

Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

RADA ELECTRONIC INDUSTRIES LTD  
Form 6-K  
September 30, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16  
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of  
September 2005

RADA ELECTRONIC INDUSTRIES LIMITED  
(Name of Registrant)

7 Giborei Israel Street, Netanya 42504, Israel  
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will  
file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the  
Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the  
Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information  
contained in this Form, the registrant is also thereby furnishing the  
information to the Commission pursuant to Rule 12g3-2(b) under the Securities  
Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to  
the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_

This Form 6-K is being incorporated by reference into the Company's  
Form F-3 Registration Statements File Nos. 333- 12074, 333-115598, 333-117954  
and 333-127491.

RADA ELECTRONIC INDUSTRIES LTD.

6-K Items

Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

1. Consolidated Financial Statements of RADA Electronic Industries Ltd. as of June 30, 2005 and Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2005.

ITEM 1

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

IN U.S. DOLLARS

UNAUDITED

INDEX

	Page
	-----
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Operations	2
Condensed Statements of Changes in Shareholders' Equity	3
Condensed Consolidated Statements of Cash Flows	4-5
Notes to Condensed Consolidated Financial Statements	6-9

-----

# Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

## RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY CONSOLIDATED BALANCE SHEETS

-----  
U.S. dollars in thousands, except share and per share data

	Note	
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents		\$
Trade receivables (net of allowance for doubtful accounts of \$ 221 at June 30, 2005, unaudited, and December 31, 2004)		
Other receivables and prepaid expenses		
Costs and estimated earnings in excess of billings on uncompleted contracts	3	
Inventories	4	
Total current assets		-----
-----		
LONG-TERM RECEIVABLES AND DEPOSITS:		
Long-term receivables		
Long-term restricted cash		
Leasing deposits		
Severance pay fund		
Total long-term receivables and deposits		-----
-----		
PROPERTY, PLANT AND EQUIPMENT, NET		
-----		
OTHER ASSETS:		
Intangible assets, net		
Deferred charges, net		
Total other assets		-----
-----		
Total assets		\$ =====
-----		
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and loans		\$
Trade payables		
Other payables and accrued expenses		
Deferred revenues		
Billings in excess of costs and estimated earnings on uncompleted contracts	3	
Total current liabilities		-----
-----		
LONG-TERM LIABILITIES:		

## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

Convertible note		
Long-term loans		
Accrued severance pay		
-----		
Total long-term liabilities		
-----		
MINORITY INTERESTS		
-----		
SHAREHOLDERS' EQUITY:		
Share capital		
Ordinary shares of NIS 0.005 par value - Authorized: 47,500,000 and 45,000,000 shares at June 30, 2005 and December 31, 2004, respectively; Issued and outstanding: 22,356,032 and 20,448,364 shares at June 30, 2005 and December 31, 2004, respectively		
Additional paid-in capital		
Warrants		
Accumulated deficit		
-----		
Total shareholders' equity		
-----		
Total liabilities and shareholders' equity		\$
-----		=====

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

1

### RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY CONSOLIDATED STATEMENTS OF OPERATIONS

-----  
U.S. dollars in thousands, except per share data

		Six months ended June 30,		Three months June 30,	
	Note	2005	2004	2005	
	-----	-----	-----	-----	-----
		(unaudited)		(unaudited)	
Revenues:	5				
Products		\$ 5,426	\$ 5,210	\$ 3,178	\$
Services		1,222	1,708	628	
		-----	-----	-----	
		6,648	6,918	3,806	
		-----	-----	-----	
Cost of revenues:					
Products		4,817	4,360	2,590	
Services		596	873	290	
		-----	-----	-----	
		5,413	5,233	2,880	
		-----	-----	-----	
Gross profit		1,235	1,685	926	
		-----	-----	-----	

Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

Operating expenses:				
Marketing and selling	538	410	360	
General and administrative	997	968	469	
	-----	-----	-----	
Total operating expenses	1,535	1,378	829	
	-----	-----	-----	
Operating income (loss)	(300)	307	97	
Financial expense, net	(297)	(172)	(178)	
Other income, net	-	10	-	
	-----	-----	-----	
	(597)	145	(81)	
Minority interests in losses of subsidiary	11	18	3	
	-----	-----	-----	
Net income (loss)	\$ (586)	\$ 163	\$ (78)	\$
	=====	=====	=====	=====
Income (loss) per share:				
Basic income (loss) per share	\$ (0.03)	\$ 0.01	\$ (0.004)	\$
	=====	=====	=====	=====
Diluted income (loss) per share	\$ (0.03)	\$ 0.01	\$ (0.004)	\$
	=====	=====	=====	=====

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

2

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Number of Ordinary shares	Share capital	Additional paid-in capital	Warrants	Accu de
	-----	-----	-----	-----	-----
Balance at January 1, 2004	18,510,716	\$ 108	\$ 59,139	\$ 1,405	\$
Issuance of Ordinary shares and warrants, net *)	1,864,313	2	2,482	818	
Beneficial conversion feature on convertible note	-	-	180	-	
Exercise of options	73,335	**)	50	-	
Net income	-	-	-	-	
	-----	-----	-----	-----	-----
Balance at December 31, 2004	20,448,364	110	61,851	2,223	
Issuance of Ordinary shares and warrants, net *)	965,934	1	629	376	

Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

Exercise of warrants	909,066	1	2,038	(278)
Exercise of options	32,668	**)	23	-
Net loss	-	-	-	-
Balance at June 30, 2005 (unaudited)	22,356,032	\$ 112	\$ 64,541	\$ 2,321

\*) Net of issuance expenses of approximately \$ 233, and \$ 95 for the six months period ended June 30, 2005 and the year ended December 31, 2004, respectively.

\*\*\*) Less than \$ 1.

3

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six Months ended Jun	
	2005	2004
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ (586)	\$ 163
Adjustments required to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	654	402
Minority interests in losses of subsidiary	(11)	(18)
Accrued interest and translation differences on long-term receivables	5	(11)
Amortization expenses on convertible note	105	
Decrease (increase) in trade receivables, net	(1,515)	44
Increase in other receivables and prepaid expenses	(54)	(269)
Increase in costs and estimated earnings in excess of billings, net	(296)	(293)
Increase in inventories	(638)	(628)
Increase (decrease) in trade payables	(600)	957
Increase (decrease) in other payables and accrued expenses	(683)	91
Decrease in deferred revenues	(404)	(694)
Accrued severance pay, net	(37)	(38)
Net cash used in operating activities	(4,060)	(294)
Cash flows from investing activities:		

Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

-----		
Payment for acquisition of assets of Vectop (a)	(1,083)	-
Investment in long-term restricted cash	(210)	-
Purchase of property, plant and equipment	(282)	-
Investments in leasing deposits	2	(14)
	-----	-----
Net cash provided by (used in) investing activities	(1,573)	(14)
	-----	-----
Cash flows from financing activities:		
-----		
Proceeds from issuance of shares and warrants, net	1,006	-
Proceeds of long-term loan	700	-
Decrease (increase) in short-term bank credits, net	252	(12)
Exercise of warrants	1,761	-
Exercise of options	23	27
	-----	-----
Net cash provided by financing activities	3,742	15
	-----	-----
Decrease in cash and cash equivalents	(1,891)	(293)
Cash and cash equivalents at the beginning of the period	3,464	467
	-----	-----
Cash and cash equivalents at the end of the period	1,573	174
	=====	=====

4

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

U.S. dollars in thousands

	-----	
	Six months ended Jun	
	-----	
	2005	
	-----	
	(unaudited)	
(a) Payment for acquisition of assets of Vectop (see also note 5):		
Working capital, net	\$ 20	\$
Property, plant and equipment	(62)	
Intangible assets, net	(1,041)	
	-----	-----
	\$ (1,083)	\$
	=====	=====
Supplemental disclosures of cash flow activities:		
-----		
Net cash paid during the year for:		
Income taxes	\$ 2	\$
	=====	=====
Interest	\$ 198	\$
	=====	=====

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

5

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY  
NOTES TO CONSOLIDATED STATEMENTS

-----  
U.S. dollars in thousands

NOTE 1:- GENERAL

- a. RADA Electronic Industries Ltd., 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. The Company operates a test and repair shop using its ATE products in Beijing, China through its 80% owned Chinese subsidiary, Beijing Huari Aircraft Components Maintenance and Services Co. Ltd. ("CACS" or "subsidiary"). CACS was established with a third party, which owns the remaining 20% equity interest.
- c. On February 2005, the Company's Board of Directors approved the purchase of all the assets that are used by, or related to the operation of Vectop Limited ("Vectop"), an Israeli company specializing in the design, development, marketing and sale of electro-optic equipment and debriefing systems business. Vectop's assets also include know-how, patents and intellectual property to produce off-the-shelf products such as cameras and video recorders, which are currently operational onboard aircraft and tanks in Israel and other countries. The Company purchased Vectop's assets for \$ 280 in cash and future consideration based on revenues derived from Vectop projects. In addition, the Company is assuming \$ 800 of Vectop's bank debt, payable commencing in 2006 over a two-year period, as well as other operational liabilities.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. The significant policies followed in the preparation of the condensed consolidated financial statements, applied on consistent basis are as follows:

- a. Use of estimates:



## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Unaudited information:

The consolidated financial statements include the unaudited consolidated balance sheet as of June 30, 2005, the related unaudited consolidated statements of operations for the three and six months ended June 30, 2005 and 2004, unaudited statement of changes in shareholders' equity for the six month ended June 30, 2005 and cash flows for the six-month periods ended June 30, 2005 and 2004 presented in accordance with accounting principles generally accepted for interim financial reporting. This unaudited information has been prepared by the Company on the same basis as the audited annual consolidated financial statements and, in management's opinion, reflects all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial information, for the periods presented. Accordingly, they do not include all of the information and footnotes required by generally

6

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY  
NOTES TO CONSOLIDATED STATEMENTS

-----  
U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

accepted accounting principles for audited financial statements. Results for interim periods are not necessarily indicative of the results expected for the entire year.

c. Share based compensation:

The Company accounts for employee stock based compensation under the intrinsic value model in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44"). In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company discloses pro forma data assuming the group had accounted for employee stock option grants using the fair value-based method defined in SFAS No. 123.

Pro forma information regarding the Company's net income (loss) and net income (loss) per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS No. 123. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

	Six months ended June	
	----- 2005 -----	
	(unaudited)	
Net income (loss) as reported	\$ (586)	\$
Add: Stock-based employee compensation included in reported net income (loss)	-	
Deduct: Total stock-based employee compensation expense under fair value based methods	(36)	
	-----	
Pro forma net income (loss)	\$ (622)	\$
	-----	
Basic and diluted net income (loss) per share:		
Basic net income (loss) per share as reported	\$ (0.03)	\$
Pro forma basic net income (loss) per share	\$ (0.03)	\$
Diluted net income (loss) per share as reported	\$ (0.03)	\$
Pro forma diluted net income (loss) per share	\$ (0.03)	\$

7

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY  
NOTES TO CONSOLIDATED STATEMENTS

U.S. dollars in thousands

NOTE 3:- CONTRACTS IN PROGRESS

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

- a. Costs and estimated earnings in excess of billings on uncompleted contracts

	June 30, 2005	December 31, 2004
	-----	
	(unaudited)	
Costs incurred on uncompleted contracts	\$ 5,033	\$ 5,774
Estimated earnings (loss)	(250)	50
	-----	
	4,783	5,824
Less - billings and progress payments	3,439	4,439

Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

-----	-----
\$1,344	\$1,385
=====	=====

- b. Billings in excess of costs and estimated earnings on uncompleted contracts:

	June 30, 2005	December 31, 2004
	-----	-----
	(unaudited)	
Costs incurred on uncompleted contracts	\$ 7,221	\$ 4,336
Estimated earnings	678	1,454
	-----	-----
	7,899	5,79
Less - billings and progress payments	8,627	6,85
	-----	-----
	\$ (728)	\$ (1,065)
	=====	=====

NOTE 4:- INVENTORIES

	June 30, 2005	December 31, 2004
	-----	-----
	(unaudited)	
Raw materials and components	\$ 1,850	\$ 1,178
Work in progress	776	447
Finished goods	154	199
	-----	-----
	\$ 2,780	\$ 1,824
	=====	=====

8

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARY  
NOTES TO CONSOLIDATED STATEMENTS

-----  
U.S. dollars in thousands

NOTE 5:- GEOGRAPHIC INFORMATION

- a. In accordance with Statement of Financial Accounting Standards No. 131 "Disclosures About Segments of an Enterprise and Related Information", the Company is organized and operates as one

## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

business segment, which develops, manufactures and sells ATE products, avionics equipment and aviation data acquisition and debriefing systems.

b. Revenues by geographic areas:

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

	Six months ended June 30,		Year ended December 31,
	2005	2004	2004
	(unaudited)		
North America	\$ 2,220	\$ 1,518	\$ 4,715
Europe	300	1,961	3,022
Israel	3,394	1,902	4,998
Others	734	1,537	1,425
Total	\$ 6,648	\$ 6,918	\$ 14,160

9

### Management's Discussion and Analysis of Financial Condition and Results of Operations

This information should be read in conjunction with the condensed consolidated financial statements and notes included in Item 1 of Part I of this Quarterly Report and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2004 contained in our 2004 Annual Report on Form 20-F. The discussion and analysis which follows may contain trend analysis and other forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to future events and financial results. These include statements regarding our earnings, projected growth and forecasts, and similar matters that are not historical facts.

We remind shareholders that forward-looking statements are merely predictions and therefore are inherently subject to uncertainties and other factors that could cause the future results to differ materially from those described in the forward-looking statements.

#### Overview

We develop, manufacture and sell automated test equipment and avionics products for military and commercial use mainly in Israel, Europe and the United States. We also provide test and repair services using our CATS(R) testers and test program sets through our Chinese subsidiary, CACS. In addition, we provide manufacturing services to third parties engaged mainly in the avionics market.

## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

### Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the notes to our consolidated financial statements. These policies have been consistently applied in all material respects and address such matters as revenue recognition. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, we believe the estimates and judgments associated with the reported amounts are appropriate in the circumstances.

The significant accounting policies listed in Note 2 of our consolidated financial statements that we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of our operations under generally accepted accounting principles are discussed below.

**Intangible Assets.** Costs of producing our TPS software library, which is integrated with our test station, incurred subsequent to achieving technological feasibility, were capitalized, and 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. We assess the recoverability of these intangible assets at each balance sheet date by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software products sold. The use of different assumptions with respect to the expected cash flows from our assets and other

10

economic variables may lead to different conclusions regarding the recoverability of our assets' carrying values and to the potential need to record an impairment loss for our intangible assets. As of June 30, 2005, no impairment was required.

**Impairment of Long-Lived Assets.** We are required to assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of our assets based on a number of factors, including any significant changes in the manner of our use of the respective assets or the strategy of our overall business and significant negative industry or economic trends. Upon determination that the carrying value of a long-lived asset may not be recoverable, based upon a comparison of expected future cash flows (undiscounted and without interest charges) to the carrying amount of the asset, an impairment charge is recorded. Under different assumptions with respect to the recoverability of our long-lived assets, our determination may be different, which may negatively affect our financial position and results of operations. As of June 30, 2005, no impairment was required.

**Share-Based Compensation.** We account for stock-based compensation using the intrinsic value model. Accordingly, we measure compensation cost as the excess, if any, of the closing market price of our stock at the date of grant over the exercise price of the option granted. We recognize compensation cost for stock options, if any, ratably over the vesting period. We disclose pro forma data assuming we had accounted for employee stock option grants using the fair value-based method. We account for options and warrants issued to non-employees. We use the Black-Scholes option pricing model to value warrants granted to non-employees. This policy will change effective with our reporting period

## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

beginning January 1, 2006.

Revenue Recognition. Our revenues are derived from sales of automated test equipment and avionics products and from long-term fixed price contracts for ATE, avionics and ground debriefing systems. In addition, we lease ATE and provide manufacturing, development and product support services. Product revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product to the customer has occurred and the collection of the fee is probable. If the product requires specific customer acceptance, revenue is deferred until customer acceptance occurs or the acceptance provisions lapse.

Revenues from long-term fixed price contracts are recognized by the percentage-of-completion method in accordance with the "Input Method." We apply this method when the total of the costs and revenues of the contract can reasonably be estimated. The percentage of completion is determined based on the ratio of actual costs incurred to total costs estimated to be incurred over the duration of the contract. With regard to contracts for which a loss is anticipated, a provision is made for the entire amount of the estimated loss at the time such loss becomes evident. Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit or loss are recorded in results of operations when they are reasonably determined by management on a cumulative catch-up basis.

11

Revenues from services are recognized when the service is performed.

Revenue under operating leases of equipment are recognized ratably over the lease period.

Revenues from certain arrangements may include multiple elements within a single contract. Our accounting policy separates multiple deliverables into individual accounting units with determinable fair values. Our arrangements are accounted for as one unit of accounting since there is no objective and reliable evidence of fair value of the undelivered elements in the contract. When the undelivered elements are not essential to the functionality of the delivered elements, revenues are recognized for the delivered element when the respective fee is payable and noncontingent and all other revenue recognition criteria are met.

Loans to Employees and Provision for Litigation. We have an outstanding balance of loans due to us from our former chief executive officer and a former officer. Both officers claim that they are not obliged to repay the loans. There are pending legal actions between us and each of the former officers concerning, among other things, the repayment of the loans. According to our legal consultants, we have a strong case with regard to our claims for repayment of the outstanding loans. We recorded a provision for the loans receivable in the amount that we believe is sufficient to reflect the recoverability of the asset, based on management's estimation. In addition, we have several additional legal proceedings outstanding. We have recorded provisions for litigation for claims that were estimable and for which there is a high probability that we will be held responsible based on our legal consultants' opinions and management's estimations.

Fair Value of Warrants. In July 2004, we consummated a private placement, whereby we issued 1,800,000 shares, an aggregate of \$3 million principal amount

## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

of convertible notes and warrants (including additional investment rights) to purchase an aggregate of 2,037,500 ordinary shares to investors for a total consideration of \$5.7 million, net of issuance expenses. The consideration was allocated based on the respective fair values of the ordinary shares, notes and warrants. The fair value of the warrants and the additional investment rights was based on a valuation prepared using the Black-Scholes pricing model. The valuation result was judged to be reasonable by the Company's management by comparison to benchmarks in similar circumstances.

### Significant Expenses

**Cost of Revenues.** Cost of revenues consists primarily of manufacturing costs, depreciation of fixed assets, software development costs, impairment losses on long-lived assets and amortization of capitalized software.

**Marketing, Selling, General and Administrative Expenses.** Marketing and selling expenses consist primarily of expenses for sales and marketing personnel, sales commissions, marketing activities, public relations, promotional materials, travel expenses and trade show exhibit expenses. General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, administrative personnel, professional fees, provisions for doubtful accounts, and other general corporate expenses.

12

**Financial Income (Expenses), Net.** Financial expenses consist of interest and bank expenses, interest on convertible note, amortization of beneficial conversion feature on convertible note and currency remeasurement losses. Financial income consists of interest on cash and cash equivalent balances, currency remeasurement gains and gain on restructuring of debt.

### Six Months Ended June 30, 2005 Compared with Six Months Ended June 30, 2004

**Revenues.** Revenues decreased by 3.9% to \$6.6 million, in the six month ended June 30, 2005 from \$6.9 million in the six months ended June 30, 2004. We expect a slight increase in revenues in the second half of the year.

**Cost of Revenues.** Cost of revenues increased by 3.4% to \$5.4 million in the six months ended June 30, 2005 from \$5.2 million in the six months ended June 30, 2004. The increase is mainly due to the higher per portion of our revenues attributable to development programs that have lower profit margins.

**Gross Profit.** Our gross profit decreased by 26.7% to approximately \$1.2 million in the six months ended June 30, 2005 from \$1.7 million in the six months ended June 30, 2004. Our profit margin decreased to 18.6% in the six months ended June 30, 2005 from 24.3% in the six months ended June 30, 2004. The decrease in gross margin, is due to the mix between the traditional products that the company sells and the newer lower margin products which are developed together with the customer.

**Marketing, Selling, General and Administrative Expenses.** Marketing, selling, general and administrative expenses increased by 11.4% to \$1.53 million in the six months ended June 30, 2005 from \$1.4 million in the six months ended June 30, 2004. We are continuing our costs savings measures, but we have increased our sales efforts in our current and new markets, which has resulted in increased marketing and selling expenses.

## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

Financial Expenses, Net. Our financial expenses, net were \$297,000 in the six months ended June 30, 2005. In the six months ended June 30, 2004 we had financial expense of \$172,000. The increase in our financial expenses was mainly due to higher interest rates.

### Liquidity and Capital Resources

At June 30, 2005, we had working capital surplus of \$3.94 million and cash and cash equivalents of \$1.6 million. As of June 30, 2005 we had long term debt to our banks of \$350,000.

We had capital expenditures of \$282,000 in the six months ended June 30, 2005. We currently do not have any significant capital spending or purchase commitments.

Net cash used in operating activities was \$4.1 million in the six months ended June 30, 2005. This was attributable primarily to our loss of \$586,000, depreciation and amortization of \$654,000 and an increase in trade receivables of \$1.5 million, offset by a net increase in costs and estimated earnings in excess of billings of \$296,000, a \$638,000 increase in inventories, and a \$404,000 decrease in deferred revenues. Net cash used in operating activities was \$294,000 in the six months ended June 30, 2004. This was attributable primarily to our net income of

13

\$163,000, depreciation and amortization of \$402,000, a net increase in costs and estimated earnings in excess of billings of \$293,000 and a \$957,000 increase in other payables and accrued expenses, \$44,000 decrease in trade receivables and a \$694,000 decrease in deferred revenues.

Net cash used in investing activities was approximately \$1.6 million in the six months ended June 30, 2005, and \$14,000 in the six months ended June 30, 2004. In 2005 we purchased net assets of \$11 million, invested \$282,000 in plant and equipment and invested \$210,000 in long-term restricted cash.

Net cash provided by financing activities was \$3.7 million in the six months ended June 30, 2005. This amount was principally in respect of proceeds of \$2.8 million from issuance of shares and warrants and from the exercise of warrants and a \$ 700,000 long-term loan received from the bank.

As of June 30, 2005 there were 20,452,774 warrants outstanding to purchase 20,452,774 of our ordinary shares. Of such warrants, 3,781,995 warrants have an exercise price of zero (par value) per share, 13,667,345 warrants have an exercise price of \$2.00 per share, 2,065,934 warrants have an exercise price of \$2.1 per share and 937,500 warrants have an exercise price of \$2.50 per share. To the extent any warrants are exercised the proceeds will be added to our working capital.

### Off-Balance Sheet Arrangements

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

### Tabular Disclosure of Contractual Obligations



## Edgar Filing: RADA ELECTRONIC INDUSTRIES LTD - Form 6-K

The following table summarizes our minimum contractual obligations and commercial commitments, as of June 30, 2005 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by Period			
	Total	Less than 1 year	1-3 Years	3-5 Years
Long-term debt obligations .....	\$3,151,000	\$700,000	\$2,451,000	-
Operating lease obligations.....	\$636,000	\$274,000	\$362,000	-
Total.....	\$3,787,000	\$974,000	\$2,813,000	-

In addition, we have long-term liabilities for severance pay that 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. As of June 30, 2005 our severance pay liability was \$2.0 million.

14

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Rada Electronic Industries Ltd.  
(Registrant)

By: /s/Herzle Bodinger  
-----  
Herzle Bodinger, Chairman

Date: September 30, 2005