of Rule 4350. A foreign private issuer that elects to follow a home country practice instead of any of such provisions of Rule 4350, 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 May and August 2005, we provided NASDAQ with a notice of non-compliance with Rule 4350. We informed NASDAQ that we do not comply with the following requirements of Rule 4350, and instead follow Israeli law and practice in respect of such requirements:

- o the requirement to maintain a majority of independent directors, as defined under the NASDAQ Marketplace Rules. Instead, under Israeli law and practice, we are required to appoint at least two outside directors, within the meaning of the Israeli Companies Law, to our board of directors. In addition, in accordance with the rules of the Securities and Exchange Commission and NASDAQ, we have the mandated three independent directors, as defined by the rules of the Securities and Exchange Commission and NASDAQ, on our audit committee. See above in this Item 6C. "Directors, Senior Management and Employees - Board Practices - Independent and Outside Directors."
- o the requirement that our independent directors will have regularly scheduled meetings at which only independent directors are present. Under Israeli law independent directors are not required to hold executive sessions.
- o the requirement regarding the directors nominations process. Instead, we follow Israeli law and practice in accordance with which our directors are recommended by our board of directors for election by our shareholders. See above in this Item 6C. "Directors, Senior Management and Employees - Board Practices - Election of Directors."
- o the requirement regarding compensation of officers. Instead, we follow Israeli law and practice. Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not

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directors require the approval of the board of directors if the transaction is not an "extraordinary transaction," unless a company's articles of association provide otherwise, and if such transaction is an "extraordinary transaction," it requires the approval of the audit committee and the board of directors, in that order. The compensation of office holders who are directors must be approved by our Audit Committee, Board of Directors and shareholders, in that order.

9

D. EMPLOYEES

On December 31, 2007, we employed 92 persons, of whom 32 were employed in research, development and engineering, 47 persons in manufacturing and logistics, 4 persons in sales and marketing, and 9 persons in administration and management and finance. All of our employees are located in Israel. In addition, CACS (our 80% owned subsidiary) employed 24 persons in China.

On December 31, 2006, we employed 97 persons, of whom 30 were employed in research, development and engineering, 55 persons in manufacturing and logistics, 5 persons in sales and marketing, and 7 persons in administration and management and finance. All of our employees are located in Israel. In addition, CACS (our 80% owned subsidiary) employed 15 persons in China.

On December 31, 2005, we employed 109 persons, of whom 38 were employed in research, development and engineering, 56 persons in manufacturing and logistics, 5 persons in sales and marketing, and 10 persons in administration and management and finance. All of our employees are located in Israel. In addition, CACS (our 80% owned subsidiary) employed 15 persons in China.

Our technical employees have signed nondisclosure agreements covering all proprietary information that they might possess or to which they might have access. Employees are not organized in any union, although they are employed according to provisions established by the Israeli Ministry of Labor. Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists Association) are applicable to our Israeli employees by order of the Israeli Ministry of Labor. These provisions concern mainly the length of the workday, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums. Under the collective bargaining agreements, the wages of most of our employees are linked to the Israeli consumer price index, although the extent of the linkage is limited.

Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. Further, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute which is similar to the United States Social Security Administration; such amounts also include payments for national health insurance. Most of our ongoing severance obligations for our Israeli employees are provided for by monthly payments made by us for insurance policies to cover these obligations.

E. SHARE OWNERSHIP

BENEFICIAL OWNERSHIP OF EXECUTIVE OFFICERS AND DIRECTORS

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The following table sets forth certain information as of April 7, 2008 regarding the beneficial ownership by each of our directors and executive officers:

| NAME ----- | NUMBER OF ORDINARY SHARES BENEFICIALLY OWNED (1) ----- | PERCENTAGE OF OWNERSHIP (2) ----- |
|--|--|---|
| Herzle Bodinger (3) (4) | 148,611 | 1.7% |
| Zvi Alon (3) (5) | 77,777 | * |
| Shiri Lazarovich (3) (6) | 14,222 | * |
| Dov Sella (3) (5) | 77,777 | * |
| Yuval Dan-Gur (3) (7) | 31,111 | * |
| Oleg Kiperman (3) (8) | 48,778 | * |
| Adrian Berg (8) (10) | 85,533 | 1.0% |
| Roy Kui Chuen Chan (11) (12) | 58,867 | * |
| Ben Zion Gruber (3) (13) | 50,681 | * |
| Michael Letchinger (14) | -- | -- |
| Nurit Mor (3) | -- | -- |
| Eli Akavia (3) | -- | -- |
| All directors and executive officers as a group (12 persons) (14) | 593,357 | 6.8% |

10

* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options and warrants currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 8,858,553 ordinary shares issued and outstanding as of April 7, 2008.
- (3) The business addresses of Messrs. Bodinger, Alon, Sella, Dan-Gur, Kiperman, Gruber and Akavia and Ms. Mor and Ms. Lazarovich is c/o RADA Electronic Industries Ltd., 7 Giborei Israel Street, Netanya, Israel.
- (4) All such ordinary shares are subject to currently exercisable options granted under our 2003 stock option plan. 100,000 options have an exercise price of \$4.02 per share and 48,611 options have an exercise price of \$3.87 per share. The options expire in January 2013.
- (5) All such ordinary shares are subject to currently exercisable options granted under our 2003 stock option plan. 33,333 options have an exercise price of \$2.07 per share and 44,444 options have an exercise price of \$2.40 per share. The options expire in January 2013.

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- (6) All such ordinary shares are subject to currently exercisable options granted under our 1999 and 2003 stock option plans. 5,333 options have an exercise price of \$3.42 per share and 8,889 options have an exercise price of \$2.40 per share. 11,556 options expire in January 2013 and 2,667 options expire in December 2009.
- (7) All such ordinary shares are subject to currently exercisable options granted under our 1999 and 2003 stock option plan. 13,333 options have an exercise price of \$3.42 per share and 17,778 options have an exercise price of \$2.40 per share. 24,444 options expire in January 2013 and 6,667 options expire in December 2009.
- (8) All such ordinary shares are subject to currently exercisable options granted under our 1999 and 2003 stock option plan. 6,000 options have an exercise price of \$9.85 per share, 25,000 options have an exercise price of \$2.07 per share and 17,778 options have an exercise price of \$2.40 per share. 42,778 options expire in January 2013 and 6,000 options expire in December 2009.
- (9) The business address of Mr. Berg is Alexander & Co., 17 St. Ann's Square, Manchester M2 7 PW, U.K.
- (10) Includes 84,000 ordinary shares subject to currently exercisable options granted under our stock option plan at an exercise price of \$4.02 per share. The options expire in January 2013.
- (11) The business address of Mr. Roy Chan is Gearhart Holdings (H.K.) Limited, 2202 Kodak House II, 39 Healthy Street, E. North Point, Hong Kong.
- (12) Includes 57,333 ordinary shares subject to currently exercisable options granted under our stock option plan at an exercise price of \$4.02 per share. The options expire in January 2013.
- (13) Includes 34,014 ordinary shares issuable upon currently exercisable warrants at an exercise price of \$1.88 per share that were issued in June 2007, and 16,667 ordinary shares subject to currently exercisable options granted under our stock option plans, at an exercise price of \$4.02 per share. Such options expire in January 2013.
- (14) The business address of Mr. Letchinger is 2709 Rittenhouse Street, Washington DC, 20015, USA.

11

STOCK OPTION PLANS

1999 STOCK OPTION PLAN

Our 1999 Stock Option Plan, or the 1999 Plan, provides for the issuance of stock options to purchase an aggregate of 108,400 of our ordinary shares. The 1999 Plan, authorizes the issuance of options to key employees and consultants, including officers and directors of our company and its subsidiaries, who, are in position to contribute significantly to our success, in the judgment of the board of directors or, if appointed in the future, a committee which will administer the 1999 Plan. The board of directors or the committee will determine the number of shares covered by each option, and the formulation, within the limitations of the 1999 Plan, of the form of option.

Options granted under the 1999 Plan may be for a maximum term of ten years

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from the date of grant. The exercise price of an option granted to an employee may not be less than 60% of the fair market value of our ordinary shares on the date of grant of the option. The exercise price of an option to a non-employee director or consultant may not be less than 80% of the fair market value of our ordinary shares on the date of grant of the option. If any option expires without having been fully exercised, the shares with respect to which such option has not been exercised will be available for future grants.

Options may not be transferable by the optionee otherwise than by will or the laws of descent and distribution and during the optionee's lifetime are exercisable only by the optionee. Options terminate before their expiration dates one year after the optionee's death while in our employ, three months after the optionee's retirement for reasons of age or disability or involuntary termination of employment other than for cause, and immediately upon voluntary termination of employment or involuntary termination of employment for cause.

Our board of directors may, at its discretion, modify, revise or terminate the 1999 Plan at any time, except that the aggregate number of shares issuable pursuant to options may not be increased (except in the event of certain changes in our capital structure), the eligibility provisions and minimum option price may not be changed, or the permissible maximum term of options may not be increased without the consent of our shareholders.

The 1999 Plan also contains provisions protecting optionees against dilution of the value of their options in the case of stock splits, stock dividends or other changes in our capital structure, in the event of any proposed reorganization or merger involving our company or in the event of any spin-off or distribution of assets to our shareholders.

As of March 27, 2008 options to purchase 165,400 ordinary shares were granted at an average exercise price of \$9.63 per share. Of such options, 92,133 have been cancelled or forfeited. 73,267 options are outstanding and currently exercisable.

2003 STOCK OPTION PLAN

Our 2003 Stock Option Plan, or the 2003 Plan, provides for the issuance of stock options to purchase an aggregate of 666,667 of our ordinary shares. At the Company's Annual General meeting held in August, 2006, shareholder approve a 500,000 share increase in the number ordinary shares available for grant under the plan. Consequently, 1,166,667 shares are subject to this plan. Options under the 2003 Plan may be issued to employees including officers and directors of our company and its subsidiaries who, in the judgment of the board of directors based on the recommendation of our compensation committee, are in a position to contribute significantly to our success. The provisions of our 2003 Plan are designated to allow for the tax benefits promulgated under the Israeli Income Tax Ordinance [New Version]. Our board of directors has resolved that all options that will be granted to Israeli residents under the 2003 Plan will be taxable under the "capital gains path." Pursuant to this path the profit realized by the employee is taxed as a capital gain (25%) if the options or shares are held by a trustee for at least 24 months from the end of the tax year in which such options were granted. If the shares are sold before the lapse of said 24 months period, the profit is re-characterized as ordinary income. The company is not allowed a corresponding salary expense, even in the event the profit is taxed as ordinary income. Otherwise, the terms of the 2003 Plan are substantially the same as those of the 1999 Plan.

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As of March 27, 2008 options to purchase 1,191,000 ordinary shares were granted. Of such options, 51,168 options have been exercised and 104,166 were cancelled expired or forfeited. 1,035,666 options are outstanding. Options to purchase 872,056 ordinary shares are currently exercisable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

Mr. Howard Yeung is the beneficial holder of 46% of our outstanding shares. In addition, Mr. Yeung currently holds 1,435,407 ordinary shares issuable upon conversion of convertible notes and 1,578,947 ordinary shares issuable upon the exercise of currently exercisable warrants. Accordingly, Mr. Howard Yeung may be deemed to control our company.

The following table sets forth certain information as of April 7, 2008, regarding the beneficial ownership by all shareholders known to us to own beneficially 5% or more of our ordinary shares:

| NAME ----- | NUMBER OF ORDINARY SHARES BENEFICIALLY OWNED (1) ----- | PERCENTAGE OF OWNERSHIP (2) ----- |
|-------------------------------|---|---|
| Howard P.L. Yeung (3) (4) (5) | 7,061,872 | 59.5% |

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 8,858,553 ordinary shares outstanding as of April 7, 2008.
- (3) Of the 7,061,872 ordinary shares, 450,029 shares are held by Horsham Enterprises Ltd., a corporation incorporated in the British Virgin Islands. Messrs. Howard P.L. Yeung and his brother Kenneth Yeung are the beneficial owners, in equal shares, of Horsham Enterprises Ltd. Accordingly, Messrs. Yeung may be deemed to be the beneficial owners of the ordinary shares held by Horsham Enterprises Ltd.
- (4) Includes 1,435,407 ordinary shares issuable upon conversion of convertible notes and 1,578,947 ordinary shares issuable upon the exercise of currently exercisable warrants.
- (5) The address of Messrs. Howard P.L. Yeung is 2202 Kodak House II, 39 Healthy Street, North Point, Hong Kong.

SIGNIFICANT CHANGES IN THE OWNERSHIP OF MAJOR SHAREHOLDERS

On January 27, 2005, Bank Leumi le-Israel B.M, filed a Schedule 13G with the Securities and Exchange Commission reflecting ownership of 976,399, or 13.7%, of our ordinary shares. In an amendment to the Schedule 13G filed with the Securities and Exchange Commission on June 6, 2005, Bank Leumi le-Israel B.M reported ownership of 220,000, or 1.9%, of our ordinary shares.

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On December 10, 2007 we entered into a loan agreement with Mr. Yeung. Pursuant to such agreement, in consideration for a loan in the amount of \$3.0 million, we issued \$3.0 million principal amount of convertible notes to Mr. Yeung. The convertible notes will mature on December 10, 2010, bear interest at a rate of six month LIBOR plus 3.5% and are convertible into ordinary shares at a conversion price of \$2.09. In addition, Mr. Yeung received warrants exercisable for a period of five years beginning on December 10, 2007 to purchase up to an aggregate of 1,578,947 ordinary shares at an exercise price of \$2.375 per share.

MAJOR SHAREHOLDERS VOTING RIGHTS

Our major shareholders do not have different voting rights.

13

RECORD HOLDERS

Based on a review of the information provided to us by our transfer agent, as of March 27, 2008, there were 258 holders of record of our ordinary shares, of which 234 record holders holding approximately 64% of our ordinary shares had registered addresses in the United States, including banks, brokers and nominees. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by banks, brokers or other nominees.

B. RELATED PARTY TRANSACTIONS

On June 22, 2003 we signed a memorandum of agreement with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M., or the Banks, which agreement was approved by our shareholders at an extraordinary general meeting of shareholders that was held on July 22, 2003. Pursuant to the agreement that was finalized on September 24, 2003, we restructured \$3,451,000 of our outstanding debt to the Banks. We repaid \$1,100,000 on account of our debt the Banks, and the Banks forgave \$1,100,000 of debt and received warrants to purchase 1,260,665 of our ordinary shares, at an exercise price that is equal to the nominal (par) value of our shares, in lieu of \$1,251,000 of our debt. The Banks also agreed to grant us an additional short-term line of credit of \$500,000 to finance our cash flow requirements during 2003. As part of the agreement, our controlling shareholder, Mr. Yeung, agreed to grant the Banks a put option allowing the Banks to require him to purchase the above warrants for the consideration of \$1,251,000, exercisable within a period of 45 days commencing on March 24, 2005 and the Banks granted Mr. Yeung a call option allowing him to require the Banks, during a period of 18 months, commencing as of September 24, 2003, and in the event that the Banks do not exercise their put option, during an additional 90 day period commencing as of May 9, 2005, to sell him such warrants at a price that is not lower than \$1,251,000 and not higher than \$1,770,165, depending upon the average close price of our ordinary shares during the 90 business days prior to such exercise. We also granted the Banks warrants to purchase an additional 366,667 ordinary shares at an exercise price of \$6.00 per share, exercisable for five years, commencing as of September 24, 2003.

In May 2005, Mr. Yeung exercised his call option to purchase the warrants from the Banks and in October 2005 exercised these warrants. Upon such exercise, we issued 1,260,665 ordinary shares, to Mr. Yeung.

On December 10, 2007 we entered into a loan agreement with Mr. Yeung. Pursuant to such agreement, in consideration for a loan in the amount of \$3.0

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C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 19. EXHIBITS

INDEX TO EXHIBITS

| EXHIBIT | DESCRIPTION |
|---------|---|
| ----- | ----- |
| 1.1 | Memorandum of Association of the Registrant* |
| 1.2 | Articles of Association of the Registrant* |
| 2.1 | Specimen of Share Certificate* |
| 4.3 | 1999 Employee Stock Option Plan, as amended* |
| 4.4 | 2003 Employee Stock Option Plan, as amended** |
| 4.8 | Memorandum of Agreement dated June 23 2003 between the Registrant and Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M.** |
| 8 | List of Subsidiaries of the Registrant*** |
| 12.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended |
| 12.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended |
| 13.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 23.1 | Consent of Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global, Independent Registered Public Accounting Firm (Israel) with respect to our Registration Statements on Form F-3 and S-8 |

* Filed as an exhibit to our Annual Report on Form 20-F for the year ended

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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, 2002 and incorporated herein by reference.

*** Filed as an exhibit to our Annual Report on Form 20-F for the year ended December 31, 2007 and incorporated herein by reference.

15

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/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

RADA ELECTRONIC INDUSTRIES LTD.

By: /s/ Zvika Alon

Zvika Alon

Chief Executive Officer

Dated: April 7, 2008

16